

complaint

Miss R complains that Provident Personal Credit Limited, trading as Satsuma Loans, ("SL"), gave her a loan that she couldn't afford to repay. She is also unhappy about the way SL has dealt with her financial difficulties.

background

Miss R took out an instalment loan for £700 with SL on 25 June 2017. The loan was repayable by eight monthly instalments of £175.

Miss R doesn't feel SL has addressed her concerns. She said she had contacted SL to tell it she was having difficulty paying the loan and that she felt it shouldn't have lent to her in the first place. Miss R referred to SL's credit check at the time of the loan which showed she'd had one payday loan in the previous 12 months. She'd checked with several credit reference agencies and their credit reports showed all but two of her many loans. Miss R also said that SL could have asked to see her bank statements or anything else that would have shown the mess she was in. She was also gambling heavily at the time of the loan. Miss R also asked SL to freeze the interest on the loan so she only paid interest up until the day she contacted it. Miss R was unhappy that SL told her she must pay all the interest for the full loan term as it frontloaded the interest onto the loan. She also said it took two months to put a payment plan in place because of how awkward SL was being.

The adjudicator didn't recommend that the complaint should be upheld. She said that SL had made enough checks and noted that SL had asked Miss R for information about her income and expenditure and it had carried out a credit check. The adjudicator also noted that Miss R's credit report showed a number of short term loans taken out in the eight months prior to SL's loan. But the adjudicator could also see that SL's credit check showed that Miss R's last payday loan was eight months previously. She explained that a lender's credit search could be very different from that seen by a borrower. The adjudicator concluded that SL wasn't wrong to lend.

Miss R disagreed and responded to say that she had been using multiple payday loans for a number of months before SL's loan and she thought that SL would have seen all of these on its credit check. Miss R appreciated that she needed to complete income and expenditure details for SL but taking into account the loans she already had, she said that SL's loan was unaffordable.

Miss R also said that she was unhappy that SL had told her that she had to repay the full balance when she told it she was experiencing financial difficulties. She also said that it had taken months for a repayment plan to be sorted out.

The adjudicator asked SL about Miss R's response. SL said that Miss R had told it on 3 October 2017 that her financial situation had changed. SL offered to complete an income and expenditure assessment for Miss R in order to review a suitable repayment option. But it said that Miss R had suggested a repayment arrangement of £50 per month. The adjudicator could also see that Miss R had asked SL to freeze or cancel any further interest from that point, but SL explained that it wasn't able to do this as interest was initially applied at the point the loan was taken out. Miss R hadn't agreed with this and there were several communications between Miss R and SL and eventually an arrangement for £50 per month was put in place.

The adjudicator also said that where consumers express they're experiencing financial difficulty, this service would expect the lender to act in a positive and sympathetic manner. But she said that this might not necessarily mean writing off debts or stopping interest. Based on what she could see, she thought that SL had acted in a positive manner by trying to assess what Miss R's financial situation was in order to implement a suitable payment arrangement.

As the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, 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 note that there are two aspects to Miss R's complaint and I'll deal separately with these below.

irresponsible lending

SL was required to lend responsibly. It needed to make checks to see whether Miss R could afford to pay back the loan before it lent to her. Those checks needed to be proportionate to things such as the amount Miss R was borrowing, the length of the loan agreement and her lending history, but there was no set list of checks SL had to do.

The Financial Conduct Authority was the regulator at the time Miss R borrowed from SL. Its 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.*" The regulations define 'sustainable' as being able to make repayments without undue difficulty, and 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 these repayments.

SL has told us about the checks it did before lending to Miss R. It checked her credit file and it asked Miss R for details of her normal income and expenditure, including other loan repayments.

When Miss R applied for the loan on 25 June 2017, Miss R told SL that she was earning a monthly income of £1,600. And she said her monthly regular expenditure was £1,100 including other loan repayments of £500. So it appeared that Miss R had around £500 left over each month that she could use to make her monthly loan repayments of £175. So that would have seemed relatively affordable based on what she'd told SL about her expenditure.

Miss R has said that SL's credit check didn't show the whole picture, and that there were other loans it should have reported. SL has provided us with the results of its credit checks. Firstly I should note that the information an individual might see when they request a copy of their credit file is often quite different to the information a lender receives. The lender's information might be anonymised, or only provide a small subset of the total information held by a credit reference agency. There is also often a time delay between loans being taken and them being reported on a credit check. I'm also aware that not all payday and short term lenders report to the same credit reference agencies. So, Miss R may have taken other payday or short term loans within this period, which may not have been identified by SL's credit checks. So, this may explain any differences between the information provided by SL's credit checks and the information seen by Miss R in her own credit search.

SL's credit check showed that Miss R hadn't taken out any other payday loans in the previous six months, and it had been eight months since her last payday loan. The check also showed no defaulted payday loans in the last twelve months and that only one payday loan had been settled in that same period. SL said that this showed that Miss R's involvement with payday loans was minimal.

