

## complaint

Mr R complains that Provident Personal Credit Limited (trading as Satsuma Loans) gave him loans that he couldn't afford to repay. He asks that the outstanding balance is written off. He also asks that Satsuma removes a default recorded in his credit file.

## background

Mr R took out three loans with Satsuma between May and September 2017. He says his credit file showed his bad debts and multiple loans.

Our adjudicator recommended that the complaint should be upheld. She said Satsuma shouldn't have offered loans 2 and 3, which were each taken out before the previous loan was repaid and for larger amounts. The adjudicator said proportionate checks would have shown Mr R had difficulty managing his money, borrowed from other short term lenders and spent a significant proportion of his income on gambling. She said Satsuma should have realised it was unlikely Mr R could repay loans 2 and 3 sustainably.

I didn't agree with all of the adjudicator's recommendations, so I sent a provisional decision to the parties to explain why. In it, I set out my provisional findings – which were substantially the same as the findings below. In summary, I said that Satsuma shouldn't have offered loan 3. But when it offered loans 1 and 2 it had no reason to think they weren't affordable.

Satsuma didn't respond to my provisional decision. Mr R said he didn't agree. He said Satsuma shouldn't have offered loan 2 when loan 1 was still outstanding, as he had no acceptable repayment history. And Satsuma should have known from the increased amount borrowed and his credit score that further lending was irresponsible.

## 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.

Mr R took out the following loans with Satsuma:

Loan No	Date of Loan	Amount of Loan	No. and highest monthly repayment	Date repaid
1	14.05.2017	£100	3 x £49	02.09.2017
2	02.08.2017	£500	12 x £83	Outstanding
3	05.09.2017	£1,000	12 x £166	Outstanding

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 R 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 Mr R'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 suggest that Satsuma should have done more to establish that any lending was sustainable for a customer. Such factors include the customer's income –

particularly a lower income – the amount of the loan repayments and the time over which the loan is to be repaid, and the number and frequency of loans and the time over which the customer has been given loans. Repeated borrowing can signal that the borrowing has become, or is becoming, unsustainable. There may even come a point where the lending history and pattern of lending itself demonstrates that the lending was unsustainable.

I would also note here that Satsuma was required to establish whether Mr R could sustainably repay the loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

#### *Loan 1:*

Mr R told Satsuma his monthly income was £2,500. Satsuma increased his stated monthly expenditure to take account of the results of its credit check and internal models. Given the amount of the repayments and that this was Mr R's first loan from Satsuma, I think these checks were proportionate. Based on the information it had, I don't think Satsuma had any reason to think Mr R would have difficulty meeting the repayments.

#### *Loan 2:*

When he applied for loan 2 Mr R said his monthly income was £2,500. Satsuma increased his stated expenditure (of £1,450) to about £2,100 to reflect information from its credit check and internal models. Based on the information Satsuma had, I don't think it had any reason to think the repayments – plus the remaining instalment for loan 1 – wouldn't be affordable. I can't see anything in the results of Satsuma's credit check that should have suggested the repayments weren't sustainable. While Mr R says he had bad debts and multiple loans, there's no evidence that Satsuma knew about this.

I've considered what Mr R said about loan 2 in response to my provisional decision. But I'm not persuaded to change my findings. While loan 1 hadn't been repaid two of the three instalments had been paid and one instalment was due the next month. Based on the information Satsuma had the repayments for loan 1 and 2 appeared affordable. I don't think it's reasonable to say a pattern of increased borrowing could have emerged by this point. And Mr R hasn't provided evidence that Satsuma was aware he had problems with other debts.

#### *Loan 3:*

The information Satsuma had about Mr R's income and outgoings when Mr R applied for loan 3 was similar to the information it used for loan 2. This suggested the loan repayments were affordable. But I think there were factors here that should have alerted Satsuma to a possible problem and the need for more checks.

Mr R applied for loan 3 just a month after taking out loan 2 – which had 11 months of repayments remaining. This was the second loan he'd taken out while the previous loan was outstanding. The amounts he borrowed from Satsuma increased, from £100, to £500 and then to £1,000. And this was his third loan in less than four months. I think all of this should have prompted Satsuma to make further checks.

Had Satsuma made further checks, I think it would have known that Mr R couldn't repay loan 3 sustainably. Mr R provided his bank statements for August to November 2017. These show loan repayments totalling about £680 to five other short term lenders in early

September 2017. Some of these were instalment loans. Mr R made payments of about £400 to other short term lenders in early October 2017. Mr R also made payments to a debt recovery business in early August and September 2017.

I'm not saying here that Satsuma had to review Mr R's bank statements – there are various ways in which it can carry out checks. But I think Mr R's pattern of borrowing suggested he might be having problems managing his money. I don't think it was reasonable for Satsuma to offer loan 3 without checking Mr R could repay it sustainably. I haven't seen evidence that Satsuma made proportionate checks – which should have included asking for more information about his short term loan commitments. I think, if Satsuma had carried out proportionate checks, it would have known that further borrowing wasn't sustainable.

Mr R told Satsuma about his financial difficulties in October 2017 and a payment plan was agreed.

So I'm upholding Mr R's complaint about loan 3. Satsuma should:

- refund all interest and charges Mr R paid on loan 3;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- Write off any unpaid interest and charges applied to loan 3, apply the refund to reduce any capital outstanding on loan 3, or capital and interest outstanding on loan 2, and pay any balance to Mr R;
- Remove any negative information about loan 3 from Mr R's credit file.

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

If Satsuma intends to apply the refund to reduce any outstanding capital balance, it must do so after deducting the tax.

### **my final decision**

My decision is that I uphold this complaint. I order Provident Personal Credit Limited to take the steps and pay the compensation set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 23 November 2019.

Ruth Stevenson  
**ombudsman**