complaint

Mr C complains that Provident Personal Credit Limited (trading as Satsuma) lent to him in an irresponsible manner.

background

Mr C was given nine loans by Satsuma between August 2016 and June 2018. Each of the loans was due to be repaid in weekly or monthly instalments. Mr C has repaid all his borrowing from Satsuma and a summary of that borrowing is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount	Agreed Term
1	14/08/2016	01/02/2017	£ 340	26 Weeks
2	03/02/2017	05/09/2017	£ 550	12 Months
3	08/07/2017	05/09/2017	£ 500	9 Months
4	26/10/2017	28/01/2018	£ 100	3 Months
5	16/12/2017	30/03/2018	£ 200	10 Months
6	28/01/2018	13/03/2018	£ 640	12 Months
7	14/03/2018	30/03/2018	£ 140	12 Months
8	01/04/2018	11/08/2018	£ 570	12 Months
9	09/06/2018	11/08/2018	£ 800	12 Months

Mr C's complaint has been assessed by one of our adjudicators. She didn't think Satsuma had been wrong to give the first four loans to Mr C. But she didn't think the remaining loans should have been agreed. So she asked Satsuma to pay Mr C some compensation.

Satsuma didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr C accepts my decision it is legally binding on both parties.

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 that Mr C 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 a 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 C 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 FCA's 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 C's complaint.

Satsuma did a number of checks before it lent to Mr C. It asked him for details of his income and his normal expenditure. It gathered data from credit reference agencies about other credit repayments that Mr C would need to make over the coming months and it validated his other expenditure against its own internal models. It then used this information to calculate how much disposable income Mr C had left over each month. Satsuma also used the credit reference agency checks to gather some more information about Mr C's financial situation at that time. I've seen a summary of the results of those checks and they don't show anything that I think should have caused additional concerns to the lender.

The repayments that Mr C had agreed to make on his first four loans were relatively modest compared to the income that he'd declared to Satsuma. I have taken account of the fact that Mr C was given loan 3 when loan 2 was still outstanding and so he'd need to repay both loans at the same time. But even so, the repayments appeared to be easily affordable based on the disposable income that Satsuma had calculated. So given these repayment amounts, what was apparent about Mr C's circumstances at the time, and his borrowing history with the lender, I don't think it would've been proportionate for Satsuma to ask him for the amount of information that would be needed to show the lending was unsustainable before agreeing the first four loans.

I do think, by the time Mr C asked for loan 5, that Satsuma should have realised that it couldn't safely rely on the information he was providing about his finances. I think it should have taken steps at that time to independently verify Mr C's true financial position. So I've looked at copies of Mr C's bank statements from around that time to see what better checks would have shown Satsuma. I can see that Mr C was spending significant amounts of money around that time on what appear to be online gambling transactions. I think, had it seen those transactions, that Satsuma should have concluded it was unlikely that Mr C would be able to repay this loan in a sustainable manner. So I don't think Satsuma should have given loan 5 to Mr C.

Looking at the overall pattern of Satsuma's lending history with Mr C I think by loan 6 the lender should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't provide any further loans.

I say this because:

- By the time Mr C asked for loan 6 he'd been borrowing from Satsuma for a lengthy period and he wasn't making any inroads to the amount he owed the lender. Loan 6 was by far the largest loan he'd taken to date.

- From loan 6 onwards Mr C was provided with a new loan typically within a few days of settling a previous one. And at times Mr C had more than one loan outstanding. So Satsuma ought to have realised it was more likely than not Mr C was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr C's indebtedness was increasing unsustainably.

I think that Mr C lost out because Satsuma continued to provide borrowing from loan 6 onwards because:

- these loans had the effect of unfairly prolonging Mr C's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.

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

So I don't think Satsuma should have agreed to lend to Mr C from loan 5 onwards. Satsuma needs to pay Mr C some compensation.

putting things right

I don't think Satsuma should have agreed to lend to Mr C after, and including, the loan that he took on 16 December 2017 (loan 5). So for each of those loans Satsuma should;

- Refund any interest and charges paid by Mr C on the loans.
- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*.

- Remove any adverse information recorded on Mr C's credit file in relation to loan 5.
- The number of loans taken from loan 6 onwards means any information recorded about them is adverse. So all entries about loans 6 to 9 should be removed from Mr C's credit file.

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

my final decision

My final decision is that I uphold some of Mr C's complaint and direct Provident Personal Credit Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 17 November 2019.

Paul Reilly
ombudsman