

complaint

Miss B complains that Provident Personal Credit Limited (trading as Satsuma) was irresponsible to agree to lend to her.

Miss B wants Satsuma to clear the outstanding balances on the loans, refund the interest that she paid and remove them from her credit file.

background

Miss B took out two loans with Satsuma between April and August 2017. A summary of the loans is below:

No.	Date of loan	Amount borrowed	Term	Repayments (monthly)	Date repaid
1	1/4/2017	£400	3 months	£197	N/a
2	2/8/2017	£510	4 months	£206	N/a

The adjudicator recommended that Miss B's complaint be upheld. The adjudicator thought that Satsuma shouldn't have agreed either loan. She recommended that Satsuma refund the interest and charges Miss B had paid on the loans. The adjudicator also recommended that Satsuma remove any negative information about the loans from Miss B's credit file.

Satsuma disagreed with the adjudicator's view so the complaint has come 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.

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.

When Satsuma lent to Miss B, the regulator was the Financial Conduct Authority (FCA) and the relevant regulations and guidance included its Consumer Credit Sourcebook (CONC). The CONC carried guidance for lenders about responsible lending.

Satsuma 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 Miss B 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 should fairly and reasonably have done more to establish that any lending was sustainable for the 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 it's important for me to start by saying that Satsuma was required to establish whether Miss B could sustainably repay her 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 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.

So 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 will need to borrow more money to afford the repayments.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss B's complaint.

Satsuma has given us evidence of the affordability checks that it carried out. According to the agreement notes for loan one, after carrying out enhanced affordability checks, Satsuma found that Miss B had a monthly income of just over £517 and outgoings of £509. This left Miss B with a disposable monthly income of under £7.50.

Although Satsuma says that Miss B's outgoings included the loan repayments that she was due to make to Satsuma, I don't think this means that the repayments were sustainable. Miss B was left with less than a £8 margin for any unexpected expenses. I don't think this was enough to say that Miss B could afford to repay loan one without undue difficulty.

Satsuma says that it didn't need to carry out enhanced affordability checks for loan two. And that based on the income and expenditure information that Miss B gave, loan two was affordable. However, the amount that Miss B was borrowing had increased since loan one.. And loan one remained outstanding.

I think that based on what Satsuma found out about Miss B's finances only a few months previously, it should've realised that her financial situation hadn't improved and that loan two wasn't sustainable. Particularly as Satsuma's own credit search had already revealed at least one other account in arrears.

Overall, I consider that it's fair to uphold Miss B's complaint about both loans.

I understand that Miss B is currently in a repayment plan with Satsuma for loan one and is making payments to a third party for loan two. Miss B had the benefit of the money lent, so I don't consider it reasonable to write off the outstanding principal balances on loans one and two. However, the important thing is to make sure that Miss B has paid or will pay no more in total than the principal amount she borrowed.

putting things right – what Satsuma needs to do

- refund all interest and charges that Miss B paid on loans one and two;
- add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*;
- remove any unpaid interest and charges from loans one and two;
- if it chooses to, apply the refund to any outstanding principal balance before paying the remaining balance (if there is any) to Miss B; and
- remove any negative information about the loans from Miss B's credit file once the loans are settled.

I understand that Satsuma has passed the outstanding debt on loan two to a third party. Satsuma should buy the debt back in order to carry out the above steps. But if this isn't possible, Satsuma should (in addition to the above if necessary);

- arrange to repay any portion of the sum due to the third party that is made up of interest and charges – including any added by the third party;
- refund any interest and charges that Miss B has already paid to the third party, plus 8% simple interest from the date of payment to the date of settlement; and
- direct the third party to remove any negative information about loan two from Miss B's credit file once the loan has been settled.

If Satsuma no longer owns the debt and doesn't buy it back then Satsuma isn't entitled to make any deductions for it from the amount that it needs to pay Miss B.

If after taking the above steps there is still a principal balance due, I remind Satsuma of its obligation to treat Miss B fairly and reasonably in any settlement discussions – taking account of course of any repayment arrangements that may already be in place.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Miss B a certificate showing how much tax it's taken off if she asks for one. If Satsuma intends to apply the refund to reduce any outstanding balance, it must do so after deducting the tax.

my final decision

My decision is that I uphold Miss B's complaint. In full and final settlement, I direct Provident Personal Credit Limited (trading as Satsuma) to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 25 October 2019.

Gemma Bowen
ombudsman