

complaint

Miss C says that Provident Personal Credit Limited, trading as Satsuma Loans, was irresponsible in its lending decisions – she was given loans she could not afford.

background

Provident Personal Credit Limited, trading as Satsuma Loans, provides high cost short term credit in the form of instalment loans. It approved seven loans for Miss C.

Date taken	Principal	Repayment sum & term	Total sum agreed to repay	Actual repayment and actual term	Status
Loan 1 27 July 2015	£600	£64.62 pw £280 pcm 13 weeks	£840.06	£643.62 18 days	Withdrew and paid early
Loan 2 13 Feb 2016	£400	£44.03 pw £191 pcm 13 weeks	£572.39	£405.55 4 days	Withdrew and paid early
Loan 3 27 Feb 2016	£450	£49.53 pw £214.63 pcm 13 weeks	£643.89	£484 18 days	Withdrew and paid early
Loan 4 18 April '16 to Jan 2017	£600	£30.62 a week £133 pcm (39 weeks)	£1,194.18	£1,194.18 (interest £594.18) repaid 20 Jan '17	Completed as agreed
Loan 5 5 Nov 2016	£800 overlapped with Loan 4	£30.62 £133 pcm (52 weeks)	£1,592.24	£1,011.62 (interest £211) Repaid 3 Jan 2017	Early settlement
Loan 6 22 Feb 2017	£600	£99.60 a month (12 months)	£1,195.20	open	open
Loan 7 22 June 2017	£600 overlapped with Loan 6	£99.60 a month (12 months)	£1,195.20	open	open

I've set out a simplified table and each loan is numbered. I'll refer to these loan numbers in this decision.

Miss C said that she was using other loans to repay these Satsuma loans. She's said she had variable income and a poor credit score. So she thinks that if Satsuma had checked her circumstances properly it would have seen this.

Our adjudicator thought that the complaint for loans 5, 6 and 7 should be upheld and for Satsuma to refund Miss C. Satsuma did not agreed with that opinion and so the complaint was passed to me to decide.

On 13 March 2018 I issued my provisional decision, the core findings of which are attached to this decision and form part of it. I refer the reader to it. I invited both parties to send me anything else they may have wished me to see before 13 April 2018.

Miss C has said that she has nothing to add and accepts my provisional decision. Satsuma asked for clarification on one aspect relating to the proposed redress. That has been clarified and Satsuma has confirmed that it will pay the sums calculated as the redress to Miss C's Insolvency Practitioner (IP) who is employed by a third party.

So I am in a position to issue my final decision.

my findings

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I see no reason to alter the findings and conclusions I came to in my provisional decision. So I reiterate those findings for each of the loans as set out in my provisional decision. I uphold Miss C's complaint in relation to Loans 4 to 7 inclusive.

how Satsuma ought to put things right

I am aware that Miss C has been subject to an Individual Voluntary Arrangement (IVA) since November 2017, after she brought her complaint to us. Her Insolvency Practitioner (IP) has expressed an interest in the redress due to Miss C arising out of this complaint.

Provident Personal Credit Limited, trading as Satsuma Loans, should do as I have said here:

1. calculate the refund of all interest and charges paid by Miss C in respect of Loans 4 and 5;
2. calculate simple interest on the above interest and charges at the rate of 8% per year from the date they were paid to the date of settlement;*
3. pay any redress arising from steps 1 and 2 to Miss C's IP;
4. if there is any adverse payment information for Loans 4 and 5 on Miss C's credit file, it should be removed;
5. for Loans 6 and 7, as these remain unpaid and those debts are part of the IVA, Provident Personal Credit Limited needs to remove all interest and charges applied to those loans from the outset. It needs to take account of any repayments Miss C has made on them as though they were applied against the principal sums borrowed. That will result in a lower debt balance and Miss C's IP will know that these debts were lower than originally declared for the IVA.

*HM Revenue & Customs requires Provident Personal Credit Limited to take off tax from this interest and it must give Miss C a certificate showing how much tax it's taken off if she asks for one.

my final decision

My final decision is that I uphold Miss C's complaint in part and direct that Provident Personal Credit Limited, trading as Satsuma Loans do as I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 24 May 2018.

Rachael Williams
ombudsman

core part of my provisional decision dated 13 March 2018.

my provisional findings

I have considered all the available evidence and arguments I have at this stage to decide what's fair and reasonable in the circumstances of this complaint. I have taken into account the law, regulations and guidance applicable at the time. Some of the regulations governing this area were the rules by the Financial Conduct Authority in the Consumer Credit Sourcebook ("CONC"), chapter 5.

An assessment of the creditworthiness of an applicant/customer is a requirement: CONC 5.2.1R (1).

