complaint

Mr R complained about 2 loans he took out with a company called Provident Personal Credit Limited, trading as “Satsuma”. Mr R says Satsuma lent to him irresponsibly and this went on to cause him financial problems.

To keep things simple, I’ll refer mainly to Satsuma.

background

We now know Mr R took out 2 loans, in February and September 2018. I’ve attached a summary of the borrowing at the end of this decision.

One of our adjudicators looked into the complaint and said they thought it should be upheld in respect on loan 1 only. Satsuma didn’t agree and so I’ve been asked to make an ombudsman’s 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. I’ve followed this approach when thinking about Mr R’s complaint.

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 that Mr R could repay the loans he was given in a sustainable manner. These checks ought to have taken into account a range of different factors, such as the amount being lent, the total repayment amount 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. However, certain factors might point to the fact that Satsuma should have fairly and reasonably 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. So Satsuma was required to establish whether Mr R could sustainably repay the loans, not just whether the payments were affordable on a strict pounds and pence calculation.

Of course, the loan payments being affordable on this basis *might* be an indication that Mr R could sustainably make the repayments. But it doesn't automatically follow that 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. So, it follows that a lender should realise, or it ought to have fairly and reasonably realised, that a borrower won't be able to make their repayments sustainably if they are unlikely to be able to make them without borrowing further.

Satsuma told us it carried out certain checks before agreeing to lend to Mr R, including assessing his income, expenditure and creditworthiness. It says that all this information showed that Mr R would be able to make the loan repayments he was committing to.

But I'm afraid I don't agree that its lending in this case was sustainable for Mr R in respect of loan 1. This is because I can see it was fairly obvious that Mr R was on a low wage and because the loan 1 repayments represented such a large part of his disposal income, I don't think it was right to lend him this amount of money over the term it did. In short, I think that any reasonable assessment would have shown he had virtually nothing left of his monthly income once this loan was committed to. He couldn't afford to repay it without undue difficulties.

I therefore uphold his complaint in respect of loan 1.

For loan 2, however, I note the amount lent was much smaller and because it was also spread out over 3 instalments, I think the loan would have looked much more affordable this time. The monthly repayments for this loan were considerably smaller than the first.

I accept that by loan 2 Mr R may have been experiencing other financial problems, for example, from borrowing elsewhere. But taking into account what I've said above, about the length of the lending relationship, I think the financial checks Satsuma carried out would have been quite basis ones; but they would have nevertheless also been appropriate to the situation. I therefore don't uphold the complaint in relation to loan number 2.

putting things right

In order to put things right for Mr R, Satsuma should:

- refund all interest and charges Mr R paid on loan 1;
- 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†;
- remove any adverse information recorded on Mr R's credit file in relation to loan 1.

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

my final decision

I partially uphold Mr R's complaint and I direct Provident Personal Credit Limited to put things right for Mr R as set out above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr R to accept or reject my decision before 30 April 2020.

Michael Campbell
ombudsman

Appendix

Loan	Taken Out	Repaid	Amount	Monthly Repayments
1	02/02/2018	15/05/2018	£700	£443
2	14/09/2018	15/12/2018	£200	£98