Financial Ombudsman Service

complaint

Mr G says Provident Personal Credit Limited (trading as Satsuma) irresponsibly lent to him.

background

This complaint is about five instalment loans Satsuma provided to Mr G between July 2016 and November 2018. Mr G borrowed amounts ranging between £500 and £2,000 to be repaid in weekly or monthly instalments. The repayments for loans one and two overlapped. There were short gaps between Mr G repaying his loans and borrowing again for increased amounts. From what I can see, there's a balance still outstanding on the final loan.

Our adjudicator upheld Mr G's complaint in part and thought the loans from three onwards shouldn't have been given. Satsuma disagreed and so the complaint was passed to me for a final 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.

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 G 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 Mr G 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 G's complaint.

Satsuma asked Mr G for information about his income and expenditure and it carried out credit checks. Mr G said he earned between £3,500 and £4,000 a month. He said his monthly expenditure was between £2,000 and £2,250. This left him with a monthly disposable income between £1,500 and £1,750.

For loan one, given the loan amount, what was apparent about Mr G's circumstances at the time and his history with Satsuma, I don't think it would've been proportionate to ask him for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Mr G provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Mr G was saying. So I can't say it was wrong for Satsuma to have provided loan one.

I think Satsuma should have carried out better checks from loan two onwards. Mr G had borrowed again for an increased amount whilst loan one was still running. His highest expected monthly repayments were almost £400. I think Satsuma should then have verified what Mr G had told it about his circumstances. But I haven't been provided with enough information to show what sufficient checks would have found. So I can't say it was wrong for Satsuma to have provided loan two.

I've also looked at the overall pattern of Satsuma's lending history with Mr G, with a view to seeing if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr G's case, I think that this point was reached by loan three. I say this because:

- By loan three, Mr G had been borrowing from Satsuma for over a year with no significant breaks. I think the pattern of his borrowing showed that he'd become persistently reliant on short-term loans and further borrowing was unsustainable.

- From loan three onwards Mr G was provided with a new loan within days of settling a previous one. So Satsuma ought to have realised it was more likely than not Mr G was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr G's indebtedness was increasing unsustainably.

- Mr G wasn't making any real inroads to the amount he owed Satsuma. Loan five was taken out over two years since Mr G's first. And it was for a larger amount. Mr G had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Mr G lost out because Satsuma continued to provide borrowing from loan three onwards because:

- these loans had the effect of unfairly prolonging Mr G's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.

- the sheer number of loans and deferrals was likely to have had negative implications on Mr G's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So I'm upholding the complaint about loans three to five and Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Mr G paid on loans three to five, offset this against any principal still owing for loan five, pay Mr G any remainder or set up an affordable repayment plan to clear any balance remaining;

- 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†;

- the number of loans taken from loan three onwards means any information recorded about them is adverse. So all entries about loans three to five should be removed from Mr G's credit file.

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

my final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 5 December 2019.

Phillip Berechree
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