A firm "...must consider (a) the potential for the commitments...to adversely impact the customer's financial situation, taking into account the information of which the firm is aware at the time the...agreement is to be made; and (b) the ability of the customer to make the repayments as they fall due..." CONC 5.2.1R (2).

The firm should *"take into account more than assessing the customer's ability to repay the credit."* CONC 5.3.1G. It ought to take reasonable steps to *"assess the customer's ability to meet repayments ... in a sustainable manner."*

'Sustainable' means that the applicant is able to repay on time, out of income and savings, without undue difficulties, and without having to borrow to meet those repayments: CONC 5.3.1G (6).

I've looked at the information Satsuma had – both information from Miss C and information it discovered through its own enquiries. Having done that, I've looked at whether Satsuma completed proportionate checks before agreeing these loans.

Satsuma has sent to me its records of searches and many submissions outlining its usual procedure and those done for Miss C's applications. It acknowledges that a Satsuma customer is *'likely to have a low credit score and...less likely to be able to borrow from a mainstream lender...'* Satsuma makes the point that its loans can provide credit where it's needed. I understand that point and I've borne it in mind. And I've also taken into account that Satsuma was aware of the customer base with which it was dealing and it places the lending decision into context.

Miss C has sent bank statements to me from March 2015 onwards and I've used the information she's told Satsuma and us in relation to the complaint.

Loan 1 was Miss C's first loan application with Satsuma. The sum asked for was £600, and the maximum agreed repayment came to just under £300. The sum was large enough, relative to the monthly income (£2,300) Miss C had reported to Satsuma, that I'd expect Satsuma to have details of Miss C's income and her living expenses, including any existing, regular financial commitments she may have had.

I can see that Miss C had told Satsuma she was employed full time and receiving benefits. She said that her income was £2,300 monthly and she rented a council house with her partner and had expenses of about £500. She had completed a section in her application form which showed that she paid '£0' for 'other loans' and for Mortgage/Rent '£0'.

Satsuma would have been aware Miss C had several other credit commitments from its own searches. Satsuma found that she had seven of which three had a balance of more than £0 (excluding mortgages).

Having looked at Miss C's personal credit file I can see that she had various accounts which would be classed as credit accounts, but not necessarily lump-sum loan accounts. So the fact that Miss C had not said she was paying anything towards 'other loans' at the time would likely be correct. So I don't think Miss C's answer when applying was unreasonable.

Satsuma's records show that it also did searches to see if Miss C had, or used to have, any payday loans and it says the results were negative.

Miss C said she had no housing costs. From what I have seen by looking at her statements for that period Miss C wasn't paying any rent and Miss C has confirmed this. So even if Satsuma had asked it would have discovered that Miss C's answer on its application form was correct.

So overall, Satsuma had carried out searches and didn't find anything to cause it concern. Miss C's reported income and expenses would have meant that her disposable income would have appeared to have been about £1,800. Any double-checking on the £0 for housing costs would not have made a difference as it seems to have been correct.

So I think that the loan repayment of just over £64 a week (monthly equivalent of about £280) would have appeared affordable to Satsuma. I think that Satsuma's checks were proportionate at this early stage of the relationship and I don't plan to uphold Miss C's complaint in relation to Loan 1.

Loan 2 was several months later in February 2016. The time gap is enough for me to think that it was appropriate for Satsuma to approach this application as if it was from a new customer.

I think it's fair that Satsuma's checks for this loan are similar to the ones made for Loan 1, because the repayments for Loan 2 were going to be spread out over thirteen weeks again so the obligation to repay was going to last some time.

Satsuma had checked for the number of credit accounts Miss C had. The result was similar to before in that she had nine at the time of which three were active and with a balance of more than £0 (excluding mortgages).

Using the information it had been given by Miss C about her income (£2,500) and outgoings (£750, including £450 housing costs this time), Satsuma would have assessed Miss C as having a disposable income of about £1,750 to use to repay this loan. The repayment figure was going to be about £191 a month so I think that Loan 2 would have appeared affordable.

I think that the approach was a proportionate one and Satsuma didn't need to do more. I don't uphold Miss C's complaint for Loan 2.

Loan 3 was applied for ten days after repaying Loan 2. For this loan application (Loan 3) Miss C told Satsuma that her income had almost halved from what she'd told it earlier that month (£1,299 as opposed to £2,500). Plus she had altered the level of housing cost from £450 to £225. Her 'other expenses' figure had reduced by two thirds from £300 to £100.

The loan before this one (Loan 2) was cancelled and paid off by Miss C's partner four days after taking it. I think it's unusual for this to happen and then ask for another loan ten days later. This might suggest that Miss C needed help to pay off her debt. But I accept that it may have improved her position by reducing her indebtedness.

