

complaint

Mr B complains that Provident Personal Credit Limited (trading as Satsuma) gave him loans that he couldn't afford to repay.

background

Mr B was given two loans by Satsuma in 2017. He borrowed £500 in May 2017 that he agreed to pay back over the following six months. And then, in August 2017, he borrowed a further £1,300 that he agreed to pay back over the following ten months. Both of Mr B's loans have yet to be repaid.

Mr B's complaint has been assessed by one of our adjudicators. She thought that the checks Satsuma did before giving Mr B the first loan had been proportionate. And she thought that those checks suggested that Mr B could afford to repay that loan. But she thought Satsuma should have done more checks before agreeing the second loan. And that better checks would have shown Satsuma that Mr B would be able to meet those repayments. So she asked Satsuma to pay Mr B some compensation.

In response Satsuma, as a gesture of goodwill, accepted the recommendation. It offered to remove any interest and charges from the outstanding balance on loan 2. But Mr B didn't accept that offer – he still thought that Satsuma shouldn't have given him the first loan either. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. I've also taken into account the law, any relevant regulatory rules and good industry practice at the time the loans were offered.

Satsuma was required to lend responsibly. It needed to make checks to see whether Mr B could afford to pay back each loan before it lent to him. Those checks needed to be proportionate to things such as the amount Mr B was borrowing, and his lending history, but there was no set list of checks Satsuma had to do.

Satsuma has told us about the checks it did before lending to Mr B. It asked him for details of his income, and monthly expenditure. And it checked Mr B's credit file before agreeing each loan. Satsuma has also explained that it asked Mr B for a payslip before giving him the first loan – and as a result it says it decreased the amount of income it took into account when looking at the affordability of the loan. And after checking Mr B's expenditure against industry norms, and his credit file, it increased the amount he was spending each month.

Even considering the reduction in his income that Satsuma applied, Mr B was earning a substantial amount each month. But his normal expenditure was also relatively large. The amount he asked to borrow on the first loan was relatively modest compared to his income. And the repayments he needed to make each month appeared to be easily affordable based on the disposable income he declared, even allowing for the reduction to this figure applied by Satsuma.

From the evidence I have seen it is clear to me that Mr B's financial position was much worse than what he declared to Satsuma. He was borrowing from a number of other short term lenders. And he appears to have been gambling heavily too. But this wasn't information that he declared to Satsuma when it asked him about his financial situation. And there wasn't anything in the credit check information that I think should have prompted Satsuma to dig deeper into Mr B's financial circumstances.

So on balance I think that the checks Satsuma did here were proportionate. It was reasonable for Satsuma to rely on the information it received from its credit check, and on the financial information Mr B provided. And taken together that information suggested that Mr B would be able to sustainably afford the repayments on this loan. So I don't think it was wrong for Satsuma to give this loan to Mr B.

When Mr B asked for the second loan he was still repaying his first. And the amount that he asked to borrow was much larger. It also seems that the credit check results Satsuma received showed that Mr B's finances were under more pressure – he had eleven open credit agreements compared to the eight that had been seen three months earlier. So taking all this into account I think Satsuma should have gathered additional information about Mr B's finances.

As I said earlier, Mr B's financial position was much worse than he'd declared. And I think the better checks I'm suggesting here would have allowed Satsuma to discover the extent to Mr B's other borrowing, and perhaps the rest of his expenditure. And from that I think it would have been clear to Satsuma that Mr B couldn't sustainably afford to take on any more credit commitments at that time. So I don't think it should have lent to him, and so it needs to put things right.

putting things right

I don't think Satsuma should have given the second loan to Mr B. However, I haven't seen anything to make me think that Mr B shouldn't repay the principal that he borrowed. But I don't think he should have to pay any interest or charges on that borrowing. So Satsuma should;

- Reduce Mr B's outstanding balance on loan 2 by removing any interest or charges that have been added to it. But it should take account of the repayments that Mr B has already made on that loan.
- Remove any adverse information recorded on Mr B's credit file in relation to the loan.

It appears that Mr B will still owe money to Satsuma in relation to this (and his earlier) loan. Satsuma should endeavour to reach a mutually acceptable arrangement with Mr B for the repayment of this money bearing in mind its obligation to continue to treat Mr B positively and sympathetically in those discussions.

my final decision

My final decision is that I partly uphold Mr B's complaint and direct Provident Personal Credit Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 30 April 2018.

Paul Reilly
ombudsman