

complaint

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

background

This complaint is about 5 instalment loans Satsuma provided to Mr G between November 2014 and August 2017. Details of the 5 loans are as follows:

Loan	Date taken	Amount	Instalments	Date repaid
1	01/11/2014	200	13 weeks	14/01/2015
2	28/07/2015	300	52 weeks	29/06/2016
3	17/09/2016	500	13 weeks	10/02/2017
4	10/02/2017	1000	10 months	outstanding
5	03/08/2017	100	6 months	outstanding

Satsuma agreed to put things right with regards to loan 3. Mr G has an amount left outstanding for loans 4 and 5.

Our adjudicator upheld Mr G's complaint in part and thought loans 4 and 5 shouldn't have been given. Satsuma didn't agree. So the complaint was passed to me, an ombudsman, to make a 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 G 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 G 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 Office of Fair Trading's guidance on irresponsible lending and then 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 G's complaint.

Mr G applied for his first loan with Satsuma in November 2014. It was for a relatively small amount and was the first time he had approached Satsuma for credit. So because it was so early on in the lending relationship, 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.

There was a gap of around 6 months before Mr G asked Satsuma for another loan. When Mr G did approach Satsuma again in 2015, it did a number of checks. It asked him for details of his income and his normal expenditure. It gathered data from credit reference agencies about other credit repayments that Mr G would need to make over the coming months. And it then used this information to calculate how much disposable income Mr G had left over each month. Satsuma also used the credit reference agency checks to gather some more information about Mr G's financial situation at the time he asked for loan 2. So again I agree with the adjudicator, and for the same reasons, that there was nothing to indicate Satsuma needed to do more when it approved loan 2.

Mr G approached Satsuma again for a third loan. This was for a higher amount than his previous loans and was taken out by Mr G only a few weeks after he had repaid loan 2. Satsuma has agreed to pay Mr G compensation and put things right with this loan. So because of this I have not needed to draw a conclusion about whether it was right to grant him loan 3. I will be asking Satsuma to honour its offer with this loan.

I've then looked at the overall pattern of Satsuma's lending history with Mr G, 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 G's case, I think that this point was reached at loan 4. I say this because:

- At this point Satsuma ought to have realised Mr G was not managing to repay his loans sustainably. Mr G had taken out 3 loans over a period of 17 months (17 months

of repayments). So Satsuma ought to have realised it was more likely Mr G was having to borrow further to cover the hole repaying his previous loans were leaving in his finances.

- Mr G wasn't making any real inroads to the amount he owed Satsuma. The amount he was asking to borrow was going up with Loan 4 being for 3 times the amount of loan 2. Satsuma ought to have known that Mr G was not likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need and his reliance on its credit was increasing.
- I think this pattern of lending should have alerted Satsuma to the likelihood that Mr G was having problems managing his money. I think that Satsuma should've been concerned that Mr G might be borrowing elsewhere to repay its loans, increasing his indebtedness unsustainably.

I think that Mr G lost out because Satsuma continued to provide borrowing from loan 4 onwards because:

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

So I'm upholding the complaint about loans 4 and 5. I'll also be asking Satsuma to put things right with loan 3 as well as it has already offered to do so.

putting things right – what Satsuma needs to do

- refund all interest and charges Mr G paid on loans 3 to 5;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement†;
- remove any negative information about loan 3 from Mr G's credit file
- the number of loans taken from loan 4 onwards means any information recorded about them is adverse, so all entries about loan 4 and 5 should be removed from Mr G's credit file.

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

As I have already mentioned, Mr G still owes Satsuma some of the principal balance he borrowed on his final 2 loans (loans four and five). Satsuma may deduct this from the compensation that is due to him. But, to be clear, that outstanding balance should be recalculated to remove any interest and charges, but taking account of any repayments Mr G has made on that loan as though they were applied against the principal sum borrowed.

my final decision

For the reasons given above, I'm partially upholding Mr G's complaint. Provident Personal Credit Limited (trading as Satsuma) should pay Mr G compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 6 January 2020.

Mark Richardson
ombudsman