

complaint

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

background

This complaint is about three instalment loans Satsuma provided to Mr R between March 2017 and August 2017. Mr R's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Monthly Repayment
1	03/03/2017	30/06/2017	3	£600.00	£295.20
2	01/06/2017	Outstanding	12	£1,000.00	£166.00
3	28/08/2017	Outstanding	12	£100.00	£16.60

Our adjudicator upheld Mr R's complaint and thought the loans 2 and 3 shouldn't have been given. Satsuma didn't respond to these findings, 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 Mr R 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 consumer'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 required to establish whether Mr R 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 relevant regulations define 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 R's complaint. There doesn't appear to be any outstanding dispute about loan 1, so I don't intend to make a finding about this loan in this decision. Instead I'll be focusing on Satsuma's decision to provide loans 2 and 3.

Our adjudicator explained that had Satsuma carried out proportionate checks for loan 2 and loan 3 it would have shown Mr R was falling into a negative pattern of borrowing. I agree with this reasoning and don't think Satsuma should have given Mr R these loans because:

- Mr R was applying for a significantly larger amount of credit from Satsuma when he asked for loan 2. And Mr R had not repaid his first loan which meant he would have both loans running concurrently. I think this could indicate that Mr R was not using these loans to fill a temporary gap in his finances, but he was instead using them to cover on-going shortfalls in his finances.
- Satsuma says it carried out checks by obtaining Mr R's income and expenditure. But in addition to the above point, given the loan amount and that Mr R would be indebted for another 12 months I think it would have been proportionate for Satsuma to gather a comprehensive view of his finances. I don't think that's what happened here. I think if it had properly considered Mr R's financial situation it would likely have seen that Mr R was not able to sustainably repay any further borrowing. This is because Mr R had outstanding loans which would have impacted his ability to meet any further financial commitments.
- Proportionate checks would likely also have revealed Mr R was spending a considerable amount gambling – in some instances this was over half his monthly income. There was therefore a risk Mr R would not be able to repay his loan sustainably, given the amount of money he was regularly spending on gambling.
- I appreciate loan 3 was for a lower amount but by that point Mr R had been borrowing from Satsuma for 15 months and was potentially going to be indebted to it for a further 12. And Mr R hadn't yet paid off his previous loan. Had Satsuma carried out a proportionate check for loan 3, it would have seen that he wasn't likely to be able to repay it in a sustainable way.

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

putting things right – what Satsuma needs to do

It isn't clear from the information Satsuma has given us as to whether the outstanding balance due on the final loan has been transferred to a third party. If it has, then Satsuma should buy the loan back if it can. If Satsuma isn't able to buy the loan back then it needs to work with the third party to make sure the following is achieved:

- A) You should add together the total of the repayments made by Mr R towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything you have already refunded.
- B) You should calculate 8% simple interest* on the individual payments made by Mr R which were considered as part of "A", calculated from the date Mr R originally made the payments, to the date the complaint is settled.
- C) You should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Mr R as though they had been repayments of the principal on all outstanding loans. If this results in Mr R having made overpayments then you should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. You should then refund the amounts calculated in "A" and "B" and move to step "E".
- D) If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Mr R. However if there is still an outstanding balance then you should try to agree an affordable repayment plan with Mr R.
- E) You should remove any adverse information you have recorded on Mr R's credit file in relation to loans 2 and 3. If you have sold any of the loans you should ask the debt purchaser to do the same. You do not have to remove any outstanding loans from Mr R credit file until these have been repaid, but you should still remove any adverse information recorded about these loans.

*HM Revenue & Customs requires you to deduct tax from this interest. You should give Mr R a certificate showing how much tax you've deducted, if he asks for one.

my final decision

For the reasons given above, I'm partially upholding Mr R's complaint. Provident Personal Credit Limited should pay put things right for Mr R as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 19 January 2020.

Chandni Green
ombudsman