Financial Ombudsman Service

complaint

Mr F, represented by a third party, complains that Provident Personal Credit Limited (trading as Satsuma) lent money to him that he couldn't afford to repay.

background

Based on the information provided, Mr F entered into four loans with Satsuma between July 2016 and November 2017.

Loan	Amount	Date	Term	Repaid
1	£500	16 July 2016	52 weeks	18 July 2017
2	£350	22 November 2016	52 weeks	21 November 2017
3	£140	28 July 2017	52 weeks	15 June 2018
4	£200	22 November 2017	52 weeks	20 June 2018

Mr F says that reasonable and proportionate checks didn't take place before the loans were provided. He says that had these happened Satsuma would have realised that he was reliant on short term loans and couldn't afford the repayments in a sustainable way.

Satsuma says that when the loans were agreed there was no evidence that Mr F was in financial difficulties. It says it assessed Mr F's income and expenses and increased his expenses amount where necessary. It says based on the information it received the loan repayments were affordable.

Our adjudicator said that she hadn't seen enough to say that loans one to three shouldn't have been provided. However by the time loan four was provided she thought Mr F's pattern of borrowing suggested he was persistently reliant on short term loans. She recommended that Mr F be refunded the interest and charges applied to the fourth loan.

Satsuma didn't agree with our adjudicator's view. It said sustained or sequential borrowing in itself wasn't irresponsible. It reiterated the checks it carried out before the loans were provided.

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 that Mr F 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 a consumer. These factors include:

- the *lowe*r a customer'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 F 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 Consumer Credit Sourcebook ("CONC"), defines 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 F's complaint.

Our adjudicator didn't think that there was enough evidence to say that the first three loans shouldn't have been provided. I agree with this.

However by the time the fourth loan was provided I think that Satsuma should have been concerned about Mr F's pattern of borrowing. I note the comments Satsuma has made about the checks it carried out and Mr F's repayment history. However Mr F had been taking out loans for 16 months and had been taking out new loans before repaying his previous loan. This suggests Mr F was struggling to manage his money and could have become persistently reliant on short term borrowing.

Because of this I don't think it reasonable that Satsuma considered the fourth loan sustainable affordable and so I uphold this complaint in regard to this loan.

my final decision

My final decision is that I uphold this complaint in regard to loan four. Provident Personal Credit Limited (trading as Satsuma) should:

- refund all interest and charges that Mr F paid on loan four;
- pay interest of 8% simple a year on all refunds from the date of payment to the date of settlement*;
- the amount of time Mr F was borrowing by loan four means any information recorded about it is adverse. So all entries about loan four should be removed from Mr F's credit file.

* HM Revenue & Customs requires Provident Personal Credit Limited (trading as Satsuma) to take off tax from this interest. It must give Mr F a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 30 October 2019.

Jane Archer
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