complaint

Mr P says Provident Personal Credit Limited, trading as Satsuma Loans, lent to him irresponsibly.

background

Mr P had nine loans with Satsuma. I've summarised some of the information Satsuma provided about the loans in the table below.

Loan no.	Issued Date	Loan amount	Term	Weekly/monthly amount	End date
1	03/06/2013	£300	13 weeks	£32.31	30/08/2013
2	12/07/2014	£250	13 weeks	£26.92	13/10/2014
3	13/01/2015	£400	13 weeks	£43.08	17/04/2015
4	07/04/2016	£300	13 weeks	£33.02	18/05/2016
5	24/09/2016	£500	13 weeks	£55.05	24/01/2017
6	27/01/2017	£300	3 months	£147.60	27/05/2017
7	28/05/2017	£500	3 months	£246	22/09/2017
8	03/08/2017	£1,000	7 months	£285	*outstanding*
9	30/09/2017	£200	3 months	£98.40	22/02/2018

An adjudicator considered Mr P's complaint and recommended it be upheld in part. He didn't think Satsuma should've approved loans 3, 8 or 9. Satsuma didn't respond to the adjudicator, so the complaint was passed to me to decide.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. I've taken into account the law, good industry practice and any relevant regulations at the time.

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 P 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 P 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") and its predecessor (the OFT's irresponsible lending guidance), 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 P's complaint.

In common with the adjudicator, I don't think loans 1 and 2 or 4 to 7 were lent irresponsibly. There were a number of significant gaps in the chains of lending – most notably between loans 1 and 2 and then between loans 3 and 4. So it wasn't always that case that Mr P was clearly retuning for new loans as soon as he settled one. Nor were there always signs that Mr P was struggling to manage his money or was inappropriately relying on short-term credit to subsidise expenditure which exceeded his income.

But for loans 3, 8 and 9 I think proportionate checks would likely have led Satsuma to decide they were not affordable to Mr P. I'll explain why.

Satsuma says it carried out credit checks before lending to Mr P. I've noted from Mr P's credit file that at the time of loan 3 he had significant outstanding balances with around three other short-term lenders. Together these totalled over £1,000 – and at least two of the loans were in arrears, with overdue payments. Had Satsuma carried out proportionate checks into Mr P's existing credit commitments, I think it would've likely been aware Mr P was struggling to manage his commitments at this time – and so likely wasn't in a position to sustainably repay loan 3. In saying this I've taken into account that what Mr P told Satsuma about his income and expenditure suggested his disposable income was roughly equal to his existing short-term debt – so new debt wouldn't likely be affordable at this time. As I think Satsuma ought reasonably to have realised loan 3 wouldn't be sustainably affordable, I don't think it should've approved it.
From September 2016 onwards Mr P was regularly accessing Satsuma's short-term loans. Loan 6 was taken out just three days after Mr P repaid loan 5 and loan 7 just one day after loan 6 was repaid. Loan 8 was then taken out before loan 7 was repaid – and Mr P borrowed twice as much.

By the time of loan 8 I think Satsuma should've realised, from the pattern of consecutive borrowing, that Mr P was again likely to have been struggling to manage his money and that there was a significant risk he wouldn't be able to sustainably repay this new loan. I think the same applies to loan 9, which was also taken out before Mr P repaid loans 7 and 8. Given the pattern of borrowing, I think Satsuma ought to have realised it was likely Mr P was having to keep borrowing to plug a systematic hole in his finances – which isn't a sustainable situation.

I also think it was unfair for Satsuma to continue approving loans after loan 7. It had the effect of unfairly prolonging Mr P's indebtedness with it by allowing him to take expensive credit intended for short-term use over an extended period of time.

I'm therefore also upholding the complaint about loans 8 and 9.

putting things right

Satsuma should:

- refund the interest and charges Mr P paid on loans 3 and 9
- add to the above interest at 8% simple per year, from when Mr P paid the interest and charges until the date of settlement†
- remove adverse information about loans 3 and 9 from Mr P's credit history

I understand there's still an outstanding balance on loan 8. Satsuma should therefore rework the balance of loan 8 to remove all interest and charges and treat any payments made as if they were payments towards the principal. It can then deduct what it owes Mr P (for loan 3 and 9) from this balance – but only if it still owns the debt. Satsuma should also remove adverse information about loan 8 but it doesn't have to do this until the loan is repaid.

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

my final decision

For the reasons given above, I uphold Mr P'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 P to accept or reject my decision before 8 September 2019.

Matthew Bradford
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