

## complaint

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

## background

This complaint is about eight instalment loans Satsuma provided to Mr S between March 2015 and August 2017. The loans ranged in term from 13 weeks to six months. This is a summary of Mr S's lending history from Satsuma.

Loan	Taken out	Repaid	Amount, £
1	12/03/2015	24/06/2015	130
2	24/08/2015	28/11/2015	150
3	30/10/2015	18/03/2016	300
4	25/09/2016	31/03/2017	100
5	30/01/2017	01/07/2017	100
6	05/04/2017	01/07/2017	150
7	01/07/2017	-	350
8	11/08/2017	-	150

In its final response letter Satsuma upheld Mr S's complaint about loans 1 to 3. And its offer to compensate him was in line with our guidelines. But our adjudicator thought the loans from loan 4 onwards also 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 Mr S 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 Mr S 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. 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 S's complaint.

As Satsuma has already upheld Mr S's complaint about loans 1 to 3 I will focus on loans 4 to 8. There was a significant gap of over six months in Mr S's borrowing from Satsuma between loans 3 and 4. So I think it would have been reasonable for Satsuma to view that gap as an indication that Mr S's finances had stabilised after whatever the circumstances that had caused him to take out his previous loans. This means I will look at loans 4 to 8 as a separate lending chain.

I think Satsuma carried out proportionate checks for loan 4, but I don't think it made the right lending decision based on the information it had gathered. From its checks Satsuma thought it was likely Mr S had understated his monthly expenditure, so it based its affordability calculation on a higher number. This showed Mr S would have very little disposable income and whilst his loan repayment of £31.94 may have been affordable on a pounds and pence basis, this wasn't the only thing Satsuma had to consider. As I've explained above, it had to make sure the loan was sustainably affordable. So I think Satsuma ought to have realised that leaving Mr S with disposable income (after the loan repayment) of less than £50 was most likely to cause him difficulties. So it was wrong to give loan 4.

Mr S applied for loan 5 whilst he was still repaying loan 4. And I don't think Satsuma carried out proportionate checks at this stage. Had it done so it would most likely have seen that Mr S already had at least three other short term loans outstanding with other lenders. So it would have realised his finances were under pressure. And it was most likely he was just borrowing to pay off other loans. And that this loan, and any subsequent loans, were unlikely to be sustainably affordable for Mr S. It follows I don't think Satsuma should have given loans 5 to 8 Mr S.

So I'm upholding the complaint about loans 4 onwards, and Satsuma should put things right.

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

- refund all interest and charges Mr S paid on loans 4 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 Mr S\*\*; and
- remove any negative information about loans 4 to 8 from Mr S'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 Mr S has paid or will pay no more in total than the principal amounts he 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 Mr S 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 Mr S'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 Mr S.

\*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Mr S a certificate showing how much tax it's taken off if he 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 Mr S fairly and reasonably in any settlement discussions.

I note Mr S feels Satsuma should also compensate him for its poor complaint handling. Whilst I understand it has been a frustrating process for him, I don't think the inconvenience he has suffered is such that I have grounds to award him an additional payment from Satsuma.

### **my final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 28 December 2019.

Rebecca Connelley  
**ombudsman**