

complaint

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

background

This complaint is about four instalment loans Satsuma provided to Mr S between February 2017 and July 2017. Mr S borrowed amounts between £100 and £350 to be repaid in instalments over terms between five and twelve months. Mr S repaid all his loans early and then borrowed again shortly afterwards.

Our adjudicator upheld Mr S's complaint in part and thought the loans three and four shouldn't have been given. Satsuma disagreed and the complaint was passed to me for 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 Mr S 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 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 S 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 S's complaint.

Satsuma asked Mr S for information about his income and expenditure and it carried out credit checks. Mr S said his monthly income was £1,800 and his normal outgoings accounted for about half this amount.

For loans one and two, given the loan amounts, what was apparent about Mr S's circumstances at the time and his history with Satsuma, I don't think it would've been proportionate to ask him for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Mr S provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Mr S was saying.

But I think that Satsuma should have made better checks for loans three and four and looked to verify what Mr S had told it. This is because Mr S was repaying his loans early and then borrowing again. This implied that he couldn't repay his loans, and cover his normal outgoings, without further loans. So I think this showed that he wasn't using the loans as they were intended.

Satsuma could, for example, have asked to see Mr S's bank statements to check his financial position. And, as our adjudicator explained, a proportionate check for loans three and four would most likely have shown that Mr S was having problems managing his money:

- Mr S had several outstanding short term loans with other lenders.
- Mr S was making repayments through a debt management plan showing that he'd had previous problems managing his money.

So I think Satsuma would then have seen that Mr S would be unable to sustainably repay loans three and four. And I think Satsuma was wrong to have approved loans three and four. And so I uphold the complaint about loans three and four and I think Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Mr S paid on loans three and four;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about loans three and four from Mr S's credit file;

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

my final decision

For the reasons given above, my final decision is that I partially uphold Mr S's complaint. I require Provident Personal Credit Limited (trading as Satsuma Loans) to pay Mr S compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 15 December 2019.

Phillip Berechree
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