complaint

Mr M says Provident Personal Credit Limited (trading as Satsuma) lent to him irresponsibly.

background

Mr M had seven loans with Satsuma between January 2016 and March 2017. The amounts borrowed varied and were between £100 and £350, with repayments due over terms of between 13 weeks and one year.

Our adjudicator considered the complaint and thought it should be upheld in part – in respect of the sixth and seventh loans. He thought the pattern of lending suggested Mr M was reliant on the loans and so that by loan six Satsuma ought to have realised Mr M wasn't settling the loans in a sustainable manner.

Satsuma disagreed; it didn't agree that the pattern of lending indicated any difficulties as Mr M had made his payments on time. As no agreement was reached, the complaint was passed to me to decide. As there's been no ongoing dispute about the first five loans, this decision is only about the loans still in dispute – the sixth and seventh loans.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Satsuma needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr M could repay the loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, 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:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may 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.

I think that it is important for me to start by saying that Satsuma was required to establish whether Mr M could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course 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 relevant regulations define sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as 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 won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

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

Satsuma has said it doesn't agree that by the time of the sixth loan (which was approved in November 2016) there were signs Mr M was struggling to repay his loans in a way which was sustainable. It has said it carried out credit history and other affordability checks and that it applied buffers and safeguards to the income and expenditure information provided by Mr M. It also says his repayment history was 'unblemished' up to April 2017.

I've reviewed the information Satsuma obtained for the sixth and seventh loans. The information provided does not show that Satsuma actually applied any 'buffers' or 'safeguards' to either of these loans. The income and expenditure information provided by Mr M does not appear to have been modified at all. This could of course be reasonable if the information provided by Mr M was largely accurate.

But I have some concerns about the information Mr M provided for loans six and seven. For the majority of his loans, Mr M declared monthly income of around £1,200-£1,300 and monthly outgoings in the region of £700. For loan six however, Mr M declared monthly income of £8,194 and outgoings of just under £5,000 – which included £1,800 of credit commitments. For loan seven, Mr M's declared income returned to £1,300 and his total expenditure to £960.

Given the significant fluctuations in Mr M's income and expenditure in a relatively short space of time, I'd have expected Satsuma to ask Mr M further questions about the reasons for the differences and I'd have expected to see Satsuma ask him for some sort of proof of income. I have seen no evidence it took such steps. Satsuma says it verified Mr M's income using credit tools, but I've seen no evidence of this either. So I don't think the checks Satsuma carried out for loans six and seven were proportionate.

Putting the above aside, I think Satsuma had seen enough anyway that it ought to have realised Mr M wasn't likely to have been settling his loans sustainably.

Mr M had taken out six instalment loans in 11 months and wasn't reducing his indebtedness; the sixth loan was the biggest individual amount he borrowed and loan seven increased his total borrowing to £600. Mr M had also taken at least six payday loans from another lender during the same period, something Satsuma could've likely established had it carried out proportionate checks. So it appears Mr M was repeatedly relying on high-cost credit to repay high-cost credit, which isn't a sustainable situation. This also paints a picture of someone who wasn't likely borrowing to meet a temporary shortfall in their income but to meet an ongoing need.

Loans six and seven had terms of 12 and 10 months and I think by approving them Satsuma was also unfairly prolonging Mr M's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.

In summary, I think Satsuma's decision to approved loans six and seven was unfair, because the pattern of lending leading up to loan six suggested Mr M wasn't in a position to repay these loans in a sustainable manner. So I'm upholding Mr M's complaint about these loans.

putting things right

Satsuma should remove all interest and charges applied to loans six (November 2016) and seven (March 2017) from the outset and treat any repayments made as if they were paid towards the principal.

This may still leave a principal balance to be repaid. But if Mr M has already repaid more than he borrowed, Satsuma should refund the difference, adding 8% simple interest per year to this refund from the date of the overpayments to the date of settlement. †

Satsuma should also remove these two loans from Mr M's credit file (Satsuma may wait until Mr M has repaid the principal before doing this if it wishes).

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

my final decision

I uphold Mr M's complaint in part. Provident Personal Credit Limited must put things right by taking the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 12 December 2019.

Matthew Bradford
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