

complaint

Ms L says Provident Personal Credit Limited trading as Satsuma irresponsibly lent to her.

background

This complaint is about five loans Satsuma provided to Ms L between April 2015 and February 2017. Ms L's borrowing history is set out in the table below as follows:

Loan	Date Taken	Date Repaid	Time for repayment	Amount	Repayment
1	22/04/2015	15/10/2015	6	£150.00	£42.50
2	27/11/2015	08/02/2016	13 weeks	£100.00	£11.01
3	22/03/2016	27/06/2016	13 weeks	£100.00	£11.01
4	15/07/2016	09/02/2017	30 weeks	£200.00	£13.27
5	15/02/2017	outstanding	12 months	£300.00	£49.80

Ms L complained that Satsuma's irresponsible lending meant she struggled to get out of the cycle and resulted in her having to enter into a debt management plan and then into an individual voluntary arrangement (IVA).

In its final response Satsuma told Ms L that it had carried out a series of checks including a credit-file search and had obtained her monthly income and expenditure details. Based on the information it received Satsuma said it was confident it had done everything that could be reasonably expected to ensure it was responsible to lend and that the loans would be affordable for Ms L.

Our adjudicator said she couldn't say it was unfair for Satsuma to provide loans 1-4 but she said that loan 5 shouldn't have been provided to Ms L. By loan 5 Ms L's pattern of borrowing suggested she'd become persistently reliant on short-term lending.

Satsuma did not respond and as the parties have not reached agreement following the adjudicators view the complaint was passed to me to make a final decision.

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 Ms L 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 Ms L could sustainably repay her 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 Ms L's complaint. I agree with the adjudicator that loan 5 shouldn't have been given. I will explain why.

As our adjudicator explained, early on in the relationship I think Satsuma had done enough. I think its checks were proportionate and from the information about Ms L's income and her expenditure there's nothing from the information which makes me think that Satsuma would have been alerted to the possibility the loans were unaffordable. So, I can't say it was unfair for Satsuma to give Ms L loans 1-4.

I've also looked at the overall pattern of Satsuma's lending history with Ms L, with a view to seeing if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so, Satsuma should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Ms L's case, I think that this point was reached by loan 5. I say this because:

- At this point Satsuma ought to have realised Ms L was not managing to repay her loans sustainably. Ms L had taken out 5 loans within 22 months and Ms L had been indebted to Satsuma for all that time save for a few small gaps in between. So, Satsuma ought to have realised it was more likely than not Ms L was having to borrow further to cover the hole repaying her previous loan was leaving in her finances and that Ms L's indebtedness was increasing unsustainably.

- Ms L's first loan was for £150.00 and loan 5 was for £300.00. So, it doesn't seem likely that Ms L's need for cash was reducing which also points to her having a longer-term need for funds. So, at this point Satsuma ought to have known that Ms L was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need.
- Loan 5 was provided to Ms L within six days of her settling loan 4. This was the shortest gap between her loans since she began her lending relationship with Satsuma.
- Ms L wasn't making any real inroads to the amount she owed Satsuma. Loan 5 was taken out almost twenty-two months after Ms L's first. And it was for double the amount. Ms L had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Ms L lost out because Satsuma continued to provide borrowing from loan 5 onwards because:

- these loans had the effect of unfairly prolonging Ms L's indebtedness by allowing her to take expensive credit intended for short-term use over an extended period of time.
- the number of loans and the length of time over which Ms L borrowed was likely to have had negative implications on Ms L's ability to access mainstream credit and so kept her in the market for these high-cost loans.

So, I'm upholding the complaint about loan 5 and Satsuma should put things right.

putting things right – what Satsuma needs to do

Satsuma shouldn't have given Ms L loan 5.

I understand that loan 5 is outstanding. If that is the case and Satsuma has sold this outstanding debt, it must buy it back and then take the following steps. If it is unable to buy back this debt, it must liaise with the new debt owner to achieve the results set out below:

- a) Satsuma must remove all interest, fees and charges from the balance on loan 5 and treat any repayments made by Ms L as though they had been repayments of the principal on loan 5. If this results in Ms L having made overpayments, Satsuma should refund those overpayments with 8% simple interest* calculated from the date the overpayments would have arisen to the date the complaint is settled. **
- b) If however, after carrying out the above, there is still an outstanding balance, Satsuma must agree an affordable repayment plan with Ms L. It must not pursue an outstanding balance of principal it has already written off.
- c) The overall pattern of borrowing for loan 5 means that any information recorded about it is adverse. Satsuma must remove this loan entirely from Ms L's credit file. It does not have to remove loan 5 until it has been repaid, but it must still remove any adverse information recorded about it.

*HM Revenue & Customs requires Satsuma to deduct tax from this interest. It must give Ms L a certificate showing how much tax has been deducted, if she asks for one.

** I understand Ms L may still be in an IVA and her IVA practitioner may still have an interest in any award Ms L is given. Ms L will be aware of her obligations under that arrangement.

my final decision

For the reasons given above, I'm partially upholding Ms L's complaint. Provident Personal Credit Limited should pay Ms L compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms L to accept or reject my decision before 2 May 2020.

Nicola Woolf
ombudsman