

Complaint

Mr C complains that Provident Personal Credit Limited (trading as Satsuma Loans) lent money to him that he couldn't afford to repay.

Background

Our investigation into this complaint, and the final response letter provided by Satsuma Loans, was based on six loans being provided to Mr C as follows:

| Loan | Amount | Term | Date | Repaid |
|------|--------|-----------|------------|-------------|
| 1 | £300 | 39 weeks | 13/03/2015 | 15/12/2015 |
| 2 | £200 | 52 weeks | 15/07/2015 | 18/07/2016 |
| 3 | £220 | 52 weeks | 05/07/2016 | 01/18/2017 |
| 4 | £150 | 10 months | 10/01/2017 | 01/12/2017 |
| 5 | £250 | 12 months | 03/04/2018 | outstanding |
| 6 | £200 | 12 months | 08/06/2018 | outstanding |

Through the investigation information was provided in regard to a seventh loan, taken out in October 2018 (after the final response letter was issued). This seventh loan was for £400 and repayable over 12 months. Satsuma Loans has provided a response in regard to this loan as well.

At the time of the loans, Mr C says he was struggling to pay his normal living expenses and his priority debts were going unpaid. He says he had other outstanding debts and was borrowing from multiple loan providers. Mr C says that adequate checks weren't carried out before the loans were provided and that the loans added to his financial issues.

Satsuma Loans says that before loans are provided applications go through a full credit worthiness and affordability assessment using both internal and external data sources. It provided information regarding the income and expenditure data it gathered before loans one to six were provided and said that these showed the loans were affordable. It said that credit checks didn't raise any concerns. Satsuma Loans later sent a loan summary document regarding loan seven and confirmed that loans five to seven were still outstanding.

Our adjudicator said that she didn't have enough evidence to say that the first two loans shouldn't have been provided but thought that lending from loan three onwards was unsustainable. As the information at this time only related to six loans she upheld this complaint in regard to loans three to six.

Satsuma Loans didn't respond to our adjudicator's view. It did provide information in response to our question about loan seven. As a resolution wasn't agreed this case was passed to me, an ombudsman, to issue a decision. My decision covers all seven loans but as the seventh loan wasn't subject to the original assessment and view I am issuing this as a provisional decision to allow the parties the opportunity to respond to my comments if desired.

My provisional conclusions

I issued a provisional decision on this complaint. I concluded in summary:

- I did not find that I had enough to say that the first two loans shouldn't have been provided;
- by the time the third loan was provided, Mr C had been consistently borrowing for around 16 months. He took out a second loan before the first was repaid and likewise the third loan was taken out before the second was repaid. I thought this should have raised concerns about how Mr C was managing his money and that he had likely become dependent on short term borrowing;
- Mr C continued to take out loans and while there was a gap of a few months between when Mr C repaid his fourth loan and when he took out the fifth loan I didn't think it would have been reasonable for Satsuma Loans to conclude this was any indication that Mr C's finances had moved on from whatever situation had required his previous loans; and
- the amounts Mr C was borrowing didn't significantly reduce over his period of borrowing and I didn't think it reasonable to conclude that loans three to seven were sustainably affordable for Mr C.

Mr C accepted my provisional decision and also said that he had received contact from a debt recover company. I didn't receive any further information from Satsuma Loans.

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 Loans 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 that Mr 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 Loans should fairly and reasonably have done more to establish that any lending was sustainable for a 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 Loans was required to establish whether Mr C 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.

As I set out in my provisional decision, I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr C's complaint.

As no new information has been provided in regard to the loans that I covered in my provisional decision, my position has not changed. As I have already set out I do not find that Satsuma Loans should have considered loans three to seven as being sustainably affordable and so I uphold this complaint in regard to these loans.

Mr C has provided a copy of a communication from a debt recovery company acting on behalf of Satsuma Loans. I have set out below what actions need to be taken to resolve this complaint and addressed what needs to take place in the event Mr C's account has been transferred to a third party.

My final decision

My final decision is that I uphold this complaint in regard to loans three to seven. If Provident Personal Credit Limited (trading as Satsuma Loans) has sold the outstanding debts it should buy these back if it is able to do so and then take the following steps. If it is not able to buy the debts back then it should liaise with the new debt owner to achieve the results outlined below.

I understand that loans five to seven remain outstanding and based on this I find that Provident Personal Credit Limited (trading as Satsuma Loans) should:

- A. add together the total of the repayments made by Mr C towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything that has already refunded;
- B. calculate 8% simple interest* on the individual payments made by Mr C which were considered as part of "A", calculated from the date Mr C 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 C as though they had been repayments of the principal on all outstanding loans. If this results in Mr C 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 Loans 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 C. However if there is still an outstanding balance then Satsuma Loans should try to agree an affordable repayment plan with Mr C;
- E. the overall pattern of Mr C's borrowing for loans three to seven means any information recorded about them is adverse, so all entries about loans three and four, and loans five to seven when the principal that was borrowed has been repaid, should be removed from Mr C's credit file.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 13 January 2020.

Jane Archer
ombudsman