

complaint

Mr S says Provident Personal Credit Limited (trading as “Satsuma” Loans) irresponsibly lent to him.

background

This complaint is about 15 instalment loans Satsuma provided to Mr S between July 2014 and March 2018.

Our adjudicator upheld Mr S’ complaint and thought that loan 5 and loans 9 to 15 shouldn’t have been given. Satsuma initially disagreed with the view on loan 5 and then didn’t respond to our adjudicator. So the complaint was 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 the key 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 Mr S 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 borrower’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 consumer’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.

Bearing in mind Satsuma’s initial response to our adjudicator, I think that it is important for me to start by saying that -Satsuma was required to establish whether Mr S 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 a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the relevant regulations 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 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 Mr S' complaint.

As our adjudicator explained, a proportionate check for loans 5, 9 and 10 would more likely than not have shown that Mr S was gambling significant sums of money which meant that he was unlikely to have been able to sustainably repay these loans.

I've also looked at the overall pattern of Satsuma's lending history with Mr S, 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 provided any further loans.

Given the particular circumstances of Mr S' case, I think that this point was reached by loan 11. I say this because:

- By this stage, Mr S had taken out 5 loans within 8 months and Mr S had been indebted to Satsuma for 14 months. So Satsuma ought to have realised it was more likely than not Mr S was having to borrow further to cover the hole repaying previous loans was leaving in his finances and that Mr S' indebtedness was increasing unsustainably.
- Mr S wasn't making any real inroads to the amount he owed Satsuma. Loan 15 was taken out 14 months after Mr S' first (in this sequence of loans). And it was for a larger amount. Mr S had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Mr S lost out because Satsuma continued to lend from loan 11 onwards because:

- these loans had the effect of unfairly prolonging Mr S' indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.
- the number of loans and the length of time over which Mr S borrowed was likely to have had negative implications on his ability to access mainstream credit and so kept him in the market for these high-cost loans.

So I'm upholding the complaint about loan 5 and loans 9 to 15 and Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Mr S paid on loan 5 and loans 9 to 14;

- remove any interest and charges applied to loan 15 from the outset. The payments Mr S made should be deducted from the new starting balance (in other words, the amount Mr S was originally lent). Any extra Mr S paid, if any, should be treated as overpayments and refunded to him.
- pay interest of 8% simple a year on any refunded interest and charges (and overpayments should there be any) from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about loans 5,9 and 10 from Mr S' credit file;
- the number of loans taken from loan 11 onwards means any information recorded about them is adverse. So all entries about loans 11 to 14 should be removed from Mr S' credit file.
- if an outstanding balance remains on loan 15 after all adjustments have been made, Satsuma can deduct this from what it now needs to pay Mr S should it wish to do so.

† HM Revenue & Customs requires 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, I'm partially upholding Mr S' complaint. Provident Personal Credit Limited should pay Mr S