

complaint

Mr S complains that Provident Personal Credit Limited (trading as Satsuma) gave him a loan that was unaffordable, and it has charged excessive interest without making it clear to him.

background

Mr S took three loans from Satsuma. He borrowed twice in 2016 and those loans were repaid early. Mr S took out his final loan for £600 in January 2018 and agreed to repay the loan over the following twelve months at £99.60. There is a balance on the loan that remains outstanding.

Mr S's complaint has been assessed by one of our adjudicators. He sent a letter to both parties explaining that he didn't think Mr S's complaint should be upheld. He concluded that Satsuma didn't need to carry out any further checks at the time it granted the loans to Mr S and didn't do anything wrong.

Mr S didn't agree with our adjudicator and in particular explained that his complaint about the front loading of interest hadn't properly been addressed.

So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide.

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 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 S could repay the loan 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.

Satsuma did a number of checks before it lent to Mr S. It asked him for details of his income and her normal expenditure. It gathered data from credit reference agencies. And it then used this information to calculate how much disposable income Mr S had left over each month. Satsuma also used the credit reference agency checks to gather some more information about Mr S's financial situation at that time. As a result of those checks Satsuma adjusted Mr S's disposable income to take account of the additional credit commitments that it could see that Mr S hadn't declared on his application.

Mr S has told our service that his finances were under significant pressure at the time he applied for the loan with Satsuma and that it should have picked up on this. But Mr S had paid off his two previous loans early and without any apparent difficulty. There had been a significant gap in lending of over 12 months and so I don't think there was anything in Mr S's borrowing pattern or the credit checks that should have alerted Satsuma to Mr S's difficulties.

In saying that I think it is important to note that, 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 why Mr S says that he was having problems managing her money at the time the loan was granted but this was not reflected in the credit search information collated by Satsuma at the time.

The repayments that Mr S had agreed to make on his loan were relatively modest compared to the income that he'd declared to Satsuma. And based on what he had told Satsuma and the credit checks it carried out, the repayments appeared to be easily affordable. So given these repayment amounts, what was apparent about Mr S's circumstances at the time, and his lack of recent 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. So, I don't think Satsuma was wrong to give this loan to Mr S.

Mr S also complains that the amount of interest that was charged was "front loaded" onto the agreement and this wasn't made clear to him at the time. I can see that Mr S's previous two loans were settled early and a rebate of interest in relation to the first loan was applied and the second loan was settled under the right of withdrawal. Mr S has confirmed that he doesn't have any complaint about these two loans so I don't think I need to say any more about them.

I have looked at the credit agreement signed electronically by Mr S. Under the heading "Cost of Credit" the agreement sets out the rate of interest as 99.20% per annum fixed. It also states, "*Interest has been pre-calculated and applied at the commencement of the credit agreement.*" I think that the terms of the agreement signed by Mr S make it clear both the rate of interest that applies to the loan and that the interest is pre calculated and applied at the start.

I can appreciate that Mr S considers the rate of interest to be high and I sympathise, but it is within the cap that the regulations allow and so I can't say that it is wrong. Similarly, the fact that the interest is front loaded is set out in the signed agreement so I can't say that Mr S wasn't aware of it. I understand that he says the website didn't make it clear and Satsuma

has now changed this but I have to take into account what the credit agreement says and the terms that Mr S agreed to be bound by.

I understand that Mr S is now having difficulties paying back what he has borrowed and I don't doubt that this has been stressful for him. I would expect Satsuma to treat Mr S positively and sympathetically when arranging for repayment of any outstanding balance. I know that my decision will be disappointing for Mr S but I can't ask Satsuma to do anything further.

my final decision

My final decision is that I do not uphold Mr S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 11 September 2020.

Emma Boothroyd
ombudsman