

complaint

Mrs C complains that Provident Personal Credit Limited (trading as 'Satsuma') irresponsibly gave her loans which she couldn't afford to pay back.

background

This complaint is about three loans Satsuma provided to Mrs C between January 2018 and August 2018.

Here's a table setting out details of those loans:

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Repayment
1	28/01/2018	Outstanding since 17/05/2019	12	£600.00	£99.60
2	21/03/2018	04/07/2018	3	£400.00	£196.80
3	12/08/2018	Outstanding since 17/05/2019	12	£1,000.00	£265.60

Mrs C said she was in a debt spiral and the loans weren't affordable. She feels that Satsuma didn't do proper affordability checks. And she said that the loans it provided made her financial situation worse.

Our adjudicator considered the complaint and said it wasn't unfair for Satsuma to have provided loans 1 and 2. But he said that by loan 3, Mrs C had shown signs that she was struggling to repay some of her previous Satsuma loans and so there was a significant risk she would've been unable to sustainably meet the monthly repayments for this loan. Our adjudicator felt that Satsuma shouldn't have lent loan 3 to Mrs C.

Neither Satsuma nor Mrs C has responded to our adjudicator's view.

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 Mrs C 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.

Satsuma was required to establish whether Mrs C could sustainably repay her 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 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 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 Mrs C's complaint.

Satsuma has told us about the checks it did before lending to Mrs C. It asked Mrs C for details of her income and normal expenditure, including what she was spending on other loans. And Satsuma carried out checks on Mrs C's credit file.

I agree with the adjudicator that it wasn't wrong for Satsuma to give Mrs C loans 1 and 2 on the basis of the information it had recorded about her.

Satsuma expected Mrs C would be paying loan 1 over 12 monthly repayments – and she took out loan 2 just a couple months later, when she was still paying for loan 1.

So I think Satsuma ought to have gone further in its affordability checks and looked in a bit more detail at Mrs C's spending when she applied for this borrowing to make sure it properly understood her financial situation before agreeing these loans. If Satsuma had done this, it would've seen Mrs C was already paying for other high cost borrowing elsewhere when she applied to Satsuma for loans 1 and 2. But even taking this information into account, I think the combined repayments that Mrs C agreed to make on all her loans still looked affordable compared to the income that Satsuma had worked out she had available to spend on paying for borrowing.

So overall, I don't think I've seen enough to say that Satsuma was wrong to lend loans 1 and 2 to Mrs C.

As Mrs C hasn't raised any objection to the adjudicator's recommendation in relation to loans 1 and 2, I don't think that I need to say more about them.

But when Mrs C asked for loan 3 in August 2018 Satsuma was able to see that by that time she'd been having some problems making her loan repayments on time.

It looks like there may have been some concerns already about her financial situation because Satsuma has sent me information showing that it rejected two loan applications from Mrs C after she took out loan 2 and before Satsuma agreed loan 3.

And the available information I can see indicates that if Satsuma had done proportionate checks before agreeing loan 3 it would've seen that Mrs C had been borrowing substantial amounts from another high cost lender more or less continuously throughout the same period that she'd been borrowing from Satsuma. So I think Satsuma should've realised that there were clear indications that Mrs C was having problems managing her money – and it looked likely that she was borrowing from one lender to pay another. This wasn't sustainable for her and so Satsuma shouldn't have provided loan 3.

For these reasons, I'm upholding Mrs C's complaint about loan 3.

putting things right – what Satsuma needs to do

If Satsuma has sold the debt to a third party it should buy this back so it can carry out these directions – or otherwise tell the third party that it needs to carry out these steps to put things right.

- A. Remove all interest, fees and charges from the balance on loan 3, and treat any repayments made by Mrs C as though they had been repayments of the principal.
- B. Calculate 8% simple interest* on the individual payments made by Mrs C which were considered as part of "A", calculated from the date she originally made the payments, to the date the complaint is settled.
- C. If there is still an outstanding balance on loans 1 and 3, then the amounts calculated in "A" and "B" should be used to repay any balance remaining on these outstanding loans. If this results in a surplus then the surplus should be paid to Mrs C. However if there is still an outstanding balance then I remind Satsuma that it should take a sympathetic view when seeking to agree an affordable repayment plan with Mrs C.

D. Remove any adverse information it has recorded on Mrs C's credit file in relation to loan 3 when it is paid. If it sold any of the loans Satsuma should ask the debt purchaser to remove any adverse information it recorded about this loan.

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

my final decision

I uphold Mrs C's complaint about loan 3 and direct Provident Personal Credit Limited (trading as 'Satsuma') to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 23 February 2020.

Susan Webb
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