

complaint

Mr B says Provident Personal Credit Limited, trading as Satsuma (“Satsuma”) irresponsibly lent to him. He says the borrowing was unaffordable when taking into account his income and expenditure. Mr B has said his credit history would show he wasn’t credit worthy.

background

This complaint is about a short-term loan Satsuma provided to Mr B in May 2015. The amount borrowed was £700 and it was to be repaid over a 12 month period.

Our adjudicator upheld Mr B’s complaint and thought the loan shouldn’t have been given.

Satsuma disagreed and as the complaint remains unresolved it has been passed to me for decision in my role as ombudsman.

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 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 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.

I think that it is important for me to start by saying that Satsuma was required to establish whether Mr B 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 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 B's complaint. Like the adjudicator I don't think Satsuma should have lent to Mr B.

Satsuma has told us of the affordability checks it carried out before lending to Mr B. This involved asking Mr B about his monthly income and expenditure, and cross referencing that information with additional information gathered from its own credit-file search. It also compared Mr B's financial position with similar customers in similar financial circumstances as Mr B. As a result of this check if it suggested that additional expenditure would be expected it used a higher expenditure figure than stated by Mr B to represent his outgoings.

In the case of Mr B, he told Satsuma that his monthly income was £1,800 and outgoings were £650. As a result of its checks, Satsuma added an additional £1,009.13 to Mr B's outgoings in order to reflect his expenditure as fairly as possible. So, in total Satsuma concluded that Mr B's monthly outgoings were £1,659.13 which when deducted from his income left him with a disposable income of £140.87 a month.

The monthly repayment on the loan Mr B took with Satsuma was £110.83. Taking all of the above into account, Mr B would be left with £30.04 of disposable income each month which I don't think is sufficient. And particularly bearing in mind this loan was to be repaid over 12 months. I think it extremely unlikely Mr B wouldn't have any unexpected financial demands during that period.

In conclusion I don't think Satsuma should have lent to Mr B. I think the borrowing was unsustainable when taking into account how little Mr B would be left with each month, and being over a 12 month period.

So, I'm also upholding the complaint and Satsuma should put things right.

putting things right – what Satsuma needs to do

As far as I am aware there is an outstanding balance on the loan and if the outstanding balance due on Mr B's loan has been transferred to a third-party Satsuma should buy the loan back if it can. If Satsuma can't buy the loan back, then it needs to work with the third party to make sure the following is achieved:

- A) Add together the total of the repayments made by Mr B towards interest, fees and charges on the loan without an outstanding balance.
- B) Calculate 8% simple interest* on the individual payments made by Mr B which were considered as part of "A", calculated from the date Mr B originally made the payments, to the date the complaint is settled.

C) Remove all interest, fees and charges from the balance on the outstanding loan, and treat any repayments made by Mr B as though they had been repayments of the principal on the outstanding loan.

If this results in Mr B having made overpayments then Satsuma should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.

Satsuma should then refund the amounts calculated in "A" and "B" and move to step "E".

D) If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on the outstanding loan. If this results in a surplus, then the surplus should be paid to Mr B. However, if there is still an outstanding balance then Satsuma should try to agree an affordable repayment plan with Mr B.

E) Remove any adverse information recorded on Mr B's credit file in relation to the loan.

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

If after doing the above Mr B still has an outstanding balance due, then Satsuma should try and work together to come to a mutually agreeable repayment plan with Mr B in order to repay what is owed. But I'd remind Satsuma of its obligation to treat Mr B fairly.

my final decision

For the reasons given above, I'm upholding Mr B's complaint. Provident Personal Credit Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 2 May 2020.

Catherine Langley
ombudsman