

complaint

Mr W has complained about short-term loans granted to him by Provident Personal Credit Limited trading as Satsuma. Mr W says he couldn't afford these loans and that Satsuma didn't take appropriate steps to check whether he could afford them when he took them out.

background

Satsuma agreed six short-term loans for Mr W. Some of these loans were to be repaid weekly and some monthly, with terms ranging from 13 weeks up to 52 weeks (or 12 months).

Satsuma has already agreed to refund the interest and charges due on loan 2 in line with our approach to redress in its final response letter to Mr W. So the adjudicator has considered loan 1, and loans 3 – 6 in her assessment. I've set out a summary of lending below.

loan no.	application	principal amount (£)	repayment schedule	scheduled repayment (£)	approximate monthly equivalent (£)
1	07/02/2015	350	13 weekly instalments	£37.69	£151
2	19/05/2015	350	13 weekly instalments	£37.69	£151
3	06/08/2015	600	52 weekly instalments	£21.92	£95
4	24/08/2016	1,200	52 weekly instalments	£45.92	£199
5	22/11/2016	940	52 weekly instalments	£35.97	£156
6	03/09/2017	1,200	12 monthly instalments	£199.20	£199

One of our adjudicators has looked into Mr W's complaint already. And she recommended the complaint be upheld. She felt that the checks Satsuma carried out on loans 1 and 3 were proportionate, but the checks on loans 4 - 6 weren't. And had it carried out proportionate checks, it would've concluded that loans 4 and 5 were unaffordable.

In response to the adjudicator's view, Satsuma agreed to accept the findings, and offered to refund all the interest and charges on loans 4 and 5, in addition to the offer it made on loan 2. Mr W rejected the findings, so the case has been passed to me for a decision. As Satsuma's already agreed to compensate Mr W for loans 2, 4 and 5 – in line with our approach to redress, my decision will focus on the remaining loans: loans 1, 3 and 6.

Although I'm not going to be considering loans 2, 4 and 5, they did form part of Mr W's overall pattern of borrowing, which is something that I will take into account as part of my review when assessing his complaint.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. I've also taken into account the law, any relevant regulatory rules and good industry practice at the time.

The Financial Conduct Authority was the regulator at the time Mr W borrowed from Satsuma. Its regulations for lenders are set out in its consumer credit sourcebook (generally referred to as "CONC"). These regulations require lenders to take "*reasonable steps to assess the customer's ability to meet repayments under a regulated credit agreement in a*

sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences.” - CONC 5.3.1(2).

CONC 5.3.1(7) defines ‘sustainable’ as being able to make repayments without undue difficulty. And explains that this means borrowers should be able to make their repayments on time and out of their income and savings without having to borrow to meet these repayments.

In making this decision I’ve considered whether or not Satsuma did everything it should’ve when assessing Mr W’s loan applications. And if it didn’t, had it done further checks, whether it would’ve realised that some or all of the loans may have been unaffordable.

Having reviewed the case, I agree with the adjudicator’s findings. I think that Satsuma carried out proportionate checks on loans 1 and 3. But I don’t think the checks Satsuma carried out on loan 6 were sufficient. But based on the limited information I have, I’m unable to conclude that proportionate checks would’ve shown to Satsuma, that this loan would’ve been unaffordable for Mr W.

So I’m upholding Mr W’s complaint for the same reasons as our adjudicator did and directing Satsuma to put things right in the way she recommended. And hope my explanation will make it clear as to how and why I’ve reached this conclusion.

did Satsuma carry out proportionate checks?

Satsuma says it carried out proportionate checks for each of Mr W’s applications. It says it used a wide range of data sources to ensure it was using the most accurate and up to date information about Mr W’s existing credit commitments, living expenses and income to inform the next stage of its lending decision; affordability and sustainability. And this included assessments of declared income and outgoings that Mr W provided during each application. So I’ve considered this when deciding this case.

loan 1

Mr W took his first loan from Satsuma in February 2015. He borrowed £350 and was due to repay around £38 a week over 13 weekly instalments. Satsuma recorded Mr W’s income as £1,100 a month at this point, and his regular monthly outgoings and credit commitments as £350. As this was the first loan he’d taken from Satsuma, I think these checks went far enough. So I think it was reasonable for Satsuma to base its assessment of affordability of this loan for Mr W, on the result of these checks.

The checks carried out would’ve suggested to Satsuma that Mr W had a disposable monthly income at the time of around £750. And given that he was only required to repay around £151 a month, I think it was reasonable of Satsuma to have concluded this loan was affordable for Mr W when he took it out. So it follows, that I don’t think it was wrong of it to have agreed to his loan for Mr W on this occasion.

loan 2

As Satsuma has already agreed to refund the interest and charges on loan 2 in line with our approach to redress, I’ve not considered this sale of this loan when assessing Mr W’s case.

loan 3

Mr W took out his third loan with Satsuma in August 2015, around three months after he took out his second loan. And this time he was borrowing £1,200. As the monthly repayments on this loan were around £95, and it was still only Mr W's third loan, I think Satsuma's checks again went far enough.