But the dramatic reduction in salary and expenditure figures in such a short time ought to have alerted Satsuma. Especially as the repayment figure for Loan 3 was going to be higher than Loan 2 (about £215 per month as opposed to £191) and this was the second loan within a month. So I'd expect Satsuma to have obtained information about her income, outgoings, regular financial commitments and other short term loans (STL) she may have had.

Satsuma had done a search to see if Miss C had any payday loans and has told us it found none. It had searched to see what other credit commitments she had and the figure was no different to when it had searched for Loan 2 – nine other credit accounts of which three had balances over £0. If Satsuma had asked if she had any other STL accounts (which can be different to payday loans) I can see from her credit file and her bank statements that her answer would likely have been 'no'.

Miss C has explained to us on the telephone that her partner was helping her with the housing costs. If Satsuma had asked her I think this would have explained the reduction in rent on her application form.

And the change in salary may be explained by the fact that at the time of her application she told Satsuma that she had changed from working full time to part time work.

I don't think that Satsuma needed to do more and if it had asked Miss C for some additional details to explain some aspects of her income and expenditure or about any STL commitments, I don't think that it would have made a difference. So I don't uphold Miss C's complaint for Loan 3.

Loan 4 was applied for in April 2016 and it was the first long term loan Miss C had applied for – 39 weeks (about nine months). The others had been for thirteen weeks. The repayments were due to be £30.62 each week (approximately £133 a calendar month). The income she declared to Satsuma was £350 weekly which is about £1,515 each month. I can see from Satsuma's spreadsheet it had used this figure for the affordability assessment.

Miss C had altered the sums she told Satsuma about her expenditure, one of which was £120 to pay 'other loans'. This would have been correct as in March 2016 Miss C had taken a large loan with another lender (I'll call it the 'Lender B loan' – see below) and the repayments were £120 each month. Miss C's 'other expenses' figure had increased again to the earlier level of £300.

Because of the increased length of time that this loan would have taken to pay off, and because this was the third loan in four months which all add up to £1,450, I think that Satsuma ought to have asked for some more details and got a comprehensive picture of Miss C's situation. By this I mean verifying her income, asking her for details about her outgoings, other regular financial commitments and any short term loans (STLs). One way to do this would have been to review Miss C's bank statements. This was not the only way but it would have been a convenient way to verify aspects of what Miss C had been telling Satsuma.

Satsuma has said to us that it thinks looking at bank statements is '*not a reliable document*' because a statement would be for '*a prior 28 days and will not show any recent loan activity*'. I disagree and as I've explained in more detail below, I think that sufficient information could have been found from her statements.

I've scrutinised her statements for the period 18 March to 17 April 2016. Her income was about £1,660 from work and benefits.

Miss C has explained that some of the payments in her statements are to repay friends or her partner for money borrowed. I can see through this period that she paid about £470 in total to those people in March. This fits with a pattern - on 28 February 2016 she repaid friends a total of £330 which is a similar amount to that which she had paid her partner two weeks earlier.

The statements would have revealed that Miss C had just taken the £1,500 loan - I referred to this as the Lender B loan earlier. This Lender B loan was taken on the day that Miss C had repaid Loan 3 to Satsuma – 15 March 2016. She was applying for Loan 4 on 18 April 2016 which was the day that Lender B's first instalment was due. Whilst Satsuma may not have known that last point of detail about Lender B's first instalment date, it would have been able to see that she was borrowing to repay borrowings. So I think that dependency on credit and loans was apparent and would have been discovered had appropriate and proportionate checks been carried out.

Her expenditure which included car tax and insurance, petrol, TV licence and subscription, housing, council tax and media payments came to about £740. Her food costs were £350 and she repaid £470 to her partner and friends. The Lender B repayment was £120. All this amounts to £1,680. So she would have been left with a deficit of £20.

So I think that a responsible lender would not have approved the Loan 4 application. I think that Satsuma ought to put things right for Miss C for Loan 4.

Loan 5

Loan 4 had not been paid off when she applied for Loan 5 in November 2016. Miss C has explained that she wasn't working at this point.

Loan 5 was for £800 over 52 weeks with a repayment sum of £30.62 a week (monthly equivalent of about £133). So this was a long term loan and would have increased her indebtedness to Satsuma on top of the existing debt. So I think that the correct level of check Satsuma ought to have carried out was a comprehensive review of Miss C's situation if it had not done that already. I've explained about the checks Satsuma did throughout and as it didn't do this I've gone on to consider what proportionate checks would've most likely revealed. And to do this I've looked at her bank statements.

