

complaint

Mr G complains that Provident Personal Credit Limited (trading as Satsuma Loans) gave him loans that he couldn't afford.

background

Mr G took out a total of five loans with Satsuma between September 2015 and February 2017.

Loan	Date of loan	Date repaid	Amount lent	Weekly payment	Monthly payment
1	05.09.15	23.12.15	£300	£33.02 (x13)	-
2	15.01.16	27.05.16	£250	£18.41 (x26)	-
3	03.06.16	08.09.16	£400	£29.46 (x26)	-
4	05.10.16	28.02.17	£500	£55.04 (x13)	-
5	28.02.17	-	£1,000		£166

Mr G didn't make all the repayments on the first four loans when they were due. But he did repay them in full, and he finished repaying loans 2 and 3 early. However, he only made the first few monthly repayments on the final loan.

Mr G says he was suffering from financial difficulty and a gambling addiction during the period when he was borrowing from Satsuma. He says he often missed payments, and had to borrow repeatedly from a number of short-term lenders. He believes that Satsuma should have carried out more checks. And he thinks that if it had done so, it should have realised that he couldn't afford the last three loans.

Our adjudicator didn't recommend that the complaint should be upheld. Briefly, she thought that Satsuma had carried out sufficient checks before making the first four loans, and she thought that they'd have appeared to be affordable for Mr G. And although she thought it should have checked Mr G's financial situation more carefully before making the final loan, she thought it would still have appeared to be affordable for Mr G.

Mr G wasn't happy with the adjudicator's view, so the complaint was passed to me.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Mr G and to Satsuma on 3 May 2018. I summarise my findings:

- Satsuma was required to lend responsibly. It needed to make checks to see whether Mr G could afford to pay back each loan before it lent to him. Those checks needed to be proportionate to things such as the amount Mr G was borrowing, the length of the agreements and his borrowing history. But there was no set list of checks Satsuma had to do.
- Satsuma's told us that before agreeing to each loan, it asked Mr G for details of his monthly income and living expenses. And it carried out a credit check each time.

- When Mr G applied for the first loan, he told Satsuma his monthly take-home pay was £5,000, and his regular monthly outgoings were less than £2,600. Satsuma was entitled to rely on the information Mr G provided, in the absence of anything to suggest it might be inaccurate. On the basis of that information, it would have looked as if Mr G had more than £2,400 per month left over after meeting his regular living costs. So I thought it would have looked to Satsuma as if Mr G would be able to afford the weekly repayments comfortably. And I didn't think it was irresponsible of it to go ahead and make the loan without carrying out more detailed affordability checks.
- Mr G applied for loan 2 less than a month after he'd finished repaying loan 1. Loan 2 was for less than loan 1, and the repayments were spread over a longer period, so they were significantly lower. It's true that Mr G had had some difficulty making the payments on time on the first loan. I could see that he told Satsuma in October 2015 that he'd experienced financial difficulties earlier in the year, but he now had a new job. And I could see that some of the problems he'd had making the payments were due to having to have his debit card replaced.
- On the basis of the information Mr G provided alone, I thought Satsuma would have been entitled to assume that he'd be able to afford loan 2 relatively easily. I did think that the issues there'd been with the repayments on loan 1 ought to have prompted it to check Mr G's financial situation a little more carefully than I'd normally expect a lender to do where repayments represent such a small proportion of a borrower's stated monthly income. But I explained that even then, I'd only think it reasonable to expect it to ask for details of the borrower's regular monthly commitments. And Satsuma did this anyway. So I didn't think it was wrong to make loan 2 without carrying out further checks.
- But Mr G's problems making repayments on time continued into loan 2. I could see from Satsuma's notes that at first this appeared still to have been caused by Mr G's need for a replacement debit card. But he then explained he'd missed a further payment due to some unexpected bills. And he told Satsuma he was late making another payment because he was waiting to be paid. I acknowledged that Mr G ended up paying loan 2 off a few weeks early. And he provided plausible explanations for his problems making payments each time. But I thought that Satsuma should have been concerned that a high earner was repeatedly missing payments that it would have looked as if he'd be able to afford easily.
- So although the income and expenditure figures Mr G gave Satsuma when he applied for loan 3 would have suggested that he'd have around £2,500 per month disposable income after meeting his regular expenses, I thought that Satsuma ought to have taken more steps to check that the loan really was affordable for him.
- I thought that Satsuma should have asked Mr G specifically about any other short-term loans he had outstanding at the time. And I thought it should have independently verified the information he gave it about his income and expenditure. It could have done this, for example, by asking Mr G for copies of his bank statements.
- I'd looked at Mr G's bank statements, to see what Satsuma would have seen if it had carried out what I considered to be proportionate checks. It was clear from those that Mr G had a serious gambling habit. His most recent bank statement at the time he applied for loan 3 would have shown numerous gambling transactions. In the month to 10 May alone, he'd spent over £4,000 on gambling.

- The regulator at the time was the Financial Conduct Authority. Its regulations for lenders are set out in its consumer credit sourcebook (usually referred to as “CONC”). These regulations require lenders to take “*reasonable steps to assess the customer’s ability to meet repayments under a regulated credit agreement in a sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences.*” They define ‘sustainable’ as being able to make repayments without undue difficulty. And they explain that this means borrowers should be able to make their repayments on time, and out of their income and savings, without having to borrow to meet those repayments.
- So, the fact that the amounts borrowed and the interest paid might have been low in comparison with Mr G’s income, or that he’d been managing to repay the loans in full and on or before time, didn’t necessarily mean the loans were affordable for him, or that he managed to repay them in *a sustainable manner*. In other words I couldn’t assume that because Mr G managed to repay his loans that he was able to do so out of his normal means without having to borrow further.
- If Satsuma had checked Mr G’s financial circumstances as carefully as I thought it should have done, it would have realised that it was unlikely that he’d be able to repay loan 3 sustainably. So I didn’t think it should have made loan 3.
- Mr G’s financial situation didn’t improve significantly throughout the rest of the time he was borrowing from Satsuma. And by the time he applied for loans 4 and 5, he was taking frequent and substantial loans from a range of other short-term lenders. So I didn’t think Satsuma should have agreed to make loans 4 or 5 either.
- So my provisional view was that the complaint should be upheld in part, and that Satsuma should put things right by doing as follows.

putting things right

To put things right, Satsuma should:

- refund all interest and charges Mr G paid on loans 3 to 5 inclusive;
- pay interest on those refunds at 8% simple* per year from the dates of payment to the date of settlement;
- apply the refund to reduce the capital outstanding and pay any balance to Mr G;
- write off any interest and charges that haven’t yet been paid; and
- remove any negative information about the loans referred to in the first bullet point above from Mr G’s credit file.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Mr G a certificate showing how much tax it’s taken off if he asks for one.

further submissions

Mr G didn’t have any further comments to make. Satsuma says it’s willing to do what I said it should do in my provisional 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. Having done so, I can't see any reason to depart from the findings I reached in my provisional decision.

my final decision

My decision is that I uphold this complaint in part. I require Provident Personal Credit Limited (trading as Satsuma Loans) to put things right by doing as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 1 July 2018.

Juliet Collins
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