Based on the checks carried out, Mr W seems to have told Satsuma that he was earning in the region of £1,100 a month still, and that his monthly outgoings at this point were around £250. So it would've seemed to Satsuma at this time, that Mr W would've been left with a disposable income of around £850 a month.

I've considered whether at this stage, given the fact this was Mr W's third loan and the fact it was repayable over a year, whether Satsuma should've done more to check this loan was affordable for Mr W. And whether it should've looked specifically into whether Mr W had any further short-term lending outstanding at this point.

But even if I did think Satsuma's checks should've gone further, it appears that Mr W's highest monthly repayment due to another short-term lender at this point was around £155. Which, when deducted from the figures Satsuma recorded, would've still left him with around £700 out of which to meet any future monthly commitments.

And Mr W's repayments towards this new loan totalled around £95 a month. So even with a disposable income of around £700, I think it would've still been reasonable for Satsuma to have concluded this loan was affordable for Mr W. And therefore, I don't think it was wrong in agreeing to this loan at this time.

loans 4 and 5

As Satsuma has already agreed to refund the interest and charges on loans 4 and 5 in line with our approach to redress, I've not considered the sale of these loans when assessing Mr W's case.

loan 6

Mr W took his fourth and fifth loans out with Satsuma in April 2016 and November 2016 respectively. And it was around seven months after repaying the outstanding balance on loan 5, that he went back to Satsuma to take out loan 6. So I've thought about this gap in lending when deciding what checks I think Satsuma needed to do.

While there was a gap between repaying loan 5 and taking out loan 6, Mr W had been borrowing from Satsuma now for over two years, and on a product that was intended to be used on a short-term basis.

So I've considered the length of the overall relationship Mr W had with Satsuma. And the fact he was again borrowing £1,200 (which was more than his monthly income), and which was again repayable over a further year. Because of this, I think at this point Satsuma's checks should've gone further than they did. And I think it should've built a full picture of Mr W's financial circumstances and verified the information it was given before agreeing to this loan.

So in summary, I don't think the checks Satsuma carried out on loan 6 were proportionate. And it should've done more to check Mr W could afford the repayments on this loan before agreeing to it.

what would proportionate checks most likely have shown for loan 6?

As I've said above, I think at this point, Satsuma should've built a full picture of Mr W's financial circumstances and verified the information it was given. But the information I have on file regarding Mr W's circumstances from around this time is quite limited.

Mr W seems to have told Satsuma he was earning around £900 a month when he took out this loan. And that his outgoings were in the region of £175. And I think Satsuma should've looked to verify these figures to satisfy itself he could afford the repayments on this loan at this time.

But from the limited evidence I have on file, I haven't seen enough to suggest to me that when Mr W gave the above figures to Satsuma, that they weren't correct. And based on these figures, it would've seemed to Satsuma at this point, that Mr W had a monthly disposable income of around £725.

I've looked to see what else I can find out about any other financial commitments Mr W may have had, as I think Satsuma's review should've included looking into this. Having done so, it appears Mr W did have another short-term loan outstanding at this point, with repayments due in September and October.

But the highest scheduled monthly repayment due on the above loan was £306. And even when I deduct this figure from the disposable income Satsuma recorded of £725, it still seems Mr W would've been left with around £420 a month in disposable income.

And given that the monthly repayments on Mr W's new loan with Satsuma were £199, I think that based on the evidence I have, even if Satsuma had carried out proportionate checks, I think it would've still concluded that this loan would've been affordable for Mr W. So it follows, that I don't think Satsuma was wrong in agreeing to this loan for Mr W at this time.

In summary, I don't think the checks Satsuma carried out on loan 6 were proportionate. But based on the information I have, I don't have enough to conclude that proportionate checks would've shown to Satsuma, that this loan would've been unaffordable for Mr W when he took it out.

what Satsuma should do to put things right

Satsuma has already agreed to refund the interest and charges Mr W paid on loans 2, 4 and 5 as listed above. And I agree this is what it should do to put things right in the circumstances of Mr W's case.

Specifically, it should:

- refund the interest and charges for loan 2 agreed in May 2015
- refund the interest and charges for loan 4 agreed in August 2016
- refund the interest and charges for loan 5 agreed in November 2016
- pay interest on these refunds at 8% simple from the date of payment to the date of settlement
- remove any adverse information about these loans from Mr W's credit file

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

my final decision

For the reasons set out above I uphold Mr W's complaint in part.

And I require Provident Personal Credit Limited trading as Satsuma, to put things right as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 12 October 2018.

Brad Mcilquham
ombudsman