SL's credit check also showed that Miss R had a number of other active credit accounts. That matched what she'd told SL about her repayments on other loans when she completed her expenditure declaration. I don't think it was unreasonable for SL to rely on the information it received here, particularly when it appears to have been corroborated by what Miss R had said about paying £500 a month to her other loans.

Overall, while I appreciate that the credit check SL completed didn't show all of Miss R's short term borrowing history, that doesn't mean I think the affordability checks SL completed were insufficient. Or that SL was wrong to rely on the information it saw on the credit report it ran.

SL's loan was due to be repaid over eight months. So that means the monthly payments Miss R needed to make were much smaller than if she'd taken a normal payday loan, although she was committing to making those repayments over a longer period. I can see that the repayments were relatively modest compared to Miss R's declared monthly income of £1,600. I also note that Miss R had declared her regular expenditure to be £1,100 and that her disposable income was £500. So I think SL would have reasonably concluded that the loan repayments seemed affordable when compared to her disposable income. The expenditure information requested by SL included other loan commitments. Miss R said that she spent £500 on these. So, I can see that SL is likely to have taken into account the amount Miss R spent on loan repayments.

I don't think at that stage of SL's relationship with Miss R that it had any reason to doubt the information she'd provided to it. I think it was reasonable for SL to rely on the information Miss R provided at this stage about her financial situation. And that information suggested that she was able to afford to repay the loan. There was nothing to suggest that she wasn't using the loan in the way it was intended – as a short term solution to a temporary cash flow problem. So I think SL carried out proportionate checks before lending to Miss R. And I don't think it was unreasonable for SL to make the loan without carrying out further checks.

I appreciate that Miss R now says that she had multiple payday loans for a number of months before SL's loan and that she was gambling heavily. But that wasn't something she declared to SL when she applied for the loan. And I don't think it was something that what I consider to be proportionate checks would have uncovered either.

In the particular circumstances here, and bearing in mind this was the first time she'd borrowed from SL, I think SL was entitled to rely on what Miss R had said about her income and expenditure. And her declared financial information suggested she could comfortably repay the loan and didn't suggest she was experiencing difficulty. So I think it was reasonable here for SL to base its assessment on the information Miss R provided.

So, I don't think that SL treated Miss R unfairly in giving her the loan. Based on the information SL had about Miss R, I think SL would have reasonably concluded that Miss R could afford the repayments. So, I don't think SL was wrong to give Miss R this loan.

SL's response to Miss R's financial difficulties

I am sorry to hear that Miss R is experiencing a period of financial hardship.

Lenders should respond positively and sympathetically when a customer is in financial difficulty. I've reviewed SL's contact notes with Miss R to see whether SL did so. I can see that Miss R told SL she was in financial difficulties on 3 October 2017. SL asked her on that date if there had been a change in her circumstances and if she was behind on her priority bills. Miss R responded eight days later to say she owed other lenders and SL offered her a payment arrangement if Miss R could complete an income and expenditure form ("I&E").

Miss R responded 13 days later to request that the interest on her loan should be frozen from that date. SL told her that interest was added at the start of the loan, but that no further interest or fees would be charged. Miss R was unhappy with this.

SL also asked Miss R how her circumstances were affecting the managing of her finances and suggested a repayment plan. Miss R said she could afford to repay £40 every four weeks and SL said that it would send her an I&E by email so that this could be put in place. Almost two weeks later Miss R told SL that she hadn't received the I&E as it appeared that her email address might have changed. SL sent her another I&E which Miss R said she still hadn't received and SL asked her to check her folders. Two months later Miss R told SL that she wasn't receiving SL's emails but she agreed to pay £50 per month.

From my review of SL's contact notes, I can see that SL promptly suggested the completion of an I&E and a repayment arrangement. I don't think that I can hold it responsible for the delays in concluding the repayment arrangement. It appears that SL had acted promptly in its responses to Miss R's concerns about her financial difficulties and any delays appeared to be down to Miss R not responding promptly to SL's requests or due to the failure of SL's emails to reach Miss R.

I also agree with the adjudicator that acting in a positive and sympathetic manner doesn't necessarily mean writing off debts or stopping interest. So I also don't think that SL has acted inappropriately here by not agreeing to reduce the interest on the loan. I consider that its response was within a range of reasonable responses, bearing in mind its responsibility to treat consumers who are in financial difficulty positively and sympathetically.

I appreciate that Miss R will be disappointed with my decision. But for the reasons I've set out above, I don't uphold her complaint.

I would remind SL of the need to continue to treat Miss R positively and sympathetically in regard to her financial difficulties.

my final decision

My decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 3 September 2018.

Roslyn Rawson
ombudsman