complaint

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

background

Mr S had one loan with Provident, for £1,000, repayable over 12 months at £166 per month.

Our adjudicator thought the complaint should be upheld. They thought the information Provident had about Mr S' income and expenditure demonstrated that the loan wasn't likely to be sustainably affordable, so Provident shouldn't have approved it. Provident didn't respond to the adjudicator, so the complaint was passed to me to decide.

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.

Provident 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.

Provident 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 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 can see from Provident's notes it carried out what it refers to as an 'enhanced affordability assessment' before approving Mr S' loan. Its notes say:

"Income verification received. Enhanced Affordability Assessment completed, application approved. Income £1300.89, Expenditure £1140.01, Disposable Income £160.88. Reason for Loan: home improvements."
So Provident's own notes appear to show the loan was unaffordable. Mr S' monthly disposable income of £160.88, as calculated by Provident, is less than the monthly repayment for the loan.

I can see however that Provident has also sent us a spreadsheet with slightly different figures – so I've considered what this shows us. On the spreadsheet, Mr S' monthly income is recorded as £1,300 and it seems to say Mr S declared £955 of total outgoings when he applied for the loan. Provident added another £171.78 to Mr S' declared outgoings based on information it received from a credit reference agency. This resulted in total outgoings of £1,126.78 per month and a disposable income figure of £173.22 per month. Using these figures, Mr S would be left with £7.22 per month after making the repayments to Provident.

Whichever set of expenditure figures Provident considers to be correct, I think it ought to have realised a monthly repayment of £166 wasn't sustainable. It's clearly unaffordable if Mr S only had £160 from which he could potentially repay the loan. Alternatively, leaving Mr S with just £7.22 per month for any expenditure which was unexpected/unplanned (or simply just not taken into account during the loan application process) every month for an entire year is clearly no more sustainable.

I think Provident had enough information to realise the loan it agreed wasn't sustainably affordable for Mr S. I'm therefore upholding his complaint.

putting things right

Provident should rework the loan to remove all interest and charges and treat all payments as if they were paid towards the principal. If, after it has done this, Mr S has repaid more than the principal amount borrowed, Provident should refund this, adding 8% interest from when the overpayments were made, until the date of settlement†. If on the other hand this still leaves a balance for Ms S to pay, then I encourage both parties to maintain a suitable repayment arrangement.

Provident should also remove any adverse information it has recorded about the loan – but it doesn't have to do this until the loan has been settled.

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

Please note: I understand Mr S is in an Individual Voluntary Arrangement (IVA). Provident may therefore need to contact Mr S and/or his insolvency practitioner in order to determine to whom any redress (if there is any) should be paid.

my final decision

I uphold this complaint against Provident Personal Credit Limited and it must put things right by taking the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to Mr S to accept or reject my decision before 17 May 2020.

Matthew Bradford
Ombudsman