

## complaint

Mr O complains that Provident Personal Credit Limited (trading as Satsuma) gave him loans that he couldn't afford.

## background

Mr O took out four instalment loans with Satsuma between August 2016 and March 2018. At the time of his complaint loan 4 was still running and I haven't seen any information to suggest that it hasn't been paid.

Our adjudicator recommended that the complaint should be upheld in part. In summary, he thought that the checks Satsuma did before making the first loan went far enough. But he didn't think it had carried out adequate checks before making the other loans given Mr O's repayment difficulties. And he thought that proportionate checks when Mr O applied for loans 2 to 4 would have shown that he wasn't borrowing sustainably. So she recommended that Satsuma refund all interest and charges that Mr O paid on loans 2 to 4, with interest on the refund.

Satsuma initially didn't respond but after the complaint had been referred to me it wrote to say it didn't agree and said that Mr O did not demonstrate any difficulty in repaying his loans and when he did this was because of a change in circumstances rather than financial difficulty. It said there was nothing to suggest that he couldn't meet his repayments.

## 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 O 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 it's important for me to start by saying that Satsuma was required to establish whether Mr O 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.

So 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 O's complaint.

I agree with the adjudicator that it wasn't wrong for Satsuma to give Mr O loan 1. I say this because this was early in the lending relationship and there was nothing in the information given by Mr O to suggest that further checks were necessary. Mr O borrowed £500 over 26 weeks with a weekly repayment of £36.83. He said he was earning £1900 and his outgoings were £1216.

Mr O struggled to repay this loan and took nearly 52 weeks to pay off the loan instead of the original 26 weeks. Mr O said he was having financial difficulties because of unexpected bills and late payment of his wages. Whilst I don't think Satsuma could have anticipated these difficulties when deciding to give Mr O the first loan I think it should have looked more closely at his finances before deciding to give Mr O the second loan.

Just over a month after Mr O repaid the first loan he asked for a further loan of £200 repayable in 5 monthly instalments of £70. Given Mr O's previous repayment history and the information he had given about his income and outgoings I think that there were signs that Mr O was struggling to manage his finances and further borrowing was likely to be unsustainable. I think that Satsuma should have done more to check that Mr O could afford to repay this loan and should have specifically asked whether Mr O had any other short term credit. I think Satsuma needed to do more to verify what Mr O was saying about his financial situation given his declared disposable income seemed to be at odds with his borrowing pattern. Had Satsuma done these additional checks it would have discovered that Mr O was having problems managing his money. So, like the adjudicator, I agree that loan 2 should not have been given to Mr O. Given the size of the repayment and what Satsuma should have discovered it was likely that Mr O would need to borrow further to sustainably repay this loan.

Mr O repaid loan 2 early on the 29 November 2017. This might further suggest that he had borrowed elsewhere to meet his repayment. A few weeks later on 30 December 2017 Mr O applied to borrow £400. I think at this point Satsuma could no longer rely on what Mr O was saying about his finances and should have verified his income and outgoings as his borrowing pattern suggested he was reliant on short term credit.

I've also looked at the overall pattern of Satsuma's lending history with Mr O, 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, so that Satsuma should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr O's case, I think this point was reached by loan 3. I say this because:

- Mr O took out loan 3 for a significant amount only a short time after repaying loan 2 and after a protracted repayment of loan 1. I think this should have put Satsuma on notice that it was likely that Mr O was having problems managing his money. So I think it should have been concerned that he wouldn't be able to repay the loan sustainably.
- Mr O continued to borrow from Satsuma without any significant break until he was unable to repay what he had borrowed after taking out loan 4.

I think that Mr O lost out because Satsuma continued to provide borrowing from loan three onwards. This is because:

- these loans had the effect of unfairly prolonging Mr O's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.
- the number of loans, combined with the total length of time Mr O had been borrowing from Satsuma, was likely to have had negative implications on Mr O'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 2 to 4. Mr O has had the benefit of the money so it is only fair that he pays it back and so Satsuma can deduct any capital amount still outstanding after the refund of interest and charges on the final loan.

### **putting things right – what Satsuma needs to do**

Satsuma should:

- refund all interest and charges Mr O paid on loans 2 to 4 inclusive;
- write off any interest and charges not yet paid;
- 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†;
- apply the refund to offset any capital balance outstanding before paying the balance to Mr O.
- Refund any adverse information recorded about loan 2.
- the number of loans Mr O has taken with Satsuma and the total length of time he'd been borrowing from it means any information recorded about loans 3 and 4 is adverse. So all entries about these loans should be removed from Mr O's credit file;

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

**my final decision**

My decision is that I uphold this complaint in part. I require Provident Personal Credit (trading as Satsuma) to put things right by doing as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 9 October 2019.

Emma Boothroyd  
**ombudsman**