

complaint

Miss D complains about three instalment loans that she took out with Provident Personal Credit Limited, trading as Satsuma Loans, ("SL"), which she said were unaffordable.

background

Miss D was given three instalment loans by SL from April 2017 to September 2017. A summary of the loans taken out by Miss D is shown below:

Loan number	Date of loan	Repayment date	Loan amount	Repayment amounts
1.	28/4/17	29/6/17	£1,000	12 monthly repayments of £166
2.	6/7/17	31/8/17	£500	12 monthly repayments of £83.09
3.	8/9/17	Unpaid	£350	12 monthly repayments of £58.10

SL said that it had carried out a credit check before each loan and asked Miss D for details of her income and expenditure. SL also applied extra safeguards and buffers to Miss D's declared expenses to reflect the information it obtained from its credit checks. It said that Miss D was left with a comfortable disposable income after the repayments, safeguards and buffers were taken into account.

our adjudicator's view

The adjudicator recommended that Loan 2 should be upheld. She said that as this loan was expected to last for 12 months, she didn't think that Miss D would've been able to sustainably meet the loan repayments for this loan as she was left with less than £10 disposable income each month.

SL disagreed. It appreciated that by deducting the loan repayment and its additional buffer of £65 from Miss D's disposable income (as reduced by SL's safeguards), Miss D would be left with around £10 disposable income each month. But this was after the additional buffer of £65 had been applied. Prior to this being applied, all other expenditure was accounted for and additional information from the credit bureau had been collated to enable a safeguard to be applied. SL said that the additional buffer of £65 had been added for any unexpected expenditure. After taking into account Miss D's information and its credit checks, it said that Miss D had sufficient disposable income for the loan to be sustainable.

The adjudicator asked SL to provide its credit checks but these haven't been received.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Miss D and to SL on 23 September 2019. I summarise my findings:

I'd noted that when SL lent to Miss D the regulator was the Financial Conduct Authority (FCA) and relevant regulations and guidance included its Consumer Credit Sourcebook (CONC). The CONC contained guidance for lenders about responsible lending.

I said that SL needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this meant that it should have carried out proportionate checks to make sure Miss D 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 thought less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that SL should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors included:

- 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 had been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There might even come a point where the lending history and pattern of lending itself clearly demonstrated that the lending was unsustainable.

I thought it was important to say that SL was required to establish whether Miss D could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

I explained that the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it didn't automatically follow this was the case. This was because the CONC defined sustainable as being without undue difficulties and in particular the consumer should be able to make repayments, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it followed that a lender should realise, or it ought fairly and reasonably to realise, that a borrower wouldn't be able to make their repayments sustainably if they were unlikely to be able to make their repayments without borrowing further.

I'd carefully considered all of the arguments, evidence and information provided in this context and what this all meant for Miss D's complaint.

I said that SL had made a number of checks before it lent to Miss D. It had asked her for details of her income and expenditure. Miss D had declared her monthly income as £1,150 and her expenses as £500 before all the loans. And SL had increased Miss D's declared expenditure in its assessments of Loans 1 to 3 to reflect what it had seen in its credit checks and internal models.

I also noted that SL had checked Miss D's credit file before agreeing to the loans. But I'd not seen its credit checks. I'd also not seen Miss D's credit report.

I could see that Loan 1 was for £1,000 repayable by 12 monthly repayments of £166. SL said that Miss D had a disposable income of £324 before Loan 1 after its safeguards of £326 had been applied to Miss D's declared expenses.

On balance, I thought that the checks SL had carried out before agreeing Loan 1 were proportionate. The repayments that Miss D needed to make on Loan 1 were relatively modest compared to the income that she'd declared to SL. And I didn't think the repayments were so large that it was obvious they would've caused Miss D financial difficulty.

So given Miss D's repayment amounts, what was apparent about her circumstances at the time, and that this was her first loan with the lender, I didn't think it would've been proportionate for SL to have asked her for the amount of information that would have been needed to show the lending was unsustainable.

And there wasn't anything in the information Miss D had provided or the information SL should've been aware of, which meant it would've been proportionate to start verifying what she was saying. So I didn't think SL was wrong to give Loan 1 to Miss D.

Miss D had repaid Loan 1 early after about two months. I'd thought that behaviour might have caused some concerns to SL about Miss D's finances. But the amount Miss D had asked to borrow on her next loan was much smaller than before so that might have helped allay some of the concerns SL might have had at the time.

