

complaint

Miss B says Provident Personal Credit Limited (trading as Satsuma Loans) irresponsibly lent to her.

background

This complaint is about three instalment loans Satsuma provided to Miss B between November 2017 and May 2018. Miss B's lending history is as follows:

- Loan 1 taken 26 November 2017 for £400, to be repaid in six instalments of £126.40. Loan repaid 25 May 2018.
- Loan 2 taken 28 December 2017 for £1,000, to be repaid in 12 instalments of £166.00. A balance remains outstanding.
- Loan 3 taken on 26 May 2018 for £800, to be repaid in 12 instalments of £132.80. A balance remains outstanding.

So the repayments for loan two overlapped with those for loan one. The highest expected monthly repayment was then £292.40. Loan three was taken immediately loan one was repaid and its repayments overlapped with those for loan two. The highest expected monthly repayment was £298.80.

Our adjudicator upheld Miss B's complaint in part and thought loan three shouldn't have been given. Satsuma agreed but Miss B didn't and so the complaint was passed to me for a final decision. Miss B said she thought loan two shouldn't have been approved also. She said she had many other payday loans at the time and the loan for a larger amount was taken on top of loan one.

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 that Miss B 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 Miss B could sustainably repay her 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 Miss B's complaint.

Satsuma asked Miss B for information about her income and expenditure and it carried out credit checks. Miss B said her monthly income was £3,000. She gave her monthly outgoings which Satsuma adjusted upwards to about £1,800 for loans one and two and £2,565 for loan three.

For loans one and two, I think Satsuma carried out proportionate and sufficient affordability checks. Satsuma wasn't then required to check Miss B's other short-term borrowing. From the information Miss B provided, the loans, even where they overlapped, looked affordable for her. Loan two was for a larger amount, but it was spread over a longer period.

Given the loan amounts, what was apparent about Miss B's circumstances at the time and her history with Satsuma, I don't think it would've been proportionate to ask her for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Miss B provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Miss B was saying. So I can't say it was wrong for Satsuma to provide loans one and two.

But I agree with the adjudicator that Satsuma should have made better checks for loan three. This was Miss B's third loan in six months. She'd repaid loan one the day before and then borrowed a similar amount. I think Satsuma should then have asked for more information about Miss B's other financial commitments, both regular and short-term, to check that she could sustainably repay this loan.

As our adjudicator explained, a proportionate check for loan three would most likely have shown that Miss B was having problems managing her money. This was because when she asked for loan three, Miss B had at least three other short-term loans with another lender as well as one outstanding with Satsuma. So I think Satsuma should then have realised that Miss B wouldn't be likely to be able to sustainably repay loan three. And so I think it was wrong to approve it.

putting things right – what Satsuma needs to do

- refund all interest and charges Miss B paid on loan three and waive any still outstanding; this refund should be offset against the principal Miss B still owes and the remainder paid to her; or, if a balance remains outstanding an affordable repayment plan should be agreed.
- 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 negative information about loan three from Miss B's credit file;

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

my final decision

For the reasons given above, my final decision is that I partially uphold Miss B's complaint. I require Provident Personal Credit Limited (trading as Satsuma Loans) to pay Miss B compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 26 December 2019.

Phillip Berechree
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