

The complaint

Miss G complains that Provident Personal Credit Limited trading as Satsuma Loans unfairly defaulted two loan accounts at a time when she was trying to set up a repayment plan.

What happened

Miss G had two loans from Satsuma which were affected by Satsuma's decision to default the accounts.

- Loan 1 was taken on 14 August 2019 for £900. Miss G was contracted to make 12 monthly repayments of £149.90.
- Loan 2 was granted on 10 October 2019 for £300. Again, Miss G was contracted to make a total of six-monthly of £94.80.

However, as these loans overlapped, Miss G's total monthly commitment to Satsuma was no more than £244.70 per month.

I've gone into quite a bit of detail below around the circumstances that led to the accounts being defaulted, because it will help to add context to what is discussed in the 'my findings' part of the decision. The information below has been taken from Satsuma's final response letter as well as the contact notes that it has provided.

Miss G made her first three contractual repayment for loan one and her first contractual repayment due for loan two. No further contractual repayments were made to Provident after December 2019.

I can see that at the end of December 2019 there was a conversation between Satsuma and Miss G where she'd explained she had been off work ill, and so didn't have the money to make the next payment. Satsuma then applied a hold on to the account, with Miss G due to recommence contractual repayments in February 2020.

At the end of January 2020 there was a further call, in which Miss G explained she had still been off work ill and so couldn't make her payment which was due in February 2020. Satsuma applied a further 30 day hold to the account where no payments were expected.

In February 2020 Miss G told Satsuma she was back at work and would receive her next salary at the end of March. Satsuma applied a further payment freeze until then. However, on 20 March 2020 Satsuma was told that due to the COVID-19 pandemic Miss G's workplace was affected and her salary was reducing. This led to another breathing space being added to the accounts.

On 30 April 2020 Miss G emailed Satsuma with an update explaining that she still couldn't make a payment because of the pandemic.

A further freeze was applied to the account on 3 May 2020 due to Miss G being on furlough. At the end of May 2020 Miss G told Satsuma that she had received a salary, but this was just enough to cover her bills and so couldn't make any repayments to Satsuma.

Satsuma asked Miss G for an income and expenditure form; however, no response was received. So, the payment arrangement was removed from the account and a default notice sent to Miss G on 12 June 2020. The default notice required Miss G within 28 days to either repay the loans or come to an arrangement with Satsuma to make the repayments.

Miss G contacted Satsuma on 6 July 2020 and it was agreed that reduced repayments would start from 5 August 2020. But repayments weren't made and Satsuma removed the arrangement. Shortly, after the payment arrangement failed Miss G made an irresponsible lending complaint. No further details have been provided about the irresponsible lending complaint.

In November 2020, a new plan was agreed where Miss G would repay £10 per month to each loan account for the next three months, after this time there was an expectation that Miss G would return to her regular contractual repayments. I can see from the statement of account that these payments were made between December 2020 and February 2021.

In March 2021, Miss G informed Satsuma that she couldn't afford to return to pay the contractual repayments. Satsuma was aware that Miss G was no longer on furlough and Miss G says work was slow to return to normal. Satsuma sent Miss G an income and expenditure form and then held the account for seven days to enable her to complete and return it.

On 17 March 2021 Miss G returned the income and expenditure form. Satsuma then responded to ask Miss G some security questions to enable it to discuss the account. However, Miss G didn't respond and Satsuma after attempting to reach Miss G and failing. As no contact was received Satsuma took the decision to default the two accounts on 12 April 2021.

Miss G then made a new complaint about what had happened and Satsuma issued its final response letter on this matter on 4 May 2021. In it, Satsuma concluded that it had tried to assist Miss G but without contact the accounts had defaulted and been passed to a third-party collection agency.

Unhappy with this response, Miss G referred his complaint to the Financial Ombudsman Service.

Our adjudicator considered the complaint and he said it shouldn't be upheld. She provided the background to the complaint and she thought that Satsuma had treated Miss G fairly when it was made aware of her difficulties caused by the pandemic. She thought it was reasonable, given what Satsuma knew that it agreed a repayment plan in November 2020.

She also thought it was reasonable for Satsuma to rely on the June 2020 default notice, when the payment plan broke down in March / April 2021, which led her to conclude that Satsuma hadn't made an error with the way it dealt with Miss G.

Satsuma didn't respond to the adjudicator's assessment.

Miss G didn't agree with the adjudicator's recommendation. In summary she said.

