

complaint

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

background

This complaint is about four high cost short term loans Satsuma provided to Mr B between June 2016 and May 2017. This is a summary of Mr B's lending history from Satsuma.

Loan	Taken out	Repaid	Amount, £
1	07/06/2016	01/10/2016	200
2	01/02/2017	10/03/2017	400
3	24/03/2017	02/05/2017	100
4	08/05/2017	-	500

Our adjudicator upheld Mr B's complaint in part and thought loan 4 shouldn't have been given. Satsuma disagreed so the complaint been passed to me to make a final 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 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.

I agree with the adjudicator, and for the same reasons, that there was nothing to indicate Satsuma needed to do more when it approved loans 1 to 3. So I don't think Satsuma was wrong to give loans 1 to 3 to Mr B.

I've then 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 at loan 4. I say this because:

- At this point Satsuma ought to have realised Mr B was not managing to repay his loans sustainably. Mr B had been indebted to Satsuma for eight months. And he took out loan 4 just days after settling loan 3. So Satsuma ought to have realised it was more likely than not Mr B was at this stage 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's first loan was for £200 and loan 4 was for £500. At this point Satsuma ought to have known that Mr B was not likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need.
- Mr B wasn't making any real inroads to the amount he owed Satsuma. Loan 4 was taken out 11 months after Mr B's first. And it was for a much larger 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 provided loan 4 because:

- this loan 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.

- giving this loan 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.

I've considered carefully Satsuma's comments in response to the adjudicator's view. It said that we only appear to be considering the number of loans obtained, not the customer's individual circumstances, and it doesn't feel it can be concluded that Mr B was reliant on its lending just from his sustained borrowing.

But I would remind Satsuma that CONC states a firm must consider the customer's ability to make repayments without having to borrow to do so – not just the pounds and pence affordability of each loan. And by loan 4 I think Mr B's borrowing history suggested there was a risk he was borrowing to repay. I say this based on the time between settling loans 2 and 3 and taking out loans 3 and 4 and the significant increase in the value of loan 4.

So I've reached my decision not just, as Satsuma suggests, by considering the number of loans but based on the individual circumstances of Mr B's relationship with Satsuma. I think it should have better considered the possible impact of repeat lending to him when it agreed to loan 4. At this stage it seems to me it would have been clear that it was most likely Mr B was having to borrow more to make up for the shortfall in his finances that repaying previous loans had caused.

So I'm upholding the complaint about loan 4, and Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Mr B paid on loan 4;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement*;
- if it chooses, apply the refund to any outstanding capital balance on loan 4 that it wrote off before paying any remaining balance (if there is any) to Mr B**; and
- any information recorded about loan 4 is adverse, so the entry about loan 4 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. If Satsuma intends to apply the refund to reduce any outstanding balance it wrote off, it must do so after deducting the tax.

**If after taking the above steps there would still have been capital balance due, Satsuma must not re-activate this debt and attempt to collect it from Mr B given his financial status in September 2017.

my final decision

For the reasons given above, I'm partially upholding Mr B's complaint. Provident Personal Credit Limited (trading as Satsuma Loans) should 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 21 December 2019.

Rebecca Connelley
ombudsman