Since applying for Loan 4 six months earlier Miss C had continued to pay for the Lender B loan at £120 per month, had obtained a £1,200 loan with a bank (Bank Loan C) at £49 per month and had taken another loan with a financial services firm (Lender D) costing £32 a month. She was paying a debt management company £50 a month. She had the Satsuma Loan 4 to pay off at about £134 a month. All these items added up to about £385 a month.

Miss C has told me that her partner was paying for rent and some food and some bills. I can see on the statements that she had no income other than child tax credits and child benefit. Miss C seemed to pay for Council Tax, TV licence, phone, water, her car insurance and tax for the car. I've added in a modest sum for food and petrol of £100 for the two. My 'food bill' addition is very modest considering she spent over £350 in food a few months earlier. But I have accommodated her explanation that her partner was helping her with food costs. These added up to £407. Her total outgoings came to about £792.

Miss C's income was £589 for the period 3 October to 3 November 2016. So it's clear she would not have been able to pay for Loan 5. She does have some cash credits but they are not regular. If I include the £240 received in cash for this period, still the figures demonstrate to me that she would not have been able to afford this loan as she would have been left with about £38 and the repayment for Loan 5 was due to be about £133.

So if Satsuma had carried out the checks I consider would've have been appropriate and proportionate I think it would have seen that Miss C wasn't able to afford this loan. I plan to uphold Miss C's complaint in relation to Loan 5.

Loan 6

In February 2017 when Miss C came to ask for Loan 6 she was in a similar situation.

In order to clear up a point about Miss C's income then I will say that the reported monthly income Satsuma says it has for Miss C for Loan 6 of over £4,000 is likely a mistake.

I say this because when I have looked at the Satsuma '*application information spreadsheet*' I can see that Miss C's income has been inputted as £950 with the 'payment frequency' and 'income frequency' sections showing as 'monthly' and 'weekly' respectively. If someone used the £950 figure as a weekly income that does work out to be about £4,117 a month, which is a very similar figure to that which was submitted to us (£4,113.50) and used on the '*affordability spreadsheet*'.

Miss C has said to me that she wasn't earning £4,000 in February 2017 and has never earned that sort of money. Her bank statements do not reflect that level of income either. So I accept Miss C's version.

This £4,113.50 figure was used in the Satsuma 'affordability spreadsheet' as well which would have presented an incorrect picture in relation to any assessment Satsuma carried out for Loan 6. So if Satsuma had not done a comprehensive review of Miss C's circumstances then I think it ought to have done at this point. This was one year into the lending relationship and with an apparent large increase in income - so it warranted further investigation.

So I've looked at Miss C's bank statements to gain a clearer picture of her financial position, as I don't think that Satsuma did an affordability assessment correctly here.

I think that Miss C's income for the period 23 January to 22 February 2017 was about £500 which seems mainly to have come from child tax credits and child benefits. She receives cash payments as well but they are not regular so I've not included them at the moment.

She had the repayments to Lender B, Bank Loan C, Lender D and she paid a debt management company. All of these came to about £251. She was in overdraft with her bank.

Other outgoings included water bill, petrol, some food shopping, car insurance, TV licence, mobiles and telephone, bank charges. These all came to £347. She repaid a friend £200. Without the cash deposits she would not be in a position to afford all of this. If I include the cash she received, she would have been left with about £111 and the repayment sum for Loan 6 was going to be almost £100.

My view is that this is too narrow a margin to leave her with £11 for any unexpected expense she may have to deal with. An example is the ParentPay £4 (school cost) which I can see she had to pay on 15 February 2017 and with a child at school it's likely to reoccur. I use this as just one example.

Miss C has told me that still she was relying on her partner for other essential bills such as housing and food, she had a family to care for and she seemed to have been getting extra cash from friends to help her. So the overall picture is one of a person not able to sustain the Loan 6 repayments and I don't think that this should have been lent to Miss C. I'm planning to uphold Miss C's complaint for Loan 6.

Loan 7 was applied for on 22 June 2017 when Loan 6 still had several months to run. It was for £600 again and to be repaid over twelve months at about £100 each month. So her indebtedness to Satsuma would have increased and her repayments were due to double as she would be paying off both loans at the same time.

I've looked at Miss C's statements for the month leading up to 22 June 2017 and the picture seems the same or similar to those I have outlined above together with a council tax repayment (about £122). With this Loan 7 repayment as well (about £100) it's relatively easy to work out that she wasn't going to be able to afford this loan.

I can also see from her credit file that she was in arrears for a mail order account which became a default account in February 2017. It's likely that this would have appeared on any searches Satsuma carried out.

So I don't think that Satsuma should have given this loan to Miss C and I think it ought to put things right for her. I'm planning to uphold her complaint for Loan 7.

the extract ends here.