

complaint

Ms C says Provident Personal Credit Limited (trading as Satsuma Loans) irresponsibly lent to her.

background

This complaint is about four instalment loans Satsuma provided to Ms C between February 2017 and November 2017. Ms C borrowed amounts increasing from £300 to £1,000 to be repaid over six or twelve months. The monthly instalments that Ms C was expected to repay ranged between £49.80 and £166.00. Loans three and four overlapped so that Ms C was expected to repay about £216 a month. From what I can see, Ms C repaid loan one early, withdrew from loan two and still has amounts outstanding for loans three and four.

Our adjudicator upheld Ms C's complaint in part and thought loan four shouldn't have been given. Satsuma didn't respond to the adjudicator's view and so the complaint was passed to me for a final decision.

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 Ms 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 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 Ms 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 Ms C's complaint.

Satsuma asked Ms C for information about her income and expenditure and it carried out credit checks. Ms C said her monthly income was £780 for loan one and £1,500 for her other loans. Her stated monthly disposable income was between £675 and £1,000.

For loans one to three, given the loan amounts, what was apparent about Ms C's circumstances at the time and her history with Satsuma, I don't think it would've been proportionate to ask her for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Ms C provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Ms C was saying. From the information she provided, the loans looked affordable for Ms C, and so I can't say Satsuma was wrong to provide loans one to three.

By loan four, Ms C had been borrowing from Satsuma for nine months with no significant breaks and the amounts she had borrowed had now increased significantly. So I think Satsuma should have verified what Ms C had told it about her financial circumstances.

As our adjudicator explained, a proportionate check for loan four would most likely have shown that Ms C was having trouble managing her money. This is because Satsuma's checks of Ms C's finances would have shown that Ms C had at least three other short term loan commitments with other lenders.

And so Satsuma should have realised that Ms C would be unlikely to be able to sustainably repay loan four, or any subsequent loans. So I think Satsuma was wrong to have provided loan four.

putting things right – what Satsuma needs to do

- refund all interest and charges Ms C paid on loan four and waive any still outstanding; this refund should be offset against the principal Ms C still owes for loans three and four and the rest paid to her, or if a balance remains owing an affordable repayment plan should be agreed.
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about loan four from Ms C's credit file;

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

my final decision

For the reasons given above, my final decision is that I partially uphold Ms C's complaint. I require Provident Personal Credit Limited (trading as Satsuma Loans) to pay Ms C compensation as set out above.

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

Phillip Berechree
ombudsman