

## Complaint

Mr K complains that Provident Personal Credit Limited (trading as Satsuma Loans) lent money to him that he couldn't afford to repay.

## Background

Based on the information, Satsuma Loans provided Mr K with three instalment loans between March and September 2018.

Loan	Date	Repaid	Instalments	Amount
1	12/03/2018	01/07/2018	3	£100
2	04/05/2018	08/10/2018	9	£1,500
3	09/09/2018	08/10/2018	3	£300

Mr K says that at the time of the loans he was not able to access other credit. He says that he had a number of other loans outstanding and his credit file showed he was missing payments and had defaults recorded. He also says that he was gambling at the time.

Satsuma Loans says that before loans are provided it gathers a range of information from both the customer and other sources. It says before lending to Mr K it carried out sufficient affordability and credit checks and that based on these the loans appeared affordable.

Our adjudicator didn't think she had enough to say that loans one and two shouldn't have been provided. However she thought that the checks carried out suggested the repayments on loan three, when combined with the repayments on loan two, weren't affordable. She thought that had proportionate checks been carried out before loan three was provided then these would have shown Mr K was having problems managing his money.

Mr K didn't accept our adjudicator's view. He said that all the loans were provided irresponsibly. He said that at the time of the loans he was in a debt management plan, was gambling, and had several outstanding short term loans with other providers.

## 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 Loans 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 that Mr K 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 Loans should fairly and reasonably have done more to establish that any lending was sustainable for a 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 Loans was required to establish whether Mr K 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 K's complaint.

Our adjudicator didn't think he had enough evidence to say that loans one and two shouldn't have been provided. As these were the first two loans in the lending chain and given the size of the repayments compared to Mr K's income I find that the checks carried out before the loans were provided were sufficient. As these didn't raise concerns to suggest the lending was unsustainable, I agree with our adjudicator that there isn't enough evidence to say these loans shouldn't have been provided.

Loan three was provided while loan two was still outstanding. The combined monthly repayments totalled around £481. Mr K's declared income at the time of this loan was £2,350. He had recorded expenses of £1,465. Additional to this, Satsuma Loans had assessed that safeguards of a further £462 should be applied and an expenses buffer of £33. This gave a revised disposable income of £390. As this was below the combined repayment amount for loans two and three, I find that Satsuma Loans should have been concerned that this loan wasn't sustainably affordable. Therefore I do not find that loan three should have been provided.

### **My final decision**

My final decision is that I uphold this complaint in regard to loan three. Provident Personal Credit Limited (trading as Satsuma Loans) should:

- A. add together the total of the repayments made by Mr K towards interest, fees and charges on loan three, including payments made to a third party where applicable, but not including anything that has already been refunded;
- B. calculate 8% simple interest\* on the individual payments made by Mr K which were considered as part of "A", calculated from the date Mr K originally made the payments, to the date the complaint is settled;
- C. pay Mr K the total of "A" plus "B";
- D. remove any adverse information that has been recorded on Mr K's credit file in relation to loan three.

\*HM Revenue & Customs requires Provident Personal Credit Limited (trading as Satsuma Loans) to deduct tax from this interest. It should give Mr K a certificate showing how much tax has been deducted, if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 6 January 2020.

Jane Archer  
**ombudsman**