

complaint

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

background

Mr C had four loans from Satsuma between January 2017 and January 2018 as follows:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Repayment</u>	<u>Due</u>	<u>Repaid</u>
1	24 Jan 2017	£1,000	3m	£492.00	24 Apr 2017	On time
2	3 Apr 2017	£600	3m	£295.20	24 Jul 2017	5 Jun 2017 - early
3	6 Aug 2017	£2,000	3m	£984.00	27 Nov 2017	26 Dec 2017 – late Missed Oct payment
4	5 Jan 2018	£450	3m	£221.40	24 Apr 2018	23 Mar 2018 - early

Mr C says he doesn't think appropriate affordability and credits checks were carried out before Satsuma approved the loans. He says he couldn't afford the repayments so had to borrow again, from multiple other short-term loan companies. He says this trapped him in a debt spiral and contributed to a decline in his mental health.

Satsuma says it asked Mr C about his income and expenditure at the time of each loan and compared that with information it received from the credit agencies. For loans 1, 2 and 4 it found it likely that Mr C's expenditure was higher than he'd declared, but it was still satisfied the repayments were affordable. It explained that Mr C told it about repayment problems in October 2017, but that he confirmed the remaining repayments on loan 3 were affordable. Satsuma asked Mr C to contact it if he'd like to discuss a reduced repayment option on the outstanding balance.

Our adjudicator recommended the complaint should be upheld. She found that proportionate checks for loans 3 and 4 would have indicated it was likely Mr C couldn't sustainably meet the repayments for these loans. She recommended it should refund interest and charges on these loans (plus 8% statutory interest) and remove any associated adverse information from Mr C's credit file.

Satsuma responded to say, in summary, that it was satisfied its affordability assessments showed Mr C had enough disposable income to afford the repayments on loans 3 and 4. It adds that repayments were made on time and there was no indication of financial difficulty.

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.

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 C 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 that it is important for me to start by saying that Satsuma was required to establish whether Mr C 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 Consumer Credit Sourcebook ("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](#). 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 their 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 C's complaint.

As the repayment due on loan 3 was relatively large compared with Mr C's income, I consider a full financial review would have been a proportionate check at this stage. Had Satsuma carried this out, it would most likely have shown that Mr C:

- had understated his expenditure and that the £984 monthly repayment on loan 3 was not affordable to him;
- was using multiple short-term lenders. He'd borrowed £1,400 in the week before loan 3 was approved and, by the time he applied for loan 4, he owed money to ten other short-term loan companies;
- Was spending a highly significant amount of money on gambling transactions.

So I'm satisfied it was irresponsible for Satsuma to have approved loans 3 and 4 and it should put things right.

my final decision

My decision is that I uphold this complaint. Provident Personal Credit Limited (trading as Satsuma) should:

- Refund all interest and charges that Mr C paid on loans 3 and 4;
- Pay interest of 8% simple a year on all refunds from the date of payment to the date of settlement*;
- Remove any negative information about loans 3 and 4 from Mr C's credit file.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 24 October 2019.

Amanda Williams
ombudsman