

The complaint

Mr N complains Provident Personal Credit Limited trading as Satsuma lent to him irresponsibly.

What happened

Using the information we have from Mr N and Satsuma, here is a brief loan table. I've included a line to show that there were several declined loans. There was a significant gap in the lending relationship before Loan 6 was approved. The loans which were cancelled or withdrawn led to very small interest payments being made.

Loan	Date Taken	Date Repaid	Instalments	Amount
1	15/11/2015	22/01/2016	13-weekly	£100.00
2	06/03/2016	12/04/2016	13-weekly	£100.00
3	17/06/2016*	18/06/2016	13-weekly	£200.00
4	12/07/2016*	20/07/2016	13-weekly	£100.00
5	02/09/2016*	20/09/2016	39-weekly	£200.00
<i>Several declined loans up to June 2017 followed by a year's gap in lending.</i>				
6	05/06/2018	Outstanding	9-monthly	£1,740.00

*cancelled or withdrawn and the interest repayments for these ranged from £0.95 to just over £13.

One of our adjudicators looked at the complaint and thought that the checks carried out by Satsuma before approving Loan 5 showed that he was not able to afford it. And at that stage in the lending relationship it ought to have carried out more checks. So, he thought that Mr N had shown trouble managing his money and Loan 5 should not have been approved.

Satsuma agreed.

Mr N did not agree and said that the '*pattern occurring*' ought to have been recognised earlier. He was in a lot of additional debt at Loan 3 as well and so he thinks that loans 3 to 6 should all be ones that Satsuma put right for him.

The complaint remained unresolved and was passed to me for a decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We have set out our general approach to complaints about short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

Satsuma needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr N could repay the loans in a sustainable manner. These checks could include several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. In the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Satsuma should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include: where a customer's income is particularly low; where the repayments are particularly high; and/or where the frequency of the loans and the length of time over which a customer has been given loans need to be looked at: repeated refinancing could signal that the borrowing had become, or was becoming, unsustainable.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Satsuma was required to establish whether Mr N could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation. The loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines 'sustainable' as being the ability to repay without undue difficulties. The customer should be able to make repayments on time, while meeting other reasonable commitments, and without having to borrow to meet the repayments.

And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower will not be able to make their repayments sustainably if they need to borrow further in order to do that.

I have carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr N's complaint.

As Satsuma has accepted the outcome in relation to Loan 5, I do not need to review it as it is part of the complaint which has been resolved. The 'Putting things right' part of the decision reflects this.

Mr N seems to have accepted the outcome in relation to Loans 1 and 2 and so I have not reviewed those.

Loan 3 was for a relatively modest sum of £200 and was due to be for a relatively short term of 13 weeks. And it was applied for two months after repaying Loan 2 in April 2016. When Mr N applied for Loan 4, he had cancelled or withdrawn from Loan 3 and repaid it within a day and the Loan 4 sum applied for was less at £100. I doubt Satsuma at that point would have considered there was much to be concerned about.

I have noted that the checks Satsuma carried out for Loans 3 and 4 were proportionate to the circumstances including the sum being applied for and the repayment amounts. The repayment sums for the short loan terms would have looked affordable. So I do not think it needed to do more for Loans 3 and 4.

Satsuma has agreed that it ought not to have lent to Mr N for Loan 5. I do not need to say more about it.

Loan 6 was applied for in June 2018 and was for a much larger sum: £1,740. With interest this came to a total figure to repay of around £3,477. And it was due to be spread over nine months with the repayments of about £386 each month.

Mr N thinks that this ought not to have been approved and that all his earlier lending ought to have been taken into account. But I must be fair to both parties and even after the declined loan applications ended in June 2017, still it was a year before Mr N came back to Satsuma to apply for the sixth loan. Essentially this would have been a new lending chain and its reasonable for Satsuma to have considered that Mr N's financial circumstances had not deteriorated and had likely got better. Even if it had reviewed its records, it would have seen a series of five previous loans all repaid early.

I think that it was a proportionate response to Mr N's application in June 2018 to rely on his declared income and declared expenditure when he applied for Loan 6. Those figures were a monthly income of £2,684 and expenditure of £800. So, the monthly repayment figures would have looked affordable.

I realise Mr N will be disappointed but I do not uphold Loan 6 as I think that Satsuma carried out the checks I would have expected it to have carried out. I would not have expected it to have done more.

Putting things right

In deciding what redress Satsuma should fairly pay in this case I've thought about what might have happened had it stopped lending to Mr N for Loan 5 only. I do not include Loan 6 in this statement. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mr N may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them and this particular lender which they may not have had with others. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if they had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct.

From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mr N in a compliant way at this time.

Having thought about all these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mr N would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Satsuma's liability in this case for what I'm satisfied it has done wrong and should put right.

My understanding is that Loan 5 has been paid off. Satsuma ought to do as follows:

- refund any interest and charges already paid by Mr N in respect of Loan 5; and
- apply 8% simple interest per year to any interest and charges refunded from the date they were paid to the date of settlement*; and
- remove any adverse payment information about Loan 5 from Mr N's credit file.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. It must give Mr N a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold Mr N's complaint in part and Provident Personal Credit Limited trading as Satsuma should do as it has agreed to do and as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 23 April 2021.

Rachael Williams
Ombudsman