

complaint

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

background

This complaint is about eight instalment loans Satsuma provided to Miss L between September 2016 and March 2018. The loans ranged in term from three to five months. This is a summary of Miss L's lending history from Satsuma.

Loan	Taken out	Repaid	Amount, £
1	29/09/2016	03/10/2016	400
2	11/01/2017	26/04/2017	220
3	12/04/2017	26/04/2017	300
4	18/06/2017	26/09/2017	100
5	07/08/2017	26/12/2017	220
6	22/10/2017	26/01/2018	120
7	02/12/2017	-	450
8	20/03/2018	-	110

Our adjudicator thought the loans from loan 5 onwards shouldn't have been given. Satsuma didn't agree, so the complaint was passed to me.

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 Miss L 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 L 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 L's complaint.

I agree with the adjudicator, and for the same reasons, that there was nothing to indicate Satsuma needed to do more when it approved loans 1 to 4. So I don't think Satsuma was wrong to give loans 1 to 4 to Miss L.

However I don't think Satsuma carried out proportionate checks for loan 5. Had it done so, I think it would have made a different lending decision. I say this because by loan 5 there were clear signs that Miss L was struggling to manage her money. When Miss L applied for loan 5 she already had six other short-term high cost credit products active from two other lenders. I think this should have suggested to Satsuma that her finances were under pressure. So it was most likely she was just borrowing to pay off other loans. And that this loan was unlikely to be sustainably affordable for Miss L. It follows I don't think Satsuma should have given loan 5 to Miss L.

I've then looked at the overall pattern of Satsuma's lending history with Miss L, 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 Miss L's case, I think that this point was reached at loan 6. I say this because:

- From loan 6 onwards Miss L was provided with a new loan within weeks of taking out a previous one, and whilst still repaying it. So Satsuma ought to have realised it was more likely than not Miss L was having to borrow further to cover the hole making her previous loan repayments was leaving in her finances and that Miss L's indebtedness was increasing unsustainably.

- Miss L wasn't making any real inroads to the amount she owed Satsuma. She had taken out 8 loans in the 18 months after her first loan. And there was no sign that the amount she needed to borrow was reducing – her second to last loan was her highest. Satsuma ought to have known that Miss L was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need. Miss L had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Miss L lost out because Satsuma continued to provide borrowing from loan 6 onwards because:

- these loans had the effect of unfairly prolonging Miss L's indebtedness by allowing her to take expensive credit intended for short-term use over an extended period of time.
- the number of loans was likely to have had negative implications on Miss L's ability to access mainstream credit and so kept her in the market for these high-cost loans.

I have carefully considered Satsuma's response to our adjudicator's view. In summary, it explained the checks it had carried out on eligibility, affordability and credit worthiness. It also explained why it doesn't use bank statements in its checks – and I agree it is under no obligation to do so but they are one way, amongst others, that Satsuma could have better understood Miss L's situation.

It argues the payment history of loans 1 to 6 show no evidence of Miss L having difficulties, nor were there indicators to suggest it should make additional checks. But Satsuma was required to do more than check Miss L could afford each individual loan on a strict pounds and pence basis. It had to ensure Miss L's borrowing was sustainably affordable, and for the reasons I've set out above I think from loan 5 onwards there were indications this was not the case. Rather, it seems Satsuma was unfairly extending her use of high cost short term credit.

So I'm upholding the complaint about loans 5 onwards, and Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Miss L paid on loans 5 to 8;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement*;
- if it chooses, apply the refund to any outstanding principal balance on loans 7 and 8 before paying any remaining balance (if there is any) to Miss L**; and
- remove any negative information about loan 5 from Miss L's credit file
- the number of loans taken from loan 6 onwards means any information recorded about them is adverse, so all entries about loans 6 to 8 should be removed from Miss L's credit file.

If Satsuma has sold the outstanding debt from loans 7 and 8 to a third party it should buy it back before doing what I've said above. If this isn't possible, Satsuma needs to make sure

that Miss L has paid or will pay no more in total than the principal amounts she was lent. So Satsuma should (in addition to the above if necessary):

- arrange to repay any portion of the sum due to the third party that is made up of interest and charges – including any added by the third party;
- refund any interest and charges that Miss L has already paid to the third party, plus 8% simple interest from the date of payment to the date of settlement*;
- instruct the third party to remove any information that it may have recorded about the loans from Miss L's credit file.
- If Satsuma doesn't buy the debt back then it isn't entitled to make any deductions from the amount that it needs to pay Miss L.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Miss L a certificate showing how much tax it's taken off if she asks for one. If Satsuma intends to apply the refund to reduce any outstanding balance, it must do so after deducting the tax.

**If after taking the above steps there is still a principal balance due, I remind Satsuma of its obligation to treat Miss L fairly and reasonably in any settlement discussions.

my final decision

For the reasons given above, I'm partially upholding Miss L's complaint. Provident Personal Credit Limited (trading as Satsuma) should pay Miss L compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 18 December 2019.

Rebecca Connelley
ombudsman