- Miss G says Satsuma told her that it couldn't open the income and expenditure form that she had sent.
- Miss G didn't receive a copy of the default notice.
- She didn't receive any notification from Satsuma that it was going to default the account.

The adjudicator went back to Miss G to explain why her comments hadn't changed her mind about the outcome of the complaint. Miss G still didn't agree with the outcome but didn't provide any new comments beyond what she had already told the adjudicator.

Later, Satsuma provided some further information to the Financial Ombudsman Service including confirming it had taken the decision to write off the outstanding balance that was owed in December 2021 – due to the current trading position of the company. Satsuma also confirmed the defaults have been marked as 'satisfied' on Miss G's credit file.

As no agreement has been reached, the case has been 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.

Pandemic support

Due to the COVID-19 pandemic, in April 2020 the industry regulator – the Financial Conduct Authority (FCA) released guidance to lenders – such as Satsuma as to how they ought to deal with consumers who were having problems directly related to the pandemic.

In this case, I can see that for Miss G, Satsuma put in place a number of payment holidays – but importantly these started before the pandemic took hold and before the guidance issued by the FCA was released. Importantly, it seems that Miss G was having financial difficulties before the guidance was issued. And I note that she'd not made a contractual repayment to either loan since December 2019.

In any event, I can see that Miss G was given a number of payment deferrals both before and during the pandemic, which I think was the right thing to do and is in my view, evidence to show that Satsuma treated Miss G fairly.

Recording a default

As I've explained above, Miss G had made her first repayment due for loan one and had made her first payment due for loan two, but from December 2019, no further contractual repayments were made.

At which point Satsuma, in December 2019 agreed a payment freeze with Miss G. As soon as it did this Miss G had not kept to the schedule of repayment. This meant as soon as she went into the payment freeze her account would've fallen into arrears and adverse credit file information could've been reported to the credit reference agencies at this time.

But no payments were made, partly because of the pandemic, but equally, some of the missed payments were made before the FCA guidance (which I've mentioned above) came into force. So when, Satsuma couldn't reach Miss G in June 2020 I think it was reasonable for the default notice to be sent because the account was sufficiently in arrears for a notice to have been sent.

Miss G says that she didn't receive a copy of the default notice. The Financial Ombudsman Service asked Satsuma for information relating to this. It has explained that an actual copy of the notice can't be provided – but that wouldn't mean I can conclude an error had been made.

Satsuma has provided a system note showing that on 12 June 2020 a default notice was issued. So, I'm satisfied that on that date, the notice was sent, and for the reasons I've explained I think, at this point, it was the correct course of action to have taken.

In addition, Satsuma has shown that it was sent to the address that Miss G had provided it when the loans were granted, and which was then re-confirmed as being correct in both April and September 2020.

It would therefore be reasonable to conclude that the system note shows that the default notice was generated and therefore would've been sent to the address that Satsuma had for Miss G.

A template of the default notice has also been provided, so I can see what the notice sent to Miss G would've contained. Having looked at this template, it is clear the templated notice contained everything it needed to do. It would've explained;

- the arrears that were on Miss G's account.
- what she needed to do in order to prevent the account from defaulting and
- the timescale that she had – 28 days in order to take the above action.

I appreciate that Miss G says that the notice wasn't received but based on the evidence provided by Satsuma I'm satisfied that on balance, a default notice was created and dispatched to the correct address.

It is of course possible, that Miss G didn't receive a copy of the notice – I have no way of knowing for sure. But it's worth saying that Satsuma only has to provide evidence of the notice being sent, not that the notice was actually received. And given this was at the start of the pandemic it is entirely possible the notice wasn't delivered. But that wouldn't be an error on the part of Satsuma.

However, it was reasonable at the time for a default notice not to be applied in July 2020 because the system notes shows that Miss G contacted it at the start of July 2020 and within the 28 days the default notice provided her in order to set up a repayment plan.

Shortly, after the first repayment plan was created in July 2020, Miss G didn't stick to it, and so, Satsuma may have been entitled at this point to record a default. But, shortly after the missed payment a complaint was raised by Miss G Satsuma may have thought it reasonable not to apply one given there was an ongoing complaint.

A £10 per month, per loan repayment was then set up and agreed between Satsuma and Miss G in November 2020. Miss G stuck to the repayments of this plan – albeit the January 2021 payment was late.

