

complaint

Mr M complains that Provident Personal Credit Limited (trading as Satsuma Loans) gave him loans that he couldn't afford to pay back.

background

Mr M took out a total of four loans with Satsuma between February and September 2017.

Mr M didn't make all the repayments on the loans when they were due. Mr M's mother settled loan one on his behalf and loan 3 and 4 have an outstanding balance.

Mr M says he was suffering from financial difficulty during the period when he was borrowing from Satsuma. He says his mother explained he was in financial difficulty when she called to settle the first loan and he believes that Satsuma should have carried out more checks and not lent to him after this.

Our adjudicator recommended that the complaint should be upheld in part. Briefly, she thought that Satsuma had carried out sufficient checks before making the first loans. She agreed that following the call from Mr M's mother Satsuma should have checked Mr M's financial situation more carefully before making the rest of the loans. But she thought it would still have appeared that loans 2 and 3 would be affordable for Mr M.

Mr M wasn't happy with the adjudicator's view, and he said that in particular Satsuma shouldn't have lent him loans 2 and 3 and put a block on his account. So the complaint was passed to me.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint

Satsuma was required to lend responsibly. It needed to make checks to see whether Mr M 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 M was borrowing, the length of the agreements and his borrowing history. But there was no set list of checks Satsuma had to do.

Satsuma's told us that before agreeing to each loan, it asked Mr M for details of his monthly income and living expenses. And it carried out a credit check each time.

When Mr M applied for the first loan, he told Satsuma his monthly take-home pay was £1,130, and his regular monthly outgoings were £450. Satsuma was entitled to rely on the information Mr M provided, in the absence of anything to suggest it might be inaccurate. On the basis of that information, the loan instalment of £16.60 looked more than affordable. And so I don't think it was irresponsible of Satsuma to go ahead and make the loan without carrying out more detailed affordability checks.

Mr M's mother called to settle loan 1 in April 2017 on his behalf. I have listened to that call. I can see that she said Mr M was "in a real mess financially" and she wanted to clear the loan. I think it is important to state that she did not say that Mr M was vulnerable or that a block should be applied to his account.

Mr M applied for loan 2 in June 2017. On the basis of the information Mr M provided alone, Satsuma would have been entitled to assume that he'd be able to afford loan 2 relatively easily. But taking into account the issues there'd been with the repayments on loan 1 I think this ought to have prompted it to check Mr M's financial situation a little more carefully than I'd normally expect a lender to do where repayments represent such a small proportion of a borrower's stated monthly income. I think in the circumstances it would have been reasonable to check that Mr M wasn't reliant on short term lending and so, in addition to asking about normal outgoings I think Satsuma should have checked whether Mr M had any outstanding short term loans. Looking at Mr M's bank statements I can see that he had no short term loans outstanding at the time of loan 2 and £258 outstanding at the time of loan 3. Looking at the figures Mr M had given for his income and outgoings, the instalments look affordable. So I think that better checks wouldn't have made any difference to the decision to give Mr M loans 2 and 3.

But Mr M's problems making repayments on time continued and at the point of loan 4, loan 3 was still outstanding. By this point Satsuma should have been concerned that Mr M was missing payments that it would have looked as if he'd be able to afford easily.

So although the income and expenditure figures Mr M gave Satsuma when he applied for loan 4 would suggest that he'd have around £530 per month disposable income after meeting his regular expenses, Satsuma ought to have taken more steps to check that the loan really was affordable for him given his repayment history.

Satsuma should have asked Mr M specifically about any other short-term loans he had outstanding at the time. And for this loan it should have independently verified the information he gave it about his income and expenditure. It could have done this, for example, by asking Mr M for copies of his bank statements.

I've looked at Mr M's bank statements, to see what Satsuma would have seen if it had carried out what I considered to be proportionate checks. It is clear from these that Mr M was in serious financial difficulty.

If Satsuma had checked Mr M's financial circumstances carefully, it would have realised that it was unlikely that he'd be able to repay loan 4 sustainably. So I didn't think it should have given Mr M loan 4.

I fully understand why Mr M is upset that he was allowed to continue to borrow after his mother called to explain that he was in a mess. However, she did not explicitly say that this was because of any long term problems that Mr M had or that he was vulnerable in any way. I can't say it was reasonable for Satsuma to carry out extensive checks on the basis of this information or to place a block on Mr M's account because of what it was told by a third party who had not been authorised to deal with the account on Mr M's behalf.

Mr M has had the benefit of the money so I think it is only fair he pays it back. But I agree with the adjudicator that all interest and charges incurred on loan 4 should be refunded and any negative information recorded on Mr M's credit file about this loan should be removed.

putting things right

To put things right, Satsuma should:

- refund all interest and charges Mr M paid on loan 4;
- pay interest on those refunds at 8% simple* per year from the dates of payment to the date of settlement;
- apply the refund to reduce the capital outstanding and pay any balance to Mr M;
- write off any interest and charges that haven't yet been paid; and
- remove any negative information about loan 4 from Mr M's credit file.

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

my final decision

My decision is that I uphold this complaint in part. I require Provident Personal Credit Limited (trading as Satsuma Loans) to put things right by doing as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 17 October 2018.

Emma Boothroyd
ombudsman