

complaint

Mr R complains that Provident Personal Credit Limited trading as Satsuma was irresponsible when it provided him with a number of loans.

background

Mr R took three loans with Satsuma. I've prepared this table from some of the information it has provided about Mr R's loans.

	date taken	principal amount	repaid	original term	cost of instalments
Loan 1	19/11/15	£300	05/02/16	26 weeks	£22.10 per week
Loan 2	25/08/16	£600	10/01/17	52 weeks	£22.96 per week
Loan 3	25/04/17	£100	28/04/17	6 months	£31.60 per month

Our adjudicator thought that Mr R's complaint should be upheld because he had problems managing money which Satsuma should've known about. Satsuma doesn't agree so the matter has come to me - an ombudsman - for a final decision. If Mr R accepts my decision it will be binding on the parties.

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 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've carried out proportionate checks to make sure Mr R 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, the consumer's income and expenditure, and - more broadly - what Satsuma knew about Mr R's financial circumstances. 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 point out that Satsuma was required to establish whether Mr R could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation. I accept that if loan repayments appear affordable on this basis it might be an indication that a customer could sustainably repay the loan. But it doesn't automatically follow this is the case.

This is because the relevant regulations define "sustainable" as being without undue difficulties. 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. So, whilst I note that Satsuma has told us in response to our adjudicator's assessment that "*Mr R repaid all three loans in full early which does not suggest any concerns of sustainability in repaying his loans*", I don't think that necessarily follows. This is because if Mr R was using his loans to repay earlier credit or repaid his Satsuma loans by borrowing from elsewhere, that wasn't sustainable.

When Mr R applied for Loan 1 he declared a monthly income of £2,375. He also told Satsuma that his housing costs were £420. But he declared zero for financial commitments and other expenditure. For ease of reference I've rounded the figures involved.

Satsuma says it did proportionate checks. It has shown us that it did some credit reference agency checks and at the point Mr R took Loan 1 he only had one other payday loan outstanding. I note that Satsuma didn't accept Mr R's declaration about his outgoings and for the purposes of its assessment it included some additional figures for financial commitments (£664) and other expenditure (£690). This suggests that Satsuma knew that Mr R's financial circumstances were not as he'd declared. It decided to use a figure of £1,774 for his expenses – considerably more than the £420 he'd declared.

I accept that by asking about Mr R's income and expenses and looking into his credit reference agency profile Satsuma had gone some way towards carrying out proportionate checks. But it wasn't good enough to simply do the checks, Satsuma had to think about the information it obtained and act accordingly. So, although the information it obtained may have suggested that the loan was affordable on a pounds and pence basis, the disparity in what Mr R had said and what Satsuma learnt about his credit situation should've led it to look further into his broader, recent credit history. If it had done this, it would've seen that his financial situation was a very poor one and that he'd been taking numerous loans from different types of credit providers. And I note that there were negative credit markers on his file according to the credit file I've seen.

For example, Mr R had persistently gone over his credit limit on one of his credit cards and been in arrears with payments in some of the months before Loan 1. He also had a history of drawing down cash from that credit card – again an indicator that someone may be struggling. I can also see that a default was recorded by Mr R's current account provider from August 2015 – this was settled in early 2017.

But even if Satsuma didn't see those negative markers, I think that it's likely it would've been aware – or should reasonably have been aware, had it done proportionate checks - that Mr R had a substantial and very recent history of taking payday and other high cost short term loans.

From what I've seen in Mr R's credit file he "juggled" loans from at least six of these lenders in the months before Loan 1. The amounts of the loans varied – sometimes they were for £100 or £200. They often exceeded £500 and sometimes were over £900.

Mr R took a large loan of £3,000 in June 2015: it looks as though – from the dates – that he used this to repay earlier loans. He repaid that loan in 2016. Later in June 2015 he borrowed £528 from a short-term credit provider which he repaid at the end of December 2015. In August 2015 he borrowed £950 from short-term credit provider: this was repaid at the end of January 2016. A month later he borrowed £100 from the same lender and a month after that a further £250 – both of which he repaid at the end of December 2015. In early September he borrowed almost £500 from yet another short-term credit provider (which was repaid at

the end of December) and later in that month Mr R borrowed £750 from a different short-term credit provider. He repaid it on the same day he repaid Loan 1. In October Mr R borrowed over £400 from an earlier short-term lender – this was also repaid on the day he repaid Loan 1.

I've also had sight of Mr R's bank statements. I'm not suggesting that Satsuma needed to have asked for these. But as Mr R has provided them, I've reviewed these to see whether what I have gleaned from the credit report is reflected in them. And it is. During this time Mr R was also relying heavily on a revolving credit facility he had access to – from what I can see, he used this to avoid exceeding his overdraft.

