Complaint

Mr M complains that Provident Personal Credit Limited (trading as Satsuma Loans) lent money to him that he couldn't afford to repay.

Background

Based on the information provided, Mr M entered into six loans with Satsuma Loans between May 2015 and November 2017.

Loan	Amount	Date	Term	Repaid
1	£100	May 2015	3 months	Aug 2015
2	£140	Jan 2016	21 weeks	June 2016
3	£100	Mar 2017	3 months	May 2017
4	£250	May 2017	6 months	Nov 2017
5	£650	Jul 2017	6 months	Outstanding
6	£1,000	Nov 2017	12 months	Outstanding

Mr M says that the lending was irresponsible. He says he was borrowing increasing amounts over longer periods of time and that had proper checks been carried out his credit file would have shown he was in financial difficulty. He says he missed payments due under the loans but Satsuma Loans kept lending to him.

Satsuma Loans says that there were no missed payments or signs of financial difficulties when loans one, three and four were in place. It says that Mr M missed payments on his second loan but reasons were provided for this and support was given. It says that before the loans were provided information was gathered and checks carried out which supported the loans being affordable.

Our adjudicator didn't uphold this complaint. He noted that there were breaks in the lending which resulted in different lending chains. He didn't think that Satsuma Loans was required to carry out the level of checks that would have shown the loans were unsustainable or that further verification of the information was required. He also didn't think that the pattern of borrowing itself should have shown Satsuma Loans that Mr M was experiencing financial difficulties.

Mr M didn't accept our adjudicator's view.

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 Loans 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 Mr M 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 Loans should fairly and reasonably have done more to establish that any lending was sustainable for a consumer. These factors include:

- the *lowe*r 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 Loans was required to establish whether Mr M 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 M’s complaint.

Mr M’s first loan was for £100 repayable over three months. Given this was his first loan and the repayment amounts were low compared to his income I think the checks carried out before this loan was provided were proportionate. These didn’t raise concerns about the affordability of the loan. I have looked at the information gathered through the credit check and I don’t think that this raised concerns that would have required further questions to be asked. Given this I find it reasonable this loan was provided.

Mr M repaid his first loan and then didn’t take out a second loan for five months. Again I find the checks carried out before this loan was provided were proportionate given the size of the repayments compared to Mr M’s income. As these checks didn’t raise concerns I do not find I can say that it was wrong to provide this loan.

There was then a substantial break in lending and Mr M didn’t take out his third loan until around nine months after the second had been repaid. So while I note Mr M had missed payments on his second loan, given the break I find that the third loan forms part of a new lending chain.

Considering loans three and four as the first and second loans in a new lending chain, I find that the checks carried out before the loans were provided were proportionate. The loan repayments were relatively small compared to Mr M’s income and based on the information he had provided I find it reasonable that these loans were considered affordable. Credit checks were carried out but I don't find that these raised issues that would have required further checks to take place.

The next loan was for a larger amount (£650). It was repayable over 12 months which meant the monthly repayment amounts were around £107. However, Mr M's previous loan was still outstanding at the time of this loan which means it was necessary to assess his repayments based on the total due under both loans. However, I don't think that the size of the combined repayments compared to Mr M's income meant that further checks were required. The affordability information gathered suggested the loans were affordable and the credit check didn't raise any major concerns. Therefore I do not find that I can say this loan shouldn't have been provided.

The final loan was for £1,000 repayable over 12 months with repayments of £166 per month. Mr M repaid his loan taken out in May 2017 (loan 4, second in the lending chain) before this loan was provided. His previous loan was still outstanding meaning his combined repayments due under the two loans were around £273. However it appears that he had been making payment towards the previous loan up to this time. So while I can see that a pattern of borrowing may have been emerging at this time I don't think there is enough to say that Satsuma Loans should have been reasonably aware at this point that the loan was unsustainable. Based on the information I have seen regarding affordability and credit, I do not find that I have enough to say this loan shouldn't have been provided.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 20 December 2019.

Jane Archer
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