

## complaint

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

## background

This complaint is about eight instalment loans Satsuma provided to Mr B between May 2017 and June 2019. Mr B borrowed amounts ranging between £150 and £1,000 to be repaid in monthly instalments over periods of between four and twelve months. There were no significant breaks in the borrowing and the repayments for the loans sometimes overlapped so that Mr B had several repayments to make each month. From what I can see, there are amounts outstanding for loans six to eight.

Our adjudicator upheld Mr B's complaint in part and thought the loans from loan five onwards shouldn't have been given. Satsuma disagreed and the complaint was passed to me for a final decision. Mr B asked me to consider compensation for the stress caused him by Satsuma's late responses during his complaint.

## 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 B 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 B 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 B's complaint.

Satsuma asked Mr B for information about his income and expenditure and it carried out credit checks. For loans one to four, Mr B said his monthly income was £1,750. He said his outgoings were £800 a month, but Satsuma increased this to take into account what it thought about his likely outgoings. This left Mr B with a disposable income sufficient to cover his instalment repayments even where they overlapped.

For loans one to four, given the loan amounts, what was apparent about Mr B'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 B provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Mr B was saying. So I can't say it was wrong for Satsuma to provide loans one to four.

But I think Satsuma should have made better checks from loan five onwards. Loan five was Mr B's fifth in over a year of continuous borrowing and the amount had increased. So I think Satsuma should have asked further questions and verified Mr B's finances to ensure he could sustainably repay his loan. As our adjudicator explained, a proportionate check for loan five would most likely have shown that Mr B was having problems managing his money:

- Loan five overlapped with loan four and this was the highest amount he'd borrowed to date.
- Mr B had outstanding payments due for five other short-term loans with other lenders when he asked Satsuma for loan five.

So I think Satsuma should have reasonably realised that Mr B would be unable to sustainably repay loan five and any subsequent loans.

I've also looked at the overall pattern of Satsuma's lending history with Mr B, 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 Mr B's case, I think that this point was reached by loan six. I say this because:

- By loan six, the pattern of Mr B's borrowing suggested that he was persistently reliant on short-term loans. This was his sixth loan in 19 months and the amounts hadn't significantly decreased. From loan six onwards Mr B was provided with a new loan before settling the previous one. So Satsuma ought to have realised it was more likely than not Mr B was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr B's indebtedness was increasing unsustainably.
- Mr B wasn't making any real inroads to the amount he owed Satsuma. Loan eight was taken out two years after Mr B's first. And it was for a similar amount. Mr B had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Mr B lost out because Satsuma continued to provide borrowing from loan six onwards because:

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

So I'm also upholding the complaint about loans five to eight and I think Satsuma should put things right.

Mr B asked for consideration to be given to the additional stress caused him by Satsuma's late responses during the complaint process. I can understand that this caused Mr B frustration and added to his stress. But I think we make some allowance for businesses to respond to our requirements.

Mr B said Satsuma didn't respond to his complaint within the required eight weeks. From what I can see, Mr B first complained to Satsuma on 11 October 2018 and it provided its response on 8 November 2018. Mr B complained about his further loans on 16 May 2019 and Satsuma provided its response on about 29 July 2019, which is outside the eight week requirement. But I can see that Satsuma had provided Mr B with his referral rights to ours service if it couldn't meet this target, which is what I'd expect. So I don't require Satsuma to provide Mr B with further compensation.

#### **putting things right – what Satsuma needs to do**

- refund all interest and charges Mr B paid on loans five to eight and waive any outstanding; this refund should be offset against the principal Mr B owes for loans six to eight and an affordable repayment plan agreed to clear the balance;
- 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 loan five from Mr B's credit file;
- the number of loans taken from loan six onwards means any information recorded about them is adverse. So all entries about loans six to eight should be removed from Mr B's credit file.

† HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Mr B 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 B's complaint. I require Provident Personal Credit Limited (trading as Satsuma) to pay Mr B compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 4 January 2020.

Phillip Berechree  
**ombudsman**