I realise that I've gone into some detail about the loans Mr R had taken before he took Loan 1. But this is because I want to explain why I'm satisfied that Mr R's financial situation was so poor that it wasn't responsible of Satsuma to provide him with any more credit. I used the word "juggling" above to describe how Mr R was managing his loans in this period. I can see that he was using loans to repay earlier credit providers and to plug the gap in his finances caused by repayment of earlier loans. This wasn't sustainable. So, I uphold Mr R's complaint about Loan 1. I don't find it surprising that Mr R missed some payments on Loan 1 shortly after he'd taken it.

I accept that between repaying Loan 1 and taking Loan 2 that there was a gap of around six months. I also note that Mr R had repaid Loan 1 early. These could've been indicators of an improvement in Mr R's financial circumstances. But had Satsuma done proportionate checks it would've seen that wasn't the case.

Loan 2 was for double the amount of Loan 1 to be repaid over double the term (52 weeks). I can see again that Satsuma increased the figures disclosed by Mr R when it undertook its affordability assessment. This was most probably again as a result of the information from his credit reference agency search. And in these circumstances, I don't think Satsuma adequately considered Mr R's wider credit situation.

In early February 2016 it seems that Mr R tried to get on top of his debt situation. I can see a transfer from a family member into his account of £3,000. On 1 February all of this sum (and some more) was used to make ten payments to eight different credit providers. A week later Mr R made a further eight payments to credit providers (including Satsuma) – the total paid on this occasion was around £2,250.

But as a result of all of these repayments, Mr R's current account was once again overdrawn. This meant that he again called on the revolving credit facility twice, and two of the payday lenders he'd previously borrowed from, before the end of the month. And he hadn't actually repaid all of his loans either - some of which weren't cleared until after Mr R had repaid Loan 3.

In April 2016 - four months before Mr R took Loan 2 in August - he borrowed £5,000 from a high cost credit provider: this was due to be repaid at around £300 per month. He also borrowed £1,500 from a high-cost short-term loan provider that month. His pattern of reliance on the revolving credit facility didn't diminish in this period either. In the two months before Mr R took Loan 2 he drew down on six occasions – a total of over £2,800. And in the weeks prior to taking Loan 2 he took three loans from lenders he'd previously borrowed from – a total of £1,950.

This pattern of borrowing – whilst slightly different to his earlier one in that he was borrowing larger sums, less often – was still demonstrating that Mr R was struggling to manage his money. In addition, Mr R was also repaying a debt collection firm. Had Satsuma done proportionate checks and interrogated further his credit history and situation it would've realised that he wouldn't be able to repay Loan 2 in a sustainable way. So, it was irresponsible to provide this loan and I uphold Mr R's complaint about Loan 2.

Mr R repaid Loan 2 in January 2017 and took Loan 3 about three months later in April. It was for a smaller amount but again, had Satsuma done what I think is proportionate – especially given that this was now Mr R's third loan, it would've realised his financial situation meant that he'd not be able to repay this sustainably either.

Although Mr R had repaid Loan 2 he still had numerous other credit commitments in April 2017 including loans he'd taken before, during and since Loan 2. I accept that Mr R repaid Loan 3 very quickly, but it seems to me that he'd taken it to avoid his current account exceeding his overdraft limit. He then drew down £940 on the revolving credit facility and on the day he repaid Satsuma (less than a week after he took Loan 3) there were six other transactions to creditors – all for £100 or more and taking-up £875 of the sum he'd just drawn down. He was still juggling his finances and borrowing to repay earlier credit: a cycle, it seems, he was unable to remove himself from.

As before, the provision of credit to Mr R - even a much lower sum, like Loan 3 - was not sustainable for him and Satsuma should've declined his application. So, I also uphold his complaint about Loan 3.

putting things right

Satsuma shouldn't have provided Loans 1, 2 or 3 to Mr R. So, to put things right I require it to

- a) add together the total of the repayments made by Mr R towards interest, fees and charges on these loans
- b) calculate 8% simple interest* on the individual payments made by Mr R which were considered as part of a) above, calculated from the date he originally made the payments, to the date the complaint is settled.
- c) pay Mr R the total of a) plus b)
- d) remove any adverse information recorded on Mr R's credit file in relation to these loans

*HM Revenue & Customs requires Satsuma to deduct tax from this interest. It should give Mr R a certificate showing how much tax it's deducted if he asks for one.

my final decision

For the reasons given above, I'm upholding Mr R's complaint. Provident Personal Credit Limited should put things right in the way I've explained.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 8 December 2019.

EJ Forbes
ombudsman