

complaint

Mr T complains that Provident Personal Credit Limited (trading as Satsuma) lent to him in an irresponsible manner.

background

The background to this complaint was set out in the provisional decision I issued in October 2019. An extract from this is attached and forms part of this final decision, so I will not repeat that information here.

In my provisional decision I set out why I was minded to uphold part of the complaint. I invited both parties to let me have any further comments and evidence. Mr T has said he has nothing further to add. Provident has said that it accepts my provisional decision. And the lender has confirmed that Mr T was given a further loan in January 2019, after he had made his original complaint – I will refer to that as loan 7. Satsuma has offered to refund the interest that Mr T paid on that loan too in line with our normal approach if we had upheld a complaint about that loan. So I intend to include that loan in my final decision.

my findings

I've once more considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Given that Mr T has told us he has nothing further to add, and that Satsuma has accepted my provisional findings, I see no reason to alter the conclusions I previously reached.

It follows that I don't think Satsuma should have agreed to give Mr T loan 6. Satsuma needs to pay Mr T some compensation in relation to that loan, and to pay the compensation it has offered in relation to loan 7.

putting things right

I don't think Satsuma should have agreed to give Mr T the loan that he took on 8 August 2018 (loan 6). And Satsuma has agreed to pay compensation in relation to the loan it gave Mr T in January 2019 (loan 7). So Satsuma should;

- Refund any interest and charges paid by Mr T on the loans.
- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*.
- The number of loans taken by Mr T means any information recorded about loans 6 and 7 is adverse. So all entries about those loans should be removed from Mr T's credit file.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Mr T a certificate showing how much tax it's taken off if he asks for one.

my final decision

My final decision is that I uphold part of Mr T's complaint and direct Provident Personal Credit Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 12 January 2020.

Paul Reilly
ombudsman

EXTRACT FROM PROVISIONAL DECISION

complaint

Mr T complains that Provident Personal Credit Limited (trading as Satsuma) lent to him in an irresponsible manner.

background

Mr T was given six loans by Satsuma between March 2017 and August 2018. Each of the loans was repayable in monthly instalments over periods ranging from six to twelve months. At times Mr T had up to three loans open at the same time. Mr T successfully repaid his first four loans but a balance remained outstanding on the last two loans when he made his complaint. A summary of Mr T’s borrowing from Satsuma is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount	Agreed Term
1	02/03/2017	02/10/2017	£ 1,000	7 Months
2	13/06/2017	06/01/2018	£ 400	6 Months
3	10/11/2017	03/09/2018	£ 800	9 Months
4	23/01/2018	01/08/2018	£ 500	6 Months
5	23/04/2018	-	£ 400	9 Months
6	08/08/2018	-	£ 1,200	12 Months

Mr T’s complaint has been assessed by one of our adjudicators. He didn’t think Satsuma had been wrong to give the first four loans to Mr T. But he didn’t think the last two loans should have been agreed. So he asked Satsuma to pay Mr T some compensation. Satsuma didn’t agree with that assessment. So, as the complaint hasn’t been resolved informally, it has been passed to me, an ombudsman, to decide.

my provisional 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 Mr T 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 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 was required to establish whether Mr T 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 FCA's 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 T's complaint.

Satsuma did a number of checks before it lent to Mr T. It asked him for details of his income and his normal expenditure. It gathered data from credit reference agencies about other credit repayments that Mr T would need to make over the coming months. And it then used this information to calculate how much disposable income Mr T had left over each month. Satsuma also used the credit reference agency checks to gather some more information about Mr T's financial situation at that time.

The credit checks that Satsuma did failed to show any information that might have suggested Mr T was having problems managing his money. The checks didn't show any other concerning information such as a reliance on other short term loans, or a significant number of delinquent or defaulted accounts.

I can see that Mr T had defaulted on a bank account shortly before he took loan 2. But that default doesn't appear to have shown on Satsuma's credit check. Generally, the information a consumer might see, when they request a copy of their credit file, might be very different to that seen by a lender. A lender might only see a small portion of the credit file, or some data might be missing or anonymised, or the data might not be up to date. So, this may explain any differences between the information provided by Satsuma's credit check and the information seen by Mr T in his credit report.

The repayments that Mr T had agreed to make on his first four loans were relatively modest compared to the income that he'd declared to Satsuma. And the repayments appeared to be easily affordable. So given these repayment amounts, what was apparent about Mr T's circumstances at the time, and his borrowing history with the lender, I don't think it would've been proportionate for Satsuma to ask him for the amount of information that would be needed to show the lending was unsustainable before agreeing the first four loans.

I do think, by the time Mr T asked for loan 5, that Satsuma should have realised that it couldn't safely rely on the information he was providing about his finances. I think it should have taken steps at that time to independently verify Mr T's true financial position. I've looked at copies of Mr T's bank statements to see what better checks would have shown Satsuma. I can see that he took another short term loan on the same day as he took loan 6 from Satsuma. But I think it's unlikely that better checks would have allowed Satsuma to discover this loan – and in fact it's entirely possible that the loan was taken out after his fifth loan from Satsuma. So on balance I don't think better checks would have suggested to Satsuma that Mr T was facing problems managing his money.

But looking at the overall pattern of Satsuma's lending history with Mr T I think by loan 6 the lender should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't provide any further loans.

I say this because:

- By the time Mr T asked for loan 6 he'd been borrowing from Satsuma for a lengthy period and he wasn't making any inroads to the amount he owed the lender. This was now his sixth loan in around 15 months. And Loan 6 was by far the largest loan he'd taken to date.
- When Mr T took loan six he already had two other loans outstanding with Satsuma. I think it should have been clear by now that Mr T was facing problems managing his money, and was most likely needing to borrow again to fill the hole that repaying previous loans was leaving in his finances.

I think that Mr T lost out because Satsuma provided loan 6 because:

- this loan had the effect of unfairly prolonging Mr T's indebtedness by allowing him to continue to take expensive credit intended for short-term use over an extended period of time.
- the sheer number of loans Mr T had borrowed was likely to have had negative implications on his ability to access mainstream credit and so kept him in the market for these high-cost loans.

So I don't currently think Satsuma should have agreed to give Mr T loan 6. Satsuma needs to pay Mr T some compensation.