Financial Ombudsman Service

complaint

Mrs S says Provident Personal Credit Limited (trading as Satsuma) irresponsibly lent to her.

background

This complaint is about seven instalment loans Satsuma provided to Mrs S between August 2018 and November 2018. Mrs S borrowed amounts ranging between £100 and £1,000 to be repaid in 3 or 12 monthly or 12 or 13 weekly instalments. The amounts she had to repay each month varied between around £88 and £492. The loans didn't overlap except for one instance. Mrs S repaid all her loans early. She repaid six on the same day they were taken or a few days later in the withdrawal period. So for two loans, Mrs S didn't pay any fees or charges and for four loans these were small amounts.

Our adjudicator upheld Mrs S's complaint in part and thought the loans from loan four onwards shouldn't have been given. Satsuma didn't reply and so the complaint was passed to me for a final decision.

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 Mrs 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 Mrs S 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 Mrs S's complaint.

Satsuma asked Mrs S for information about her income and expenditure and it carried out credit checks. For loans one to three, Mrs S said her income was between around £886 and £1,300 a month and her outgoings were £300 a month. I can't see that there was anything untoward in its credit checks that should have alerted Satsuma to ask further questions.

For loans one to three, given the loan amounts, what was apparent about Mrs S's circumstances at the time and her history with Satsuma, I don't think it would've been proportionate to ask her for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Mrs S provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Mrs S was saying. So I can't say it was wrong for Satsuma to have provided loans one to three.

As our adjudicator explained, by loan four the pattern of Mrs S's borrowing showed that she was struggling to repay some of her previous loans:

- She'd borrowed four times within two weeks.
- She was borrowing again within days of repaying previous loans showing that she was unable to repay previous loans without taking out a new one.
- Loan four was for £1,000 which was four times as much as the previous loan.

I think this showed that there was a significant risk that Mrs S would be unable to sustainably meet her repayments for loan four and any subsequent loans. So I think Satsuma was wrong to approve loans four and five.

I've also looked at the overall pattern of Satsuma's lending history with Mrs S, 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 Mrs S's case, I think that this point was reached by loan six. I say this because she was showing signs that she was persistently reliant on short-term loans:

- From loan six onwards Mrs S was provided with a new loan within days of settling the previous one. So Satsuma ought to have realised it was more likely than not Mrs S was having to borrow further to cover the hole repaying her previous loan was leaving in her finances and that Mrs S's indebtedness was increasing unsustainably.

- Mrs S wasn't making any real inroads to the amount she owed Satsuma. Loan seven was taken out about three weeks after Mrs S's first. And was for a larger amount.

I think that Mrs S lost out because Satsuma continued to provide borrowing from loan six onwards because:

- these loans had the effect of unfairly prolonging Mrs S's indebtedness by allowing her to take expensive credit intended for short-term use.

- the sheer number of loans and deferrals was likely to have had negative implications on Mrs S's ability to access mainstream credit and so kept her in the market for these high-cost loans.

So I'm also upholding the complaint about loans six and seven and I think Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Mrs S paid on loans four to seven;

- 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†;

- remove any negative information about loans four and five from Mrs S's credit file;

- the number of loans taken from six onwards means any information recorded about them is adverse. So all entries about loans six and seven should be removed from Mrs S's credit file.

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

my final decision

For the reasons given above, my final decision is that I partially uphold Mrs S's complaint. I require Provident Personal Credit Limited (trading as Satsuma) to pay Mrs S compensation as set out above.

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

Phillip Berechree
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