

complaint

Mr E says that Provident Personal Credit Limited, trading as Satsuma, lent to him irresponsibly.

background

Satsuma approved 7 instalment loans for Mr E between July 2017 and March 2018. Mr E said that he was in financial difficulty and the lending made his difficulties worse. Mr E hasn't been able to repay loans 6 and 7 and a balance appears to be outstanding.

Our adjudicator considered the complaint and thought that Satsuma shouldn't have continued to lend to Mr E from loan 6 onwards as he was reliant on this type of credit and essentially using the loans to supplement his income. The adjudicator thought that by this point Satsuma should have realised that further borrowing wasn't sustainable. Our adjudicator recommended that Satsuma put things right for Mr E by refunding all interest and charges incurred on loans 6 and 7.

Satsuma didn't agree with the adjudicator's opinion and in particular said that Mr E was required to repay only a small amount of his declared income towards his repayments. It said that there was no evidence that Mr E was struggling to manage his money and the adjudicator hadn't taken into account Mr E's individual circumstances. Satsuma asked for the complaint to be passed to an ombudsman 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 E 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 it's important for me to start by saying that Satsuma was required to establish whether Mr E 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 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.

So it follows that a lender should realise, or it ought fairly and reasonably to realise, that a consumer 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 E's complaint.

Satsuma has told us about the checks it did before lending to Mr E. It asked Mr E for details of his income and normal expenditure. And Satsuma carried out checks on Mr E's credit file.

I agree with the adjudicator that it wasn't wrong for Satsuma to give Mr E loans 1 to 5 on the basis of the information he gave about his income and outgoings. It was early in the lending relationship and so I think the checks were enough for Satsuma to agree to lend. As Mr E hasn't raised any objection to the adjudicator's recommendation in relation to loans one to five, I don't think that I need to say more about them.

I've looked at the overall pattern of Mr E's lending with Satsuma to see if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable or otherwise harmful. And so Satsuma should've realised that it wasn't reasonable to lend more money to Mr E.

Given the particular circumstances of Mr E's case, I agree with the conclusions of the adjudicator and I think that this point was reached by loan six. I say this because:

- when Mr E took out loan six, he'd been borrowing consistently and wasn't making any inroads in to the amount that he owed. The loans were instalment loans but Mr E settled them early often by taking another loan to repay the earlier borrowing. I think this pattern of lending should've alerted Satsuma at the point of loan 6 to the likelihood that Mr E was having problems managing his money and wasn't borrowing sustainably.
- Mr E wasn't able to pay back loans 6 and 7 which further suggests the lending was unsustainable.

I think that Mr E lost out because Satsuma continued to provide borrowing from loan six onwards. This is because:

- the number of loans that Mr E had taken from Satsuma was likely to have had negative implications on his ability to access mainstream credit. This kept Mr E in the market for these high-cost loans.

So I'm upholding Mr E's complaint about loans 6 and 7.

putting things right – what Satsuma needs to do

- A. Add together the total of the repayments made by Mr E towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything it has already refunded.
- B. Calculate 8% simple interest* on the individual payments made by Mr E which were considered as part of "A", calculated from the date Mr E originally made the payments, to the date the complaint is settled.
- C. Remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Mr E as though they had been repayments of the principal. If this results in Mr E having made overpayments then these should be refunded with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Satsuma should then refund the amounts calculated in "A" and "B" and move to step "E".
- D. If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Mr E. However if there is still an outstanding balance then you should try to agree an affordable repayment plan with Mr E.
- E. The overall pattern of Mr E's borrowing for loans six and seven means any information recorded about them is adverse, so these loans should be removed from Mr E's credit file.

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

my final decision

My final decision is that I uphold Mr E's complaint in part and direct Provident Personal Credit Limited (trading as Satsuma) to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 3 February 2020.

Emma Boothroyd
ombudsman