

complaint

Ms M says Provident Personal Credit Limited (trading as Satsuma) was irresponsible to lend her money.

Ms M wants Satsuma to refund the interest and charges that she paid on the loans and she wants it to amend her credit file.

background

Ms M took out five instalment loans with Satsuma between January 2015 and August 2016.

Ms M says that Satsuma shouldn't have agreed to lend as she was borrowing from a number of other short term lenders at the same time. Ms M says she was stuck in a cycle of borrowing more money to try and keep up with her repayments.

The adjudicator recommended that Ms M's complaint be upheld in part. The adjudicator didn't think that it was unreasonable of Satsuma to agree loans one to four. But she thought that Satsuma shouldn't have agreed loan five.

The adjudicator recommended that Satsuma refund the interest and charges that Ms M had paid on loan five. And she said it should entirely remove the loan from Ms M's credit file.

Satsuma doesn't agree with the adjudicator's recommendation. It says that it carried out individual affordability assessments before agreeing each loan. Satsuma doesn't think that the pattern of sustained borrowing is, in itself, enough to indicate that Ms M was persistently reliant on short term loans.

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 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 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's important for me to start by saying that Satsuma was required to establish whether Ms M 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 Office of Fair Trading's Consumer Credit Sourcebook 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 M's complaint.

Satsuma has given us evidence that it asked Ms M for details of her income, housing costs, financial commitments and other outgoings before agreeing to lend each time. As well as this, Satsuma has told us that it included safeguards to reflect information gathered from credit searches.

loans one to four

I agree with the adjudicator that Satsuma's checks went far enough before agreeing these four loans. Based on the information that Satsuma held about Ms M, I can't say I was unreasonable to agree to lend.

As Ms M hasn't objected to the adjudicator's recommendation not to uphold her complaint about loans one to four, I don't consider I need to say much more about them. I will however take account of them when considering loan five as they are part of the same chain of lending.

loan five

I've looked at the overall pattern of Satsuma's lending history with Ms M with a view to seeing if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable or otherwise harmful. And so Satsuma should have realised that it shouldn't have given Ms M any more loans.

Given the particular circumstances of Ms M's case, I think that this point was reached by loan five.

By loan five, Ms M had been borrowing money from Satsuma for around 17 months. The amount that she was borrowing had increased over time – from £150 for loan one to £600 for loan five. And Ms M took loan five out less than two weeks after repaying loan four.

Ms M wasn't making any real inroads in to the amount that she owed Satsuma and ended up making repayments in almost every month over the time she was borrowing. Ms M had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I consider that this pattern of borrowing should've indicated to Satsuma that Ms M was having problems managing her money and had become persistently reliant on short term loans.

Although I appreciate what Satsuma says about us not considering Ms M's individual circumstances, Satsuma will know (or should know) from previous decisions that this service considers there will be times when the pattern of lending alone is enough to indicate that a customer is experiencing financial difficulties or would otherwise be harmed by further lending.

I think that Ms M lost out because Satsuma lent loan five because:

- it had the effect of unfairly prolonging Ms M's indebtedness by allowing her to take expensive credit intended for short-term use over an extended period of time.
- the extended period of time she owed Satsuma money was likely to have had negative implications on Ms M's ability to access mainstream credit and so kept her in the market for these high-cost loans.

It follows that I consider it's fair to uphold Ms M's complaint about loan five.

I understand that Ms M still owes money on loan five. As she's had the benefit of the money lent, it seems fair to allow Satsuma to apply the refund against any outstanding principal balance.

Just in case Satsuma has sold the debt to a third party – I've outlined below what additional steps it should take.

putting things right – what Satsuma needs to do

- refund all interest and charges that Ms M paid on loan five;
- 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*;
- write off any unpaid interest and charges on loan five;
- if it chooses to, apply the refund to reduce any outstanding principal balance due before paying the remaining refund (if there is any) to Ms M; and
- the number of loans taken by the time of loan five means that any information about loan five is negative. So all entries about loan five should be removed from Ms M's credit file.

If Satsuma has sold loan five to a third party, it should buy the debt back in order to deal with loan five. But if this isn't possible, Satsuma should (in addition to the above if necessary):

- arrange to repay any portion of the sum due to the third party that is made up of interest and charges – including any added by the third party;
- refund any interest and charges that Ms M has already paid to the third party, plus 8% simple interest from the date of payment to the date of settlement; and
- direct the third party to remove any information about loan five from Ms M's credit file

If Satsuma doesn't buy the debt back from the third party it won't be able to apply the refund against any outstanding principal balance unless Ms M agrees to this.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Ms M 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 balance, it must do so after deducting the tax.

**if after carrying out the above steps there is still an outstanding principal balance, I remind Satsuma of its obligation to treat Ms M sympathetically and reasonably in any repayment discussions.

my final decision

My final decision is that I uphold Ms M's complaint in part and direct Provident Personal Credit Limited (trading as Satsuma) to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 23 November 2019.

Gemma Bowen
ombudsman