

complaint

Mr F complains that Provident Personal Credit Limited (trading as Satsuma) was irresponsible to lend him money.

background

This complaint is about four loans Satsuma provided to Mr F between July 2015 and September 2017. The first two loans were repayable in weekly instalments. Mr F had to make monthly repayments on the later loans.

Mr F paid the first two loans he took out. But Mr F hasn't paid the last two loans he took out in June and Sept 2017.

Here's a loan table showing further details.

Loan	Date opened	Date closed	Loan amount	Notes
1	10/07/2015	14/12/2015	£250	Paid
2	06/05/2016	10/05/2017	£500	Paid
3	28/06/2017	-	£700	This loan was defaulted on
4	04/09/2017	-	£700	This loan was defaulted on

Our adjudicator partially upheld Mr F's complaint and thought loans 3 and 4 shouldn't have been given. Satsuma disagrees.

So the complaint comes to me to decide.

my provisional 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 F 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 consumer'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.

Satsuma was required to establish whether Mr F 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 relevant regulations define 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 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 F's complaint.

Satsuma told us about the checks it did before lending to Mr F. It asked Mr F to provide details of his income and to tell Satsuma what he normally spent each month – including what he paid towards any other credit arrangements he had set up. Satsuma carried out checks on Mr F's credit file. Satsuma also told us it adjusted the figures where it thought it helpful to try and reflect Mr F's real life financial circumstances as accurately as possible.

I've seen a summary of the results of those checks and they don't show anything that I think should reasonably have made Satsuma think loan 1 wasn't affordable for Mr F.

The repayments that Mr F had agreed to make on this loan looked comfortably affordable compared to the income that he'd declared to Satsuma. So given these repayment amounts, what was apparent about Mr F's circumstances at the time, and his borrowing history with the lender, I don't think it would've been proportionate for Satsuma to ask him for the amount of information that would be needed to show the lending was unsustainable before agreeing the first loan.

I've thought carefully about whether Satsuma acted fairly when it provided loan 2 to Mr F. On the face of things, the amount Mr F was asking to borrow was still low in comparison to his declared income, and he'd paid off loan 1, without any evident difficulty, some five months earlier.

On the other hand, loan 2 was taken over a longer period of time – possibly to keep the cost of the monthly repayments down. When it was being arranged, Satsuma expected Mr F to be paying for this borrowing over a year. So I think Satsuma could have done more or gone further in its affordability assessment. But based on the information that's available to me, I can't see that further checks would've shown up anything that ought reasonably have led Satsuma to decline Mr F's application for loan 2.

I've also looked at the overall pattern of Satsuma's lending history with Mr F, 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 F's case, I think that this point was reached by loan 3. I say this because:

- At this point Satsuma ought to have realised Mr F was not managing to repay his loans sustainably. Mr F had taken out loan 3 in the month after he repaid loan 2 – and he'd now been borrowing from Satsuma for almost two years. So Satsuma ought to have realised it was more likely than not Mr F was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr F's indebtedness was increasing unsustainably.
- Mr F's first loan was for £250 and loan 3 was for £700 – an amount almost three times as much as he'd borrowed when he took out his first Satsuma loan. So when he asked for loan 3, I think Satsuma ought to have known that Mr F wasn't likely to be borrowing to meet a temporary shortfall in his income but to meet an ongoing need.
- Mr F wasn't making any inroads to the amount he owed Satsuma. He had had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Mr F lost out because Satsuma continued to provide borrowing from loan 3 onwards because:

- these loans had the effect of unfairly prolonging Mr F's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.
- the length of time over which Mr F borrowed was likely to have negative implications on Mr F's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So, overall, I'm upholding the complaint about loans 3 and 4.

putting things right – what Satsuma needs to do

- refund all interest and charges Mr F paid on loans 3 and 4
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†
- after Satsuma works out the above amount it has to pay Mr F, it can then take off any amount Mr F still owes in order to repay the original loan balances before paying any money left to Mr F, or alternatively
- if there are any outstanding capital balances left after this, Satsuma should arrange an affordable repayment plan with Mr F
- as I understand Satsuma passed the debt on to a third party, it should either take the debt back in order to carry out these directions itself or pass on a copy of this decision and ask the third party to do as I've said
- the number of loans taken from loan 3 onwards means any information recorded about them is adverse. So Satsuma should remove all entries about loans 3 and 4 from Mr F's credit file.

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

my final decision

For the reasons given above, I'm partially upholding Mr F's complaint.

Provident Personal Credit Limited (trading as Satsuma) should put things right for Mr F as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 2 January 2020.

Susan Webb
ombudsman