I also accept that based on the contact notes that Satsuma provided at the start of March 2021 it was working with Miss G to create a new repayment plan because it was clear, given what

Miss G had said she was unable to return to normal contractual repayments. This was a reasonable step, and still not enough in my mind to default the account at this point because there was communication and Satsuma was aware of what was going on.

Satsuma also provided a further hold on the account for seven days to allow Miss G to complete the income and expenditure form. The income and expenditure form were returned within the seven-day period given to Miss G by Satsuma. But Satsuma contacted Miss G shortly on the same day (17 March 2021) with the income and expenditure information asking for security information.

I can see no response was received to this request, and no response was received to a phone call made to Miss G on 9 April 2021. It was shortly, after this contact, that given no repayment plan was in place and the account was sufficiently in arrears that Satsuma defaulted the account and recorded it with the credit reference agencies.

In my view, the actions of Satsuma are consistent with the guidance issued by the Information Commissioner's Office (ICO). The ICO is the body created which deals with an individual's data, and it has released a document called "*Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies*". It is entirely reasonable to rely on this, because in my view, it constitutes good industry practice.

Principle 3 is entitled "*If you offer or make a reduced payment, how it is reported will depend on whether it is agreed with the lender.*"

It goes on to say:

Should a temporary reduction in the payment amount be jointly agreed between you and your lender, this 'arrangement' will be recorded at the CRAs.

and

If your lender agrees to give you a temporary arrangement, but you fail to make the agreed payment against the new terms, they may still file a default (see Principle 4 below) as soon as a payment is missed, as long you were at least 3 months in arrears on the original agreement.

The ICO is clear, all the time that had Miss G stuck to her repayment plan a default wouldn't be recorded on her credit file – although adverse information would still be reported about such a plan. But as long as the account was sufficiently in arrears, then Satsuma could, if the plan wasn't stuck to default the accounts.

This is why, after the plan with Miss G ended in February 2021 a default notice was recorded, the plan ended, and there was a breakdown in communication which resulted in no payments being received (either contractual repayments or reduced payments).

Turning to Principle 4, which is mentioned above – titled "*If you fall into arrears on your account, or you do not keep to the revised terms of an arrangement, a default may be recorded to show that the relationship has broken down.*"

The Principle then goes on to say;

As a general guide, this may occur when you are 3 months in arrears, and normally by the time you are 6 months in arrears.

There are exceptions to this which may result in a default being recorded at a later stage, such as secured or long term loans e.g. mortgages, or if the product operates in a more flexible way e.g. current accounts, student loans, home credit.

If an arrangement is agreed (see Principle 3 above), a default would not normally be registered unless the terms of that arrangement are broken.

As I've said, full contractual repayments hadn't been made since December 2019 and no payments received at all – according to the statement of account between January and November 2020. But, as Miss G was in communication with Satsuma I don't think it would've

been correct to default the account in July 2020 after the default notice was initially issued. I say this because she was in communication with it. However, after the plan completed in February 2021 and no new plan was agreed it was entitled, in this case, to rely on the previous default notice and apply the default to Miss G's credit file.

I accept, as I've said above there does appear to have been a breakdown in communication in March and April 2021 by this point in time Miss G hadn't made contractual repayments for over a year, the account was sufficiently in arrears and Satsuma wasn't able to reach her. A default notice had been previously issued explaining the consequences of not agreeing and sticking to repayment plans.

As the adjudicator said, another default notice could've been issued, but even if it was, I don't think recording a default on Miss G's credit file would be unreasonable considering the amount of time that had passed since the account entered into arrears and the fact there was apparently no immediate prospect of Miss G returning to normal contractual repayments. So, I think, in this case, it was reasonable for Satsuma to have defaulted the account when it did.

When Satsuma applied the default to her credit file and considering the guidance by the ICO as well as the notes provided by Satsuma I'm satisfied;

- the account was sufficiently in arrears for the account to be defaulted
- the default notice had been sent to Miss G
- it was sent to the address Satsuma believed Miss G was resident at and
- the notice contained everything that was required by the regulations.

So, while I know Miss G will be disappointed by my decision, I do think it was reasonable for Satsuma to record the default notice when it did, and in my view it has done this in line with the ICO principles. This means, I am unable to ask Satsuma to make a corrections to her credit file.

My final decision

For the reasons I've explained above, I'm not upholding Miss G's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 9 August 2022.

Robert Walker
Ombudsman