

complaint

Mr M complains that Provident Personal Credit Limited (trading as Satsuma) was irresponsible to lend him money.

background

This complaint is about two loans Satsuma provided to Mr M.

In July 2016, Mr M borrowed £510 when he took out loan 1. He was due to repay this loan by way of 43 weekly instalments of £23.60. Mr M paid this loan in full.

Mr M borrowed £1,000 when he took out loan 2 in May 2017.

Loan 2 started the same day he paid loan 1. Mr M wasn't able to keep up the monthly repayments of £220 and this loan hasn't been paid.

Mr M complained to Satsuma that it didn't carry out appropriate affordability and credit checks and had it done so would not have agreed to lend to him. Satsuma didn't uphold his complaint so Mr M contacted us.

Our adjudicator partially upheld Mr M's complaint and thought loan 2 shouldn't have been given. She said that Satsuma should refund all interest and charges Mr M paid on loan 2, pay interest on this amount and remove any negative information about loan 2 from Mr M's credit file.

Satsuma reconsidered the complaint and told us that it accepted our adjudicator's view. Satsuma offered to uphold the complaint in line with what she'd recommended.

But Mr M doesn't think that what's been suggested goes far enough to resolve his complaint. In particular, he's worried about the information Satsuma says it will put on his credit file.

So the complaint comes to me to decide.

my provisional 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 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 Mr M 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 consumer'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.

Satsuma was required to establish whether Mr M 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 relevant regulations define 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 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 M's complaint.

Satsuma told us about the checks it did before lending to Mr M. It asked Mr M to provide details of his income and to tell Satsuma what he normally spent each month – including what he paid towards any other credit arrangements he had set up. Satsuma carried out checks on Mr M's credit file. Satsuma also told us it adjusted the figures where it thought it helpful to try and reflect Mr M's real life financial circumstances as accurately as possible.

I've seen a summary of the results of those checks and they don't show anything that I think should reasonably have made Satsuma think loan 1 wasn't affordable for Mr M.

Mr M told us that Satsuma would've seen he had an ongoing gambling problem if it had done better checks. So I've thought carefully about whether Satsuma ought reasonably to have looked into Mr M's finances in more detail or taken steps to verify the information he'd provided when he applied for loan 1.

Mr M planned to repay the loan over quite a long period of time. So I've considered whether this should reasonably have prompted Satsuma to look further into Mr M's finances. But I think it's fair to take into account that this was Mr M's first loan from Satsuma. It was relatively low in value with low repayments compared to what he'd told Satsuma about his income - and this was still the case even after Satsuma adjusted that figure downwards to allow an extra safety margin. So I think Satsuma was reasonably entitled to rely on Mr M to provide all the information it asked in order to be able to make an informed lending decision. The repayments that Mr M had agreed to make on this loan looked comfortably affordable compared to the income that he'd declared to Satsuma.

I appreciate that Mr M's circumstances might not have been reflected in the information Satsuma had. But, looked at overall, given the loan repayment amounts, what was apparent about Mr M's circumstances at the time and his borrowing history with the lender at that stage, I don't think it would've been proportionate for Satsuma to ask him for the amount of information that would've been needed to show the lending was unsustainable before agreeing the first loan.

So I don't uphold Mr M's complaint about loan 1 – even though it turned out that he had problems making all the repayments on time.

But by the time he asked for loan 2, I'd expect Satsuma to have taken into account Mr M's repayment record on loan 1. I think a reasonable lender ought to have realised that his record of payment problems indicated that Mr M had money problems as he was finding it difficult to afford to pay for the borrowing he'd taken out.

Our adjudicator pointed out that Satsuma gave Mr M loan 2 the same day that he repaid his first loan – which I think suggested that he urgently needed the extra cash. And it was for double the amount he'd already shown he had a problem repaying.

I don't think it was reasonable for Satsuma to conclude that it was likely Mr M would be able to repay loan 2 in a sustainable manner. So I think Satsuma is right to accept now that this loan was likely to be unaffordable for Mr M – as it proved to be.

So, overall, I'm upholding the complaint about loan 2.

When thinking about what Satsuma should do to put things right for Mr M, I've thought carefully about what Mr M says about information it's fair to put on his credit file.

I think, despite what Mr M says, it's reasonable for Satsuma to put on his credit file information that fairly reflects what happened – and Mr M's current situation.

Loan 2 wasn't affordable for Mr M. So the fair way to put things right as far as his credit file goes is to remove the negative information that's been recorded about loan 2 – in other words, the information that's due to the payment problems that resulted from Satsuma giving him this unaffordable loan. It's fair that the credit file should still show that Mr M borrowed this loan from Satsuma as he's had the benefit of that money.

And as he couldn't pay the loan in line with the contractual repayment terms, he is now in an 'arrangement to pay'. So a note to this effect on his credit file accurately reflects his situation.

I appreciate that this isn't the outcome Mr M is hoping for. But I hope that setting things out this way helps explain why I've reached this decision.

I don't know if Mr M is aware that he has the right to add a short explanatory note on his credit file (up to 200 words). This is called a 'notice of correction'. So if he'd like prospective creditors to be aware of the background circumstances that led to an entry on his credit file that he wants to explain, he can do this – and the information should be taken into account if he applies for credit.

putting things right – what Satsuma needs to do

- In line with what our adjudicator suggested, Satsuma offered to deduct the interest from loan 2 (£998) and treat the £697 Mr M has paid so far as payments made towards the original £1000 capital balance - which leaves him owing £303. (And it seems that Mr M was willing to accept this.) So Satsuma should do as it has offered.
- I remind Satsuma that it should take a constructive and sympathetic view when seeking to agree an affordable repayment plan with Mr M.
- And if Mr M would like help to manage his finances there's more information on our website about how to get free debt advice or help setting up a repayment plan – or we can provide contact details if he gives us a call.
- Satsuma should remove adverse historic arrears information recorded about loan 2 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

I partially uphold Mr M's complaint and Provident Personal Credit Limited (trading as Satsuma) should put things right for Mr M as 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 23 January 2020.

Susan Webb
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