

complaint

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

background

This complaint is about five instalment loans Satsuma provided to Mr S between February 2017 and July 2018. Mr S's lending history is as follows:

- Loan one taken on 12 February 2017 for £200 and to be repaid in three monthly instalments of £98.40. This loan was repaid on 25 May 2017.
- Loan two taken on 1 August 2017 for £460 and to be repaid in three monthly instalments of £226.32. This loan was repaid early on 25 August 2017.
- Loan three taken on 27 August 2017 for £370 and to be repaid in three monthly instalments of £182.04. This loan was repaid on 24 November 2017.
- Loan four taken on 27 June 2018 for £350 and to be repaid in three monthly instalments of £172.20. A balance remains outstanding for this loan.
- Loan five taken on 27 July 2018 for £580 and to be repaid in seven monthly instalments of £165.30. Where the repayments for loans four and five overlapped, the highest expected repayment was £337.50. A balance remains outstanding for this loan.

Our adjudicator didn't uphold Mr S's complaint. Mr S disagreed. He said that he had significant debts at the time and was borrowing to repay these. He said this should have been shown by Satsuma's checks. He also said that if he'd been able to afford the loans, he wouldn't be in arrears with loans four and five. And so the complaint was passed to me for 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 S 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 S 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 S's complaint. I was sorry to hear of his financial difficulties.

There was a seven month break in Mr S's borrowing between loans three and four. I think this is significant and that Satsuma could reasonably think that Mr S's finances had improved by loan four. So I think Satsuma could reasonably treat loans four and five as the start of a new chain of borrowing and carry out the checks that were proportionate.

Satsuma asked Mr S for information about his income and expenditure and it carried out credit checks. Mr S said he earned between £1,706 and £1,850 a month. He said his expenses were between £385 and £525 a month. Satsuma also took into account Mr S's other credit commitments which ranged between £316 and £703 a month. From this information, Mr S looked to have enough disposable income to comfortably repay his monthly loan instalments, even at their highest when loans four and five overlapped.

Mr S said he had other debts at the time. I've looked at the checks that Satsuma carried out and I can see that it took into account the other credit commitments it found. It did find that there were some arrears in Mr S's repayments. But I don't think these were significant enough to trigger further checks.

Given the loan amounts, what was apparent about Mr S's circumstances at the time and his history with Satsuma, I don't think it would've been proportionate to ask him for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Mr S provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Mr S was saying.

So, as the adjudicator explained, Mr S looked to be able to afford his loans. And so I can't say that Satsuma was wrong to provide them.

I've also looked at the overall pattern of Mr S's lending history with Satsuma, 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 S's case, I can't see that this point was reached in his lending history with Satsuma. I say this because of the significant break in his borrowing. I think, as I've said above, that Satsuma could reasonably treat loans four and five as a new chain of borrowing.

my final decision

For the reasons given above, my final decision is that I don't uphold Mr S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 14 September 2019.

Phillip Berechree
ombudsman