

complaint

Mr S complains that Provident Personal Credit Limited (trading as Satsuma Loans) gave him loans that he couldn't afford to repay.

background

The background to this complaint was set out in the provisional decision that I issued on 27 April 2018. An extract from this is attached and forms part of this final decision, so I will not repeat that information here.

In my provisional decision I set out why I thought the complaint should be upheld in part. I invited both parties to let me have any further comments and evidence. Mr S confirmed he had nothing further to add. Satsuma has also responded with an offer in line with the recommendations that were set out in my provisional decision.

my findings

I've once more considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Given that both Mr S and Satsuma have accepted my provisional decision, I see no reason to depart from the conclusions that I reached. It follows that I partially uphold Mr S's complaint and Satsuma needs to pay him some compensation.

putting things right

I think that it was reasonable for Satsuma to have provided loans one and five. However, I don't think it should've given loans two, three and four to Mr S. To put things right I think Satsuma should:

- refund all interest and charges on loans two, three and four;
- 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 about loans two, three and four from Mr S's credit file.

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

my final decision

For the reasons given above, and in my provisional decision, my final decision is that I partially uphold Mr S'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 S to accept or reject my decision before 8 July 2018.

Richard France
ombudsman

EXTRACT FROM PROVISIONAL DECISION

complaint

Mr S is unhappy that Provident Personal Credit Limited (trading as Satsuma) gave him loans that he couldn't afford to repay.

Background

Between May 2014 and September 2017 Mr S took five instalment loans from Satsuma. A summary is as follows:

Loan no.	Date	Amount	Term	Repayment amount	Repaid
1	31 May 2014	£300	13 weeks	£32 pw	6 August 2015
2	6 August 2014	£500	26 weeks	£32 pw	10 February 2015
3	5 February 2015	£800	52 weeks	£28 pw	9 February 2016
4	26 August 2015	£1,200	52 weeks	£44 pw	16 August 2016
5	1 September 2017	£500	6 months	£158 pm	Outstanding (at 1/18)

All of the loans have been repaid, with the exception of loan five which was only borrowed in September 2017 and where the scheduled repayments were continuing at the time of the complaint to this service.

Mr S complained to Satsuma in April 2017 that its lending to him was irresponsible, having provided him with recurring top up loans. He states that the loans caught him in a debt spiral and that he had to borrow from other payday lenders to meet his financial commitments. He seeks a refund of all interest and fees paid on the loans together with removal of adverse information from his credit report.

Satsuma has said that it carried out affordability assessments before providing each of its loans. These included a review of information provided to it by Mr S in his applications for his income and expenditure and also verification of this data with credit reference agencies.

Our adjudicator felt that the affordability checks undertaken by Satsuma were proportionate and adequate. As a result, she didn't think that it'd been wrong to give the loans to Mr S.

Mr S doesn't agree and so his complaint has been passed to me for a 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. I've also taken into account the law, any relevant regulatory rules and good industry practice at the time.

Satsuma was required to lend responsibly. It needed to check that Mr S could afford to repay his loans sustainably. There was no set list of checks it needed to do, but the checks should have been proportionate to the circumstances of each loan which might include considerations about the amount borrowed, Mr S's borrowing history etc.

I recognise that, with the exception of loan five, Mr S has repaid each of the loans. But, even though Mr S managed to repay his loans in full, this doesn't automatically mean the loans were affordable for him or that he managed to repay them in a sustainable manner. In other words I can't assume that because Mr S managed to repay his loans it means that he was able to do so out of his normal income without having to borrow further.

The Financial Conduct Authority was the regulator at the time Mr S borrowed from Satsuma. Its regulations require lenders to take "*reasonable steps to assess the customer's ability to*

meet repayments under a regulated credit agreement in a sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences.” The regulations define ‘sustainable’ as being able to make repayments without undue difficulty, and that this means borrowers should be able to make their repayments on time and out of their income and savings without having to borrow to meet these repayments.

At the time of each of his loans Mr S declared his monthly income to be between £1,500 and £1,623. He was asked by Satsuma for details of mortgage / rent commitments and told it that, as he was living with his parents, this was nil. He was also required to provide in his applications details of his monthly commitments to any other loans and other regular expenses (including utilities, transport, communications, household goods, food and drinks, clothing, health etc.).

Satsuma has said that, from October 2014, it performed checks with credit reference agencies. It hasn't stated exactly what credit checks it undertook before that date, although it's apparent that it did obtain some data from credit reference agencies. From this it was aware that Mr S had other loans, some of which were from payday lenders. It could see that he'd settled a number payday loans in the 12 months prior to his applications to Satsuma, and that he'd had no defaults. And it says it was satisfied that, based upon his declared disposable income, which included these other financial commitments, its own loans were affordable to him.

Loan one

Loan one was for £300, repayable over 13 weeks. Mr S declared his monthly income to be £1,623 and his expenses were £650 (comprising £300 general expenses and £350 for other loans), giving him monthly disposable income of £973. At that time, Satsuma's checks revealed that his outstanding payday loans were £468, the latest of which had been obtained two months earlier. As this was Mr S's first loan and the repayments were a relatively modest proportion of his declared disposable income, I consider those checks were proportionate and that it wasn't unreasonable for Satsuma to provide the loan.

