

## complaint

Miss K complains that Provident Personal Credit Limited (trading as Satsuma) lent to her in an irresponsible manner.

## background

Miss K was given eight loans by Satsuma between December 2013 and June 2018. She had a further five loan requests declined during that period. Each of Miss K's loans was repayable in either weekly or monthly instalments and over periods ranging from 26 weeks to 12 months. Miss K successfully repaid her first seven loans but a balance remained outstanding on the final loan when she made her complaint. A summary of Miss K's borrowing from Satsuma is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount	Agreed Term
1	03/12/2013	09/06/2014	£ 130	26 weeks
2	11/12/2015	13/06/2016	£ 100	26 weeks
3	10/03/2016	24/03/2016	£ 100	26 weeks
4	20/06/2016	16/01/2017	£ 200	43 weeks
5	22/05/2017	01/04/2018	£ 140	10 months
6	21/09/2017	01/07/2018	£ 100	9 months
7	02/01/2018	10/05/2018	£ 250	12 months
8	15/06/2018	-	£ 100	12 months

Miss K's complaint has been assessed by one of our adjudicators. She didn't think Satsuma had been wrong to give the first six loans to Miss K. But she didn't think last two loans should have been agreed. So she asked Satsuma to pay Miss K some compensation.

Satsuma didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Miss K accepts my decision it is legally binding on both parties.

## 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 Miss K 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 *lower* 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 Miss K 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 Office of Fair Trading guidance on Irresponsible Lending, and later the Consumer Credit Sourcebook ("CONC"), 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 Miss K's complaint.

Satsuma did a number of checks before it lent to Miss K. It asked her for details of her income and her normal expenditure. It gathered data from credit reference agencies about other credit repayments that Miss K would need to make over the coming months. And it then used this information to calculate how much disposable income Miss K had left over each month. Satsuma also used the credit reference agency checks to gather some more information about Miss K's financial situation at that time.

The credit checks that Satsuma did before the early loans showed that Miss K was having some problems managing her money. The checks showed that she had a number of accounts in arrears. I think this should have caused some concerns to Satsuma. But on balance I don't think these concerns would have been so great that Satsuma shouldn't have agreed to give the loans to Miss K.

I've also seen that there was a significant gap between Miss K repaying her first loan and the second loan being approved. Given the length of that gap I think Satsuma was entitled to treat Miss K's application for the second loan as if it were from a new customer and base its checks accordingly.

The repayments that Miss K had agreed to make on her first five loans were relatively modest compared to the income that she'd declared to Satsuma. And, even after allowing for her other expenditure, the repayments appeared to be easily affordable. So given these repayment amounts, what was apparent about Miss K's circumstances at the time, and her borrowing history with the lender, I don't think it would've been proportionate for Satsuma to ask her for the amount of information that would be needed to show the lending was unsustainable before agreeing the first five loans.

I do think, when Miss K asked for loan 6, that Satsuma should have realised that it couldn't safely rely on the information she was providing about her finances. I think it should have taken steps at that time to independently verify Miss K's true financial position. We asked Miss K for copies of her bank statements so we could see what better checks would have shown Satsuma. She didn't provide these to us. So I'm not able to say that better checks would have shown Satsuma that it shouldn't have given loan 6 to Miss K.

But looking at the overall pattern of Satsuma's lending history with Miss K I think by loan 7 the lender should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't provide any further loans.

I say this because:

- This was now Miss K's sixth loan request in this chain. By the time she asked for loan 7 Miss K had been borrowing with little break for almost two years. I have considered that there was a gap in Miss K's borrowing between loans 4 and 5. But given what had gone before I don't think that was long enough to give Satsuma any confidence that Miss K's finances had returned to a more stable footing.
- By the time Miss K asked for loan 7 she'd been borrowing from Satsuma for a lengthy period and she wasn't making any inroads to the amount she owed the lender. Loan 7 was by far the largest loan she'd taken to date. I think that this pattern of borrowing should have indicated to Satsuma that Miss K was most likely having significant problems managing her money.
- Miss K was given loan 8 whilst she was still repaying loan 6, and only a few weeks after she had repaid loan 7 much earlier than had been originally agreed. So Satsuma ought to have realised it was more likely than not Miss K was having to borrow further to cover the hole repaying her previous loans was leaving in her finances and that Miss K's indebtedness was increasing unsustainably.

I think that Miss K lost out because Satsuma continued to provide borrowing from loan 7 onwards because:

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

I have seen that Miss K has said that she was suffering from some mental health issues at the time she was taking these loans. She says those problems greatly affected her decision making capability. But that wasn't, perhaps understandably, something that she told Satsuma about at the time of the loans. And I don't think it's something that I would have expected Satsuma to have discovered for itself from proportionate checks.

In summary I don't think Satsuma should have agreed to lend to Miss K from loan 7 onwards. Satsuma needs to pay Miss K some compensation.

### **putting things right**

I don't think Satsuma should have agreed to lend to Miss K after, and including, the loan that she took on 2 January 2018 (loan 7). So for both of those loans Satsuma should;

- Refund any interest and charges paid by Miss K on the loans.
- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement\*.
- The number of loans taken from loan 7 onwards means any information recorded about them is adverse. So all entries about loan 7, and loan 8 once it has been fully repaid, should be removed from Miss K's credit file.

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

If Miss K still owes Satsuma any of the principal balance she borrowed on her final loan, Satsuma may deduct this from the compensation that is due to her. But, to be clear, that outstanding balance should be recalculated to remove any interest and charges, but taking account of any repayments Miss K has made on that loan as though they were applied against the principal sum borrowed.

### **my final decision**

My final decision is that I uphold a part of Miss K's complaint and direct Provident Personal Credit Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 25 November 2019.

Paul Reilly  
**ombudsman**