

**complaint**

Mr M complains that Provident Personal Credit Limited (trading as Satsuma) lent to him irresponsibly.

**background**

Mr M took out six loans with Satsuma between July 2017 and August 2018.

<b>Loan</b>	<b>Date borrowed</b>	<b>Amount</b>	<b>Date repaid</b>	<b>No. of instalments</b>
1	17.07.17	£320	29.09.17	3
2	11.10.17	£130	01.02.18	3
3	02.12.17	£1,000	-	12
4	04.02.18	£100	01.06.18	4
5	04.05.18	£150	10.07.18	4
6	02.08.18	£350	-	9

Mr M says he had to take out more loans to repay his borrowing, and it quickly spiralled out of control. He's pointed out that Satsuma lent to him when he already had a loan outstanding with it. And he says he's unable to pay his bills due to the amount of interest on the loans.

Our adjudicator considered loans 1 to 5, and recommended that the complaint should be upheld in part. In summary, she thought that if Satsuma had carried out proportionate checks, it would have realised that Mr M was having problems managing his money, and was unlikely to be able to repay loans 3 to 5 sustainably. So she said Satsuma should refund all interest and charges that Mr M paid on loans 3 to 5, with interest on the refund. And she said Satsuma should remove any negative information about those loans from Mr M's credit file.

After the adjudicator sent out her view, Satsuma told us that Mr M had taken a further loan (loan 6) in August 2018, after it issued its final response to his complaint about loans 1 to 5. Both parties agreed that I should consider loan 6 as part of the complaint.

*my provisional findings*

After considering all the evidence, I issued a provisional decision on this complaint to Mr M and to Satsuma on 9 December 2019. I summarise my findings:

- 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 M 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 thought 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 thought that it was important for me to start by saying that Satsuma was required to establish whether Mr M 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 that a consumer could sustainably make their repayments. But it didn't automatically follow that this was the case. This was because the Office of Fair Trading guidance on Irresponsible Lending, and later the Consumer Credit Sourcebook ("CONC"), 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 followed 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'd carefully considered all of the arguments, evidence and information provided in this context and what this all meant for Mr M's complaint.
- Satsuma did a number of checks before it lent to Mr M. 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 M would need to make over the coming months. And it then used this information to calculate how much disposable income Mr M had left over each month. Satsuma also used the credit reference agency checks to gather some more information about Mr M's financial situation at that time.
- I thought it was important to note that, generally, the information a consumer might see, when they request a copy of their credit file, might be very different to that seen by a lender. A lender might only see a small portion of the credit file, or some data might be missing or anonymised, or the data might not be up to date. So this may explain any differences between the information provided by Satsuma's credit check to it and the information that could be seen in the credit report provided to us by Mr M.

- The credit checks that Satsuma did failed to show any information that might have suggested Mr M was having problems managing his money. And they didn't show any other concerning information such as a reliance on other short term loans, or delinquent or defaulted accounts.
- The repayments that Mr M agreed to make on his first two loans were relatively modest compared with the income that he told Satsuma about. And even after allowing for his other expenditure, I was satisfied that it would have looked to Satsuma as if Mr M would be able to afford the repayments relatively comfortably. So given the repayment amounts, what was apparent about Mr M's circumstances at the time, and his borrowing history with Satsuma, I didn't think it would have been proportionate for Satsuma to ask Mr M for the amount of information that would have been needed to show that his borrowing was unsustainable before agreeing the first two loans.
- But loan 3 marked a significant increase in the amount that Mr M was asking to borrow. And he applied for it the day after he'd repaid loan 2. What's more, Mr M was going to have to make repayments for 12 months. So even though the monthly repayments remained a relatively small proportion of Mr M's declared disposable income, I thought Satsuma ought to have had some concerns that Mr M might be having problems managing his money. And I thought it should have realised that it couldn't safely rely on the information Mr M was giving it about his finances. So I thought it should have taken steps, at that stage, to verify Mr M's true financial position independently.
- I'd looked at Mr M's bank statements to see what better checks would have shown Satsuma. I could see that Mr M was carrying out frequent gambling transactions, was heavily overdrawn and already had a number of loans, including loans with other short-term lenders. So taking everything into account, I didn't think Satsuma should have given loan 3 to Mr M. And Mr M's financial position hadn't improved when he applied for loans 4 and 5. What's more, he was still making repayments on loan 3. So I didn't think Satsuma should have agreed to loans 4 and 5 either.
- I'd considered all the evidence that had been provided, and I thought that by the time Mr M applied for loan 6, Satsuma should reasonably have realised that the pattern of his borrowing alone should have indicated that further lending was unsustainable, or otherwise harmful, for Mr M. And it shouldn't have provided any further loans.
- I said this because:
  - This was now Mr M's sixth loan request to Satsuma. By the time he asked for loan 6, he'd been borrowing from Satsuma for more than a year, with only very short breaks between loans.
  - Loan 6 was for more than loans 4 and 5, so Mr M wasn't making any sustained inroads into his borrowing with Satsuma. And I thought the pattern of borrowing should have indicated to Satsuma that Mr M was likely to be having significant problems managing his money.
  - Mr M was given loan 6 while he was still repaying loan 3, and only a few weeks after he'd repaid loan 5 much earlier than had originally been agreed. So Satsuma should have realised that it was more likely than not that Mr M was having to borrow further to cover the hole that repaying his previous loans was leaving in his finances, and that his indebtedness was increasing unsustainably.

- What's more, by the time Mr M applied for loan 6, he'd already complained to Satsuma that it shouldn't have given him the previous loans. So I thought Satsuma was on notice that Mr M was struggling financially.
- I thought that Mr M lost out because Satsuma agreed to give him loan 6 because:
  - this loan had the effect of unfairly prolonging Mr M'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 M's ability to access mainstream credit and so kept him in the market for these high-cost loans.
- So in summary, I didn't think Satsuma should have agreed to lend to Mr M from loan 3 onwards. And my provisional view was that Satsuma needed to pay Mr M some compensation, as set out under the heading "putting things right" below.

#### *further submissions*

Both Mr M and Satsuma have confirmed that they agree with my provisional decision. And Satsuma has agreed to do as I've set out below.

#### **my findings**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so, I can't see any reason to depart from the findings I set out in my provisional decision.

#### **putting things right**

I don't think Satsuma should have agreed to lend to Mr M after, and including, the loan that he took on 2 December 2017 (loan 3). So for each of loans 3 to 6 Satsuma should;

- Refund any interest and charges paid by Mr M on those loans.
- Add simple interest at a rate of 8% per year to each of these amounts from the date they were paid to the date of settlement\*.
- Remove any adverse information about loans 3 to 5 from Mr M's credit file.
- By the time Mr M took out loan 6, the number of loans he'd taken means any information recorded about loan 6 is adverse. So all entries about loan 6 should be removed from Mr M's credit file once it has been fully repaid.

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

If Mr M still owes Satsuma any of the principal balance he borrowed on loans 3 and 6, Satsuma may deduct this from the compensation that is due to him. But, to be clear, that outstanding balance should be recalculated to remove any interest and charges, but taking account of any repayments Mr M has made on those loans as though they were applied against the principal sums borrowed.

**my final decision**

My decision is that I uphold this complaint in part. Provident Personal Credit Limited (trading as Satsuma) to put things right by doing as I've set out above, as it has now agreed to do.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 20 January 2020.

Juliet Collins  
**ombudsman**