Miss D had applied for Loan 2 a week after Loan 1 had been repaid. The loan repayments had halved but were to be made over the same period as before.

But I could see that SL had added an additional amount of around £493.20 for its safeguards to Miss D's declared expenses. This was substantially higher than the safeguards it had applied before Loan 1. And SL was aware that Miss D wasn't declaring all her commitments. I'd understood that the safeguards were collated from SL's credit checks. So as SL was aware that Miss D had almost £800 in credit commitments from the amount she'd declared and its own checks, I thought SL ought reasonably to have suspected that Miss D was likely having trouble managing her money. So I thought it would have been proportionate for SL to have supplemented the information it held by asking Miss D some more detailed questions, such as whether she was borrowing from other short term lenders at the same time.

Had it done so, SL would have discovered that Miss D was borrowing short term loans from a number of other lenders. I'd seen from Miss D's bank statements in the month before Loan 2 that she'd borrowed more than her income in that period. I thought it would have been clear to SL that Miss D was facing significant problems managing her money and unlikely to have been able to repay Loan 2 in a sustainable manner. So I didn't think it was reasonable for SL to have given Loan 2 to Miss D.

Loan 2 was repaid early, less than two months after being taken out. And Loan 3 was taken out eight days after Loan 2 was repaid. I thought this behaviour might have caused some concerns to SL. Although the monthly loan repayments for Loan 3 had reduced to £58.10, they were still repayable over twelve months. And SL had again added an additional amount of around £332.50 for its safeguards to Miss D's declared expenses. So SL was again aware that Miss D wasn't declaring all her commitments and that Miss D had around £630 in credit commitments from the amount she'd declared and its own checks. Again I thought SL ought reasonably to have suspected that Miss D was likely having trouble managing her money. So I thought it would have again been proportionate for SL to have supplemented the

information it held by asking Miss D whether she was borrowing from other short term lenders at the same time.

Had it done so, SL would have discovered that Miss D was still borrowing short term loans from a number of other lenders. I'd seen from Miss D's bank statements in the month before Loan 3 that she'd borrowed three other short term loans in that period. I thought it would have been clear to SL that Miss D was facing significant problems managing her money and unlikely to be able to repay Loan 3 in a sustainable manner. So I didn't think it was reasonable for SL to have given Loan 3 to Miss D.

Subject to any further representations by Miss D or SL my provisional decision was that I intended to uphold this complaint in part. I intended to order SL to put things right as follows.

putting things right – what SL needs to do

- with regard to Loans 2 and 3, refund all the interest and charges that Miss D has paid on these loans, and pay 8% simple interest* a year on the refunds from the date of payment to the date of settlement;
- write off any unpaid interest and charges from Loan 3;
- apply the refunds referred to above to reduce any capital outstanding on Loan 3 and pay any balance to Miss D; and
- remove all adverse entries about Loans 2 and 3 from Miss D's credit file.

*HM Revenue & Customs requires SL to take off tax from this interest. SL must give Miss D a certificate showing how much tax it's taken off if she asks for one. If SL intends to apply the refunds to reduce any outstanding capital balances, it must do so after deducting the tax.

Miss D responded to my provisional decision to say that she had nothing more to add.

SL didn't provide a response to 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.

Given that both Miss D and SL have given me nothing further to consider, I see no reason to depart from the conclusions I reached in my provisional decision. It follows that I uphold part of the complaint and require SL to pay Miss D some compensation as set out below.

my final decision

My decision is that I uphold this complaint in part. In full and final settlement of this complaint, I order Provident Personal Credit Limited, trading as Satsuma Loans, to:

1. With regard to Loans 2 and 3, refund all the interest and charges that Miss D has paid on these loans, and pay 8% simple interest* a year on the refunds from the date of payment to the date of settlement;
2. Write off any unpaid interest and charges from Loan 3;
3. Apply the refunds referred to above to reduce any capital outstanding on Loan 3 and pay any balance to Miss D; and
4. Remove all adverse entries about Loans 2 and 3 from Miss D's credit file.

*HM Revenue & Customs requires SL to take off tax from this interest. SL must give Miss D a certificate showing how much tax it's taken off if she asks for one. If SL intends to apply the refunds to reduce any outstanding capital balances, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 1 December 2019.

Roslyn Rawson
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