

complaint

Mr C complains that Provident Personal Credit Limited (trading as Satsuma Loans) was irresponsible in its lending to him.

background

Based on the information, Satsuma Loans provided Mr C with three loans between March 2016 and August 2017.

Mr C says he couldn't afford the loans and that the repayments took so much of his money that he had to borrow again to cover his living expenses. He says his credit report would have shown his other debts and that he was experiencing problems managing these.

Satsuma Loans says that before the loans were provided information was gathered about Mr C's monthly income and expenses. It says Mr C confirmed that the payments were sustainable and based on the information it gathered the repayments were affordable. It says it carried out credit checks and these didn't suggest the loans weren't affordable. It says Mr C repaid his first two loans without any financial difficulties being raised.

At the time the final response letter was issued (July 2018) Satsuma Loans said that loan three remained outstanding.

Our adjudicator didn't think she had seen enough to be able to say the first two loans shouldn't have been provided but she did uphold this complaint in regard to loan three. She said that by this time, Mr C's overall pattern of borrowing suggested he had become persistently reliant on short-term loans.

Satsuma Loans didn't agree with our adjudicator's view and so the complaint has been passed to me, an ombudsman, to issue 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 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.

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.

I can see that before the loans were provided information about Mr C's income and expenses was gathered as well as credit checks carried out. Based on this I agree with our adjudicator that there isn't enough to say that loans one and two shouldn't have been provided.

The first two loans were repaid on time, however I think that by the time the third loan was provided, Satsuma Loans should have been concerned that Mr C was possibly reliant on short term loans. I say this because he was taking out new loans before the previous loan had been repaid and by the time of the third loan, he had been borrowing from Satsuma Loans for around 17 months without any gaps. The loan amount for the third loan increased significantly from the previous two loans suggesting his situation was getting worse.

Overall I think the pattern of Mr C's borrowing showed he was struggling to manage his money and that Satsuma Loans should have realised by loan three that lending to Mr C wasn't sustainably affordable.

Based on the above I uphold this complaint in regard to loan three.

my final decision

My final decision is that I uphold this complaint in regard to loan three.

I understand that loan three hasn't been fully repaid therefore Provident Personal Credit Limited (trading as Satsuma Loans) should reduce the debt to reflect just the capital borrowed and deduct any payments Mr C has made towards this debt. Mr C will remain liable for any remaining capital amount. In the event that after the payments have been applied there is a positive balance this should be refunded to Mr C.

If the debt has now been repaid then Provident Personal Credit Limited (trading as Satsuma Loans) should refund all interest and charges that Mr C paid on loan three along with interest of 8% simple a year on all refunds from the date of payment to the date of settlement*.

The number of loans taken at the point of loan three means any information recorded about it is adverse. So all entries about loan three should be removed from Mr C's credit file.

* HM Revenue & Customs requires Satsuma Loans to take off tax from this interest. Satsuma Loans 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 2 November 2019.

Jane Archer
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