

complaint

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

background

Mr L had six loans with Satsuma. Some of the information Satsuma provided about the loans is summarised in the table below.

Loan	Date Taken	Date Repaid	Instalments	Amount
1	11/03/2016	23/09/2016	26 Weeks	£300.00
2	19/05/2016	28/10/2016	26 Weeks	£520.00
3	28/10/2016	02/06/2017	39 Weeks	£1,100
4	09/12/2016	13/01/2017	13 Weeks	£140
5	02/06/2017	Outstanding	39 Weeks	£1,000
6	28/07/2017	Outstanding	6 Months	£400

An adjudicator considered the complaint and recommended it be upheld in part. She thought Satsuma was wrong to have approved loan six, as it ought to have realised from the pattern of lending that the loan wasn't likely to be sustainable.

Satsuma didn't respond to the adjudicator's view, so the complaint was passed to me to decide. Since the adjudication, there's been no ongoing dispute about loans 1 to 5, so I'm focussing on loan six in my 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 L 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 consumer'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 L 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 relevant regulations 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 Mr L's complaint.

Having done so, I've decided Satsuma was wrong to have approved the sixth loan in July 2017. I think it ought to have realised, from the pattern of lending, that further lending at this stage was likely to be unsustainable or otherwise harmful.

Loan six overlapped with loan five and when these two loans are taken together, this meant the overall amount Mr L was borrowing was increasing over time. He had initially borrowed £300 in March 2016 and by July 2017 he effectively borrowed £1,400.

I can also see that loan five started on the same day Mr L had repaid loan three and was for only £100 less. So even at the point of loan five, it appeared that Mr L may have been borrowing again because repaying loan three had caused him to have a gap in his finances.

But if it wasn't clear that Mr L had been left with a shortfall after taking loan five, I think it should have been clear when he asked for loan six. Needing to top-up his borrowing shortly after taking out a large loan suggests Mr L wasn't likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need. It's unlikely that, in these circumstances, Mr L was in a position to make repayments for loan six in a sustainable manner.

This is further supported by what I've seen of Mr L's credit history. Satsuma hasn't provided the results of its own credit checks, but I've seen that Mr L had five accounts change to an arrears status in the month before he asked for loan six. This included three credit cards, a personal loan and a high-cost instalment loan. I think Satsuma likely would've (or should've been) aware of this. Given that Mr L's ability to pay his existing commitments appears to have suddenly deteriorated, I think Mr L was unlikely to have been in a position to pay new commitments at the time he asked for loan six.

I note that this is borne out by what happened. Mr L was unable to pay loan six (or five) according to plan and entered into a debt management plan soon after loan six was approved.

For these reasons, I don't think Satsuma acted fairly when it approved loan six. So I'm upholding Mr L's complaint in part, in respect of that loan.

putting things right

Satsuma should remove all interest and charges applied to loan six from the outset and treat any payments Mr L made towards it as if they were payments towards the principal.

If Mr L has already repaid more than the £400 he borrowed for loan six, Satsuma should refund this amount – but it can apply the refund to the outstanding balance of loan five.

Once loan six has been repaid Satsuma should remove it from Mr L's credit history.

my final decision

I uphold Mr L'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 L to accept or reject my decision before 29 December 2019.

Matthew Bradford
ombudsman