

complaint

Ms W complains that Provident Personal Credit Limited (trading as Satsuma) gave her loans she couldn't afford to repay. She asks that it refunds interest and charges, with 8% interest, removes all record of the loans from her credit file and pays compensation for the hardship the loans caused.

background

Ms W took out five loans with Satsuma between July 2014 and September 2017. All of the loans were repayable in instalments.

Our adjudicator recommended that the complaint should be upheld in part. He said it wasn't wrong for Satsuma to offer Ms W loans 1 to 3. But it shouldn't have offered loans 4 and 5. Our adjudicator said proportionate checks would have shown that Ms W was unlikely to be able to repay the loans sustainably. She was having problems managing her money and had loans outstanding with other short term lenders.

Our adjudicator said Satsuma should refund interest and charges on loans 4 and 5, with 8% interest, and remove any negative information about them from her credit file.

Satsuma didn't agree, saying it carried out detailed checks which showed the loans were affordable.

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.

Ms W took out the following loans with Satsuma:

Loan No.	Date of Loan	Amount of loan	No. and period of repayments due	Highest repayment (per month)	Date repaid
1	09.07.2014	£300	26 weeks	£84	20.11.2014
2	20.11.2014	£500	39 weeks	£73	11.03.2015
3	01.06.2016	£1,000	52 weeks	£166	31.01.2017
4	13.12.2016	£1,000	52 weeks	£166	21.07.2017
5	13.09.2017	£440	52 weeks	£73	28.09.2018

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 Ms W 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 Ms W'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 suggest that Satsuma should have done more to establish that any lending was sustainable for a customer. Such factors include the customer's income – particularly a lower income – the amount of the loan repayments and the time over which the

loan is to be repaid, and the number and frequency of loans and the time over which the customer has been given loans. Repeated borrowing can signal that the borrowing has become, or is becoming, unsustainable. There may even come a point where the lending history and pattern of lending itself demonstrates that the lending was unsustainable.

Satsuma says it carried out detailed checks to ensure the loans were affordable. I'd note here that Satsuma was required to establish whether Ms W could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

loans 1 and 2

When Ms W applied for loans 1 and 2 she said her monthly income was £1,300 and £1,800, respectively. Satsuma increased Ms W's stated expenditure to take account of information from its credit checks and internal models. Given the amounts of the loan repayments and that this was the first time Ms W borrowed from Satsuma, I think the checks made were proportionate. I don't think Satsuma had any reason to think loans 1 and 2 weren't affordable.

loan 3

There was a gap of more than a year between Ms W repaying loan 2 and taking out loan 3. She told Satsuma her monthly income was £1,550. It estimated her expenditure using the information she provided and its own checks. Given the break in borrowing and the amount of the repayments, I think these checks were proportionate. I don't think Satsuma had any reason to think Ms W would have difficulty meeting the repayments for loan 3.

loans 4 and 5

When Ms W applied for loan 4, Satsuma recorded her monthly income as £1,650. Based on what Ms W told it and its own checks and models, Satsuma assessed her monthly expenditure as about £1,200. Loan 3 was still outstanding at this time.

While the information Satsuma had suggested Ms W would be able to afford the repayments for loans 3 and 4, I think that Satsuma should have considered at this point whether further lending was sustainable.

The monthly repayments for loans 3 and 4 were lower (as compared to a loan repayable over a shorter period) because they were to be repaid over 12 months. But this also meant Ms W had to be able to sustain the repayments over this period. This was Ms W's second request for a substantial loan in about six months. When she asked for loan 4, in December 2016, Loan 3 was outstanding with a balance of about £920 and six months of repayments remaining. I think Satsuma should have asked Ms W for more information about her credit commitments, including her short term commitments. If what she told it wasn't credible or wasn't consistent with the information it had from its credit check (as seems to have been the case here) Satsuma should have asked Ms W for evidence to support what she said.

Ms W provided a copy of her credit report. This shows that when she took out loan 4 she had seven short term loans outstanding.

I think if Satsuma had looked into Ms W's situation more carefully it would have known about her use of short term loans. I think this would have been enough to alert Satsuma to a

possible problem – that Ms W was in financial difficulties or was dependant on short term loans. I don't think further borrowing was sustainable.

So I'm upholding Ms W's complaint about loans 4 and 5. Satsuma should:

- refund all interest and charges Ms W paid on loans 4 and 5;
- 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 loans 4 and 5 from Ms W's credit file.

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

my final decision

My decision is that I uphold this complaint. I order Provident Personal Credit Limited to pay the compensation and take the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 26 October 2019.

Ruth Stevenson
ombudsman