

complaint

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

background

This complaint is about four loans Satsuma provided to Mr W between 1 August 2014 and 13 May 2016. Each of the loans was due to be repaid in weekly instalments. Mr W paid the first two loans he took out. But Mr W hasn't paid the last two loans he took out in November 2015 and May 2016.

Here's a loan table showing further details.

Loan	Loan amount	Start date	Loan paid	Term of loan	Payment amount
1	£300.00	1.8.2014	12.12.2014	26 Weeks	£19.38 Weekly
2	£328.03	15.12.2014	15.12.2015	52 Weeks	£16.10 Weekly
3	£600.00	19.11.2015	Loan outstanding	52 Weeks	£22.29 Weekly
4	£900.00	13.5.2016	Loan outstanding	52 Weeks	£34.34 Weekly

Our adjudicator partially upheld Mr W's complaint and thought loans 3 and 4 shouldn't have been given.

Satsuma didn't respond to our adjudicator's view. So the complaint came to me to decide. I issued a provisional decision.

what I said in my provisional decision

Here are some of the main things I said.

"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 W 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 W 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 W's complaint.

Satsuma told us about the checks it did before lending to Mr W. It asked Mr W 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 W's credit file. Satsuma also told us it adjusted the figures where it thought it helpful to try and reflect Mr W'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 W.

The repayments that Mr W had agreed to make on this loan looked comfortably affordable compared to the income that he'd declared to Satsuma. So given these repayment amounts, what was apparent about Mr W's circumstances at the time, and his borrowing history with the lender, I don't think it would've been proportionate for Satsuma to ask him for the amount of information that would be needed to show the lending was unsustainable before agreeing the first loan.

But loan 2 was taken over a longer period of time – possibly to keep the cost of the monthly repayments down. When it was being arranged, Satsuma expected Mr W to be paying for this borrowing over a year. Given that he'd arranged loan 2 to start just a few days after paying off loan 1, this meant that by the end of his second loan term, Mr W would've been more or less continuously indebted to Satsuma for around 17 months.

So I think Satsuma should have realised that it couldn't safely rely on the information he was providing about his finances. I don't think it was any longer reasonable for Satsuma to base its lending decision on the information Mr W was providing. I think it would've been proportionate for Satsuma to independently check the true state of Mr W's finances before agreeing to lend loan 2.

Mr W has provided his bank statements so I've looked through these to see what Satsuma was likely to have found out. To be clear, I'm not suggesting the lender should have done this. But in the absence of other evidence, I think these give a reasonable guide as to Mr W's finances at the time. And had Satsuma looked in depth at Mr W's finances it would likely have seen that he was facing problems managing his money. I think it would have seen that he was regularly borrowing from several other payday lenders – and it looked like he had used some of the money he'd previously borrowed from Satsuma to repay other short term loans that were due. If Satsuma had checked Mr W's bank statements or made other proportionate enquiries into his financial circumstances, I think it would've become aware that his bank account was usually overdrawn. And it was generally the case around that time that more money was going out of his account each month than was coming in.

So I don't think it was reasonable for Satsuma to conclude that it was likely Mr W would be able to repay loan 2, or any subsequent loan, in a sustainable manner.

I've also looked at the overall pattern of Satsuma's lending history with Mr W, with a view to seeing if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr W's case, I think that this point was reached by loan 3. I say this because:

- At this point Satsuma ought to have realised Mr W was not managing to repay his loans sustainably. Mr W took out loan 3 before he'd paid loan 2 – and by then he'd been indebted to Satsuma for around sixteen months. So Satsuma ought to have realised it was more likely than not Mr W was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr W's indebtedness was increasing unsustainably.*
- Mr W's first loan was for £300 and loan 3 was for £600 – twice as much as he'd borrowed when he took out his first Satsuma loan. So when he asked for loan 3, I think Satsuma ought to have known that Mr W wasn't likely to be borrowing to meet a temporary shortfall in his income but to meet an ongoing need.*
- Mr W wasn't making any inroads into the amount he owed Satsuma. He had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.*

I think that Mr W lost out because Satsuma continued to provide borrowing from loan 3 onwards because:

- these loans had the effect of unfairly prolonging Mr W's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.*
- the length of time over which Mr W borrowed was likely to have negative implications on Mr W's ability to access mainstream credit and so kept him in the market for these high-cost loans.*

So, overall, I'm upholding the complaint about loans 2, 3 and 4 and based on all the information I've seen so far, I'm planning to say that Satsuma should put things right.”

what the parties said in response to my provisional decision

Both Mr W and Satsuma said they agreed with what I said in my provisional 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.

Having done so, and as both Mr W and Satsuma agree with what I've said, I uphold this complaint for the reasons I explained in my provisional decision.

putting things right – what Satsuma should do

- refund all interest and charges Mr W paid on loan 2
- 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†
- remove any outstanding interest and charges from loans 3 and 4
- when Satsuma works out what it owes Mr W, it can first apply this towards offsetting any outstanding capital balance Mr W owes on loans 3 and 4. And if there is still any outstanding capital balance then I remind Satsuma that it should take a sympathetic view when seeking to agree an affordable repayment plan with Mr W
- remove any adverse information recorded on Mr W's credit file in relation to loan 2
- remove all information about loans 3 and 4 from Mr W's credit file when these are repaid.

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

my final decision

I partially uphold this complaint and direct Provident Personal Credit Limited (trading as Satsuma) to pay Mr W as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 18 January 2020.

Susan Webb
ombudsman