

complaint

Mr H complains Provident Personal Credit Limited (trading as Satsuma) lent to him irresponsibly.

background

Mr H received a £300 loan from Satsuma on 1 December 2016. He was due to repay this loan over five monthly instalments of £105.60. However, Mr H didn't repay his loan and I understand a balance of £506.29 remains outstanding.

Later, Mr H complained to Satsuma that it had been wrong to give him the loan because he couldn't afford it. Satsuma replied to Mr H in May 2017. It said it disagreed that it had been wrong to lend to him and had carried out a number of checks before agreeing the loan, including:

- Asking him for information about his income and financial commitments on the loan application
- Verifying that this information was correct by checking it with credit reference agencies
- Checking with credit reference agencies whether he had payday loans elsewhere

Satsuma said the results of these checks had led it to believe Mr H could afford his loan.

Mr H was dissatisfied with this response and brought his complaint to this service, where it was looked into by an adjudicator. There was some back-and-forth, but ultimately our adjudicator concluded Satsuma had carried out proportionate checks into Mr H's ability to repay his loan, and these checks hadn't suggested he couldn't repay the loan.

No agreement could be reached and the case has now been 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 along with any relevant regulatory guidance and good industry practice at the time.

Satsuma had to assess Mr H's applications for borrowing to check if he could afford to repay the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. It then had to assess whether, based on the information it had gathered from its proportionate checks, Mr H could afford to make his loan repayments in a sustainable way. Satsuma's regulator has explained that repayments are sustainable if they're made from income or savings (and not from further borrowing), while maintaining existing financial commitments.

I've carefully considered the checks Satsuma carried out, against the amount Mr H was asking to borrow and what it already knew about him. I've come to the conclusion that Satsuma was not wrong to lend to Mr H. I'll explain why.

the proportionality of Satsuma's checks

The repayments Mr H was contracted to make towards his loan were quite small, at just over £100 per month. I'd normally expect a lender to ask a borrower about their monthly income, and in this case Mr H reported his was £1,250 per month. Given the repayments made up a small proportion of this figure and this was Mr H's first loan with the company, I wouldn't normally have expected a lender to also ask about his regular expenditure.

However, I think there were reasons for Satsuma to ask about Mr H's expenditure in this case. This is because Mr H had made a number of declined applications to the company for loans in the past few months, and I think this frequent credit-seeking behaviour should have raised concerns that Mr H may be struggling financially. Finding out more about Mr H's ability to repay the loan he was applying for, by asking about his expenditure, would have been proportionate here.

Mr H has said Satsuma should also have carried out a credit check. If it had, he says it would have discovered he'd borrowed a lot of money in the last six months. Satsuma was not required to carry out a credit check – the rules at the time said only that a credit check *may* be a source of information a lender should take into account when making a creditworthiness assessment.

In any case, Satsuma did carry out a credit check, which returned no results for other payday loans in Mr H's name, either open or closed, in the last 12 months. Satsuma has said it used a specific credit reference agency for this check. I've seen two copies of Mr H's credit file from the same agency from before and after he applied for his Satsuma loan. Based on my analysis of this I think Satsuma should have seen one or two payday loans. It's not clear why it didn't, but in any event I'm not convinced that the amount of borrowing it *should* have seen would have led it to believe it would be irresponsible to lend to Mr H.

Overall, I find Satsuma carried out proportionate checks before lending to Mr H.

Satsuma's interpretation of the results of its checks

Carrying out proportionate checks by gathering information is only one part of assessing a person's ability to repay a loan – interpreting that information correctly and making further enquiries where necessary, is also important.

Mr H has said the expenditure information he gave Satsuma was wrong and it should have realised this. He's said Satsuma should also have picked up on payment issues and defaults he had with its sister brands. I'll consider the question of Mr H's expenditure first.

Mr H had declared a total monthly expenditure of £490. Mr H had also said on his application that he was single and living with parents. I don't think £490 per month is necessarily an unrealistically low amount of expenditure in the circumstances Mr H had described.

Satsuma has told us however that it *did* suspect Mr H had reported less expenditure than he had, and has explained that it came to this conclusion when it checked his credit file and compared his expenditure to its "internal models". Based on what it had discovered, it estimated Mr H's actual monthly expenditure was around £730 and this left him with enough disposable income to make his proposed repayments.

I think the approach Satsuma has taken to Mr H's expenditure is reasonable.

I asked Satsuma whether it would have had access to information about Mr H's borrowing with its sister companies. Satsuma has said that it does not have access to this information.

I've no reason to disbelieve this, especially in relation to the credit card Mr H had with one of the sister companies. I say this because the credit card company and Satsuma are separate legal entities. And based on the information Satsuma's provided from its systems, it doesn't appear that it checked if a borrower had loans with the other sister company. At the time he applied for his loan with Satsuma, Mr H's last loan with the other sister company had been four or more years ago. So I think even if Satsuma had considered this aspect of Mr H's borrowing history it wouldn't necessarily have thought it was irresponsible to lend to him.

my final decision

For the reasons explained above, I conclude Satsuma carried out proportionate checks before lending to Mr H, it interpreted the results of its checks correctly, and those results would have given it no reason not to lend to him. It follows that I don't think Satsuma was wrong to lend to Mr H and therefore I do not uphold this complaint.

Mr H has mentioned he is currently in serious financial difficulty. I would remind Satsuma that it and any company it appoints to collect the outstanding debt have a duty under CONC 7.3 to treat Mr H with forbearance and due consideration.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 20 September 2018.

Will Culley
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