

complaint

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

background

Mr M took four instalment loans with Satsuma between December 2014 and December 2015, the last one remains outstanding. He complained to Satsuma that it hadn't carried out proper checks and it should've realised that he couldn't afford to repay the loans.

Satsuma said that it carried out appropriate affordability checks and based on its lending criteria, the loans were affordable. Unhappy with this response, Mr M brought his complaint to us.

Our adjudicator thought that the complaint should be upheld. She said that Satsuma should have realised by the third loan that they were unaffordable. She recommended that after deducting the capital balance outstanding on the last loan, Satsuma should refund Mr M all interest and charges paid on the third and fourth loans. She also said it should remove these loans from his credit file.

Satsuma disagreed; so the complaint has been passed to me 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.

Mr M's first loan of £300 was taken in December 2014 over 26 weekly payments. He paid this off in April 2015. He took his second loan for £500 just 4 days after repaying the first. This was agreed over 12 monthly payments. He repaid the second loan in November 2015 and in the same month he borrowed £300 over 26 weekly payments. He repaid this loan in December 2015 and just 3 days later he took the fourth £500 loan over 52 weekly payments. This final loan remains outstanding.

When making lending decisions businesses must carry out proportional checks to satisfy itself that the loans can be repaid. Satsuma has told us that it completed credit checks for each loan and I can see that Mr M told Satsuma that his income was between £1,500 and £1,600. His declared outgoings ranged from £900 - £300 over the course of his borrowing.

On the face of it, based on Mr M's declared income/outgoings and taking the weekly/monthly repayments due; it looks like he could afford to repay the loans. However, I can see from his bank statements and full credit file that the reality was different and Mr M was in financial difficulties.

So the question for me to consider is whether in the circumstances Satsuma's checks were sufficient or whether there were any indicators that should have prompted it to do more checks.

I think Satsuma's checks for the first and second loan were sufficient, so I think it was reasonable for them to grant these two loans.

Mr M's full credit file shows a default recorded in October 2015, so this would have been present when Satsuma granted the third and fourth loans.

Satsuma hasn't provided a copy of the outcome of its credit searches, but it has suggested that its search results are limited and will not show everything that is on the credit file. To my mind this means the business accepts the risk that it may not see the whole picture. Even if I accept that the default didn't appear on its credit search; I think there were other indicators to suggest there might be a problem.

Mr M declared that his total outgoings for the first loan was £900, for the third and fourth loans this drops to £450 and £300 respectively. Whilst a business can generally rely on what it is told about income/outgoings, I think it's reasonable for a business to make further enquiries when things don't quite tally up.

I agree with the adjudicator that this drop in outgoings is unusual and I think it should have prompted Satsuma to ask Mr M about this. For example it could have asked him to provide his bank statements to confirm his outgoings, but I can't see that it made any further enquires about this.

In addition Mr M was borrowing more frequently and as he continued to borrow there was less breathing space between the loans. He borrowed the third loan in the same month he repaid the second loan and after repaying this in December 2015, he took the fourth loan in the same month. Because of this I think that Satsuma should have realised by the third loan that there might be a problem and I think it should have asked more questions at this point.

I think that if Satsuma had made further enquiries when Mr M applied for the third loan, it would've realised that Mr M was struggling and I don't think it would have granted the third or fourth loans. Because of this I think Satsuma should write off any outstanding interest or charges applied to the last loan. Refund Mr M all interest and charges paid on the third and fourth loans; plus interest after deducting the outstanding capital on the fourth loan. It should also remove any related information from his credit file.

my final decision

I uphold the complaint and require Provident Personal Credit Limited (trading as Satsuma) to;

- write off any outstanding interest and charges applied to the loan granted on 5 December 2015
- refund all interest and charges paid by Mr M on the loans granted on 27 November 2015 and 5 December 2015; adding 8% simple interest per year, from the date of each payment until the date that Mr M gets his money back
- deduct from Mr M's refund payment the outstanding capital balance on the loan granted 5 December 2015
- remove all information recorded about the loans granted on 27 November 2015 and 5 December 2015 from Mr M's credit file

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 12 October 2016.

Karen Dennis-Barry
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