

## complaint

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

## background

This complaint is about five instalment loans Satsuma provided to Mr B between July 2016 and November 2017. Loan 1 was to be repaid over 17 weeks and loans 2 to 5 over 12 months. This is a summary of Mr B's lending history from Satsuma.

| Loan | Taken out  | Repaid     | Amount, £ |
|------|------------|------------|-----------|
| 1    | 06/07/2016 | 04/11/2016 | 300       |
| 2    | 10/06/2016 | 11/04/2017 | 600       |
| 3    | 28/12/2016 | 21/10/2017 | 1000      |
| 4    | 19/04/2017 | 21/10/2017 | 500       |
| 5    | 22/11/2017 | 24/01/2018 | 910       |

Our adjudicator thought the loans from loan 4 onwards 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 B 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 B 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 B's complaint.

I agree with the adjudicator, and for the same reasons, that there was nothing to indicate Satsuma needed to do more when it approved loans 1 and 2. And whilst I don't think it carried out proportionate checks for loan 3, from the available evidence I don't think it would most likely have made a different lending decision had it done so. So I don't think Satsuma was wrong to give loans 1 to 3 to Mr B.

However, had Satsuma carried out proportionate checks for loan 4, I think it would have made a different lending decision. I say this because I've looked at Mr B's bank statements from around that time to see what better checks would have shown Satsuma. And I can see that by this stage Mr B was spending a very significant proportion of his income on gambling. I think had Satsuma been aware of this it would have realised that Mr B's finances were under pressure and he was having problems managing his money. So it was unlikely this loan was going to be sustainably affordable for Mr B. It follows I don't think Satsuma should have given loan 4 to Mr B.

I've then looked at the overall pattern of Satsuma's lending history with Mr B, 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 Mr B's case, I think that this point was reached at loan 5. I say this because:

- Mr B's first loan was for £300 and loan 5 was for £910. At this point Satsuma ought to have known that Mr B was not likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need. And it was most likely that Mr B's indebtedness was increasing unsustainably.
- Mr B wasn't making any real inroads to the amount he owed Satsuma. Loan 5 was taken out 16 months after Mr B's first. And it was for a larger amount. Mr B had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Mr B lost out because Satsuma continued to provide borrowing from loan 5 onwards because:

- this loan had the effect of unfairly prolonging Mr B's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.
- this loan was likely to have had negative implications on Mr B's ability to access mainstream credit and so kept him in the market for these high-cost loans.

I have carefully considered Satsuma's response to our adjudicator's view. In summary, it explained the checks it had carried out on eligibility, affordability and credit worthiness. It said in each instances the loans it had given were affordable for Mr B. And it argues the payment history of loans 1 to 5 show no evidence of Mr B having difficulties. But Satsuma was required to do more than check Mr B could afford each individual loan on a strict pounds and pence basis. It had to ensure Mr B's borrowing was sustainably affordable, and for the reasons I've set out above I think from loan 4 onwards there were indications this was not the case.

So I'm upholding the complaint about loans 4 and 5 onwards, and Satsuma should put things right.

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

- refund all interest and charges Mr B paid on loans 4 and 5;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement\*;
- remove any negative information about loan 4 from Mr B's credit file
- any information recorded about loan 5 is adverse, so the entry about loan 5 should be removed from Mr B's credit file.

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

#### **my final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 25 December 2019.

Rebecca Connelley  
**ombudsman**