

## complaint

Miss C complains that Provident Personal Credit Limited (trading as Satsuma) did not carry out the correct affordability checks before approving her loan applications.

## background

Miss C was approved for six loans from Satsuma between January 2017 and April 2019 as follows:

Loan	Date	Amount	Term	Repayment*	Due	Repaid
1	31 Jan 2017	£400	8m	£100.00	1 Oct 2017	On time
2	4 May 2017	£440	9m	£197.68	1 Feb 2018	23 Dec 2017
3	9 Oct 2017	£500	12m	£180.68	1 Nov 2018	23 Dec 2017
4	1 Oct 2018	£400	5m	£140.80	1 Mar 2019	19 Mar 2019 3 missed pmts
5	5 Nov 2018	£650	12m	£248.70	1 Dec 2019	19 Jan 2019 1 missed pmt
6	6 Apr 2019	£2,000	12m	£332.00	1 May 2020	Outstanding

\* Total repayment on overlapping loans

Miss C says better checks would have shown she had multiple short-term loans and was using one lender to repay another. She says she was struggling to pay priority bills due to the high repayments on the loans.

Satsuma says it asked Miss C about her income and expenditure at the time of each loan application and used external data sources to verify the figures. It says it applied additional safeguards to Miss C's declared expenditure and checked her credit file. It says none of the information indicated the loans were unaffordable.

In addition, Satsuma acknowledged that Miss C complained about the lending before it approved loan 6. It agreed for loan 6 to be considered as part of the same complaint.

Our adjudicator recommended the complaint should be upheld in part. She found that the repayment on loan 6 was a significant proportion of Miss C's income and, therefore, it was unlikely she would be able to sustainably repay the loan over 12 months. She recommended that Satsuma should refund any interest and charges that Miss C had paid on loan 6 (plus 8% statutory interest) and that it should write-off any unpaid interest and charges. She added that Satsuma should remove any negative information about the loan from Miss C's credit file.

Satsuma responded to say, in summary, that it was prepared to offer in line with the adjudicator's assessment.

As Miss C didn't respond, the complaint has been 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 Miss 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, information from a credit file 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 Miss C 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 Miss C's complaint.

### Loans 1 to 3

I'm satisfied Satsuma did enough checks before it approved Miss C's first three loans. The checks showed that Miss C had enough disposable income to afford the repayments and there was nothing to indicate the repayments were unsustainable. Miss C's repayment history was good, so I cannot conclude Satsuma did anything wrong by approving loans 1 to 3.

### Loans 4 to 5

Nine months after Miss C repaid loan 3, she applied for loan 4. As there was a significant break in lending, I consider it reasonable for Satsuma to consider Miss C was not reliant on such borrowing and, therefore, I'm satisfied it did enough checks before it approved loan 4.

But I think Satsuma should have done better checks before it approved loan 5. I say that because Miss C was showing signs she may be struggling to manage her money – she'd missed three payments on loan 4 before settling it after the due date. But I can't see anything in the available information that indicated better checks would have led Satsuma to find loan 5 was unaffordable.

So I can't say Satsuma acted irresponsibly by approving loans 4 and 5.

### Loan 6

The repayments on loan 6 were £332 per month. This was a significant proportion of Miss C's £1,300 monthly income, so I find it unlikely she could sustainably repay the loan without borrowing elsewhere. Indeed, Miss C was showing signs that she was already struggling financially. She'd missed payments on both loans 4 and 5 and, in January 2019, she'd requested a repayment plan from Satsuma for the loans.

As loan 6 was for significantly more money than any of Miss C's previous loans, and she'd already complained about the unaffordability of her previous loans by then, I consider Satsuma acted irresponsibly by continuing to approve further loans.

So I'm upholding the complaint about loan 6 and Satsuma should put things right.

### **my final decision**

My decision is that I uphold this complaint. Provident Personal Credit Limited (trading as Satsuma) should do the following, as it has offered to do:

- Refund all interest and charges that Miss C paid on loan 6;
- Pay interest of 8% simple a year on all refunds from the date of payment to the date of settlement\*;
- Write off any unpaid interest and charges for loan 6, apply the refund to reduce any capital outstanding and pay any balance to Miss C;
- Remove any negative information about loan 6 from Miss C's credit file.

\*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Miss C a certificate showing how much tax it's taken off if she asks for one. If Satsuma intends to apply the refund to reduce any outstanding capital balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 23 February 2020.

Amanda Williams  
**ombudsman**