Loan two

This loan was provided on the same day that loan one was repaid, earlier than had been scheduled. It was for a higher amount and I can also see that an element (£129) of loan one was rolled into loan two. Also, Satsuma's credit check revealed that the amount owed by Mr S for payday loans had increased to £1,137 (from £468 at the time of loan one); but Mr S had stated in his application that his monthly commitments for other loans remained the same at £350.

I think that, in the knowledge that Mr S's payday loans had increased, but he'd said that his repayments to them remained the same, this should have led Satsuma to ask Mr S more questions about the nature and extent of his other loans before concluding that its new loan was affordable. But I can't see that it did so. So, whilst I feel that Satsuma did check into the appropriate areas to satisfy itself that its lending to Mr S was affordable, I don't think that its checks went far enough.

I haven't seen the results of the credit check that Satsuma carried out. And I do recognise that not all financial providers use the same credit reference agencies and the timing of loan reporting means that, sometimes, not all payday loans will be reflected in credit reports. However, I've looked at Mr S's bank statements from the time to gauge what he would most likely have told Satsuma had he been asked for more detail about his payday loan commitments.

I haven't been able to substantiate Mr S's income from his bank statements, but I'm aware that Satsuma has said that, after October 2014, it carried out income verification via a credit bureau and, whilst I haven't seen the output from this, I infer that it confirmed his income to be between £1,500 (in February 2015) and £1,623 (in August 2015) per month. I think it's reasonable therefore to accept Mr S's declared income at similar figures for loans one and two.

I can see from the bank statements that in the month following Satsuma providing loan two, Mr S made payments to a variety of payday lenders amounting to £2,022. Whilst there are also a number of incomings from payday lenders evident I think that, had Satsuma undertaken the better checks that I consider were warranted, it would've concluded that its proposed lending to Mr S wasn't affordable on a sustainable basis.

Loan three

Loan three followed on from the repayment of loan two and was, once again, for a higher amount. At this time, Mr S declared his monthly income to be £1,500 but stated that his expenditure was only £100 (£50 for normal living costs and £50 in repayments to other loans). Given that he'd declared his monthly expenses to be £650 in each of his earlier loan applications, I'd have expected Satsuma to ask more questions in the light of this apparent reduction.

Satsuma has said that its credit check shows, at the time he applied for loan three, Mr S hadn't had a payday loan during the preceding five months and didn't owe anything to other payday lenders. However, it showed that he did have eight *other* loans reported (up from five at the time of loan two). Satsuma has said that the data it obtained from the credit reference agencies was used to verify Mr S's existing credit commitments and if its CRA checks returned a higher expenditure than an applicant declares, it will adopt the higher figures. I can't see if it did this. However, I'd have expected Satsuma to make further enquiries of Mr S about the increasing number of other loans reported, which seems to be at odds with the apparent reduction in his overall commitments as he'd self-declared. I can't see that it did either.

Here again, I've looked at Mr S's bank statements from the time to gauge what he would most likely have told Satsuma had he been asked for more detail about his commitments.

Whilst I can't substantiate Mr S's income from his bank statements, Satsuma has said that it verified his income to be £1,500 as declared by him. I am happy to accept this. Whilst Satsuma's checks suggest that Mr S had no payday loans, and Mr S himself stated that his loan commitments were only £50 per month, I can see from his bank statements that he made payments to other lenders totalling £3,069 in the month following receipt of loan three. In addition to this, I can see that he also paid over £1,800 to gambling companies. I think, therefore, that, had Satsuma carried out better checks, it would've concluded that loan three wasn't sustainably affordable.

Loan four

This loan was the highest value to date and was provided whilst loan three was still in course. Monthly repayments to the new loan were £176 which, when added to the £112 per month required for loan three, gave a combined commitment to Satsuma of £288 per month. I think that these circumstances should've caused Satsuma to question whether Mr S was becoming more dependent upon short term credit.

Mr S declared his disposable income still to be £1,400 per month at that time. This comprised income of £1,500 (which was again verified by Satsuma), and expenses of £100 (£50 other loans and £50 other expenses). Satsuma's credit checks showed it that Mr S had no payday loans outstanding but that the number of other active loans reported had again increased to 11 (from eight at the time of loan three). This appears incongruous with the self-declared monthly repayments at a constant level of £50 and I think that Satsuma should have looked further into the position.

I've looked at Mr S's bank statements from the time to assess what he would most likely have told Satsuma had he been asked for more detail about his commitments. I can see that in the month immediately following provision of loan four he made payments to other lenders amounting to £3,005. Added to this, I can see gambling payments of over £650.

In these circumstances I think that, had Satsuma carried out better checks, it would've seen that its new loan wasn't affordable to Mr S on a sustainable basis.

Loan five

This loan was provided to Mr S in September 2017, which is over 12 months after loan four had been repaid. After such a long gap I think it's reasonable for Satsuma to have assumed that Mr S's financial position may have changed since his last loan from it. He stated that his monthly income was £1,623 and Satsuma says that it verified this. Mr S also stated his outgoings to be £650 (consisting of £350 for other loans and £300 for other expenses).

Satsuma's credit checks suggested that Mr S had no payday loans outstanding. Against his self-declared disposable income of £973, the required monthly repayments to loan five of £158 would've appeared relatively modest and I think it was reasonable for Satsuma to have relied upon what Mr S told them at that time. As such, I don't think it was wrong to provide this loan.

my provisional decision

I'm currently minded to partially uphold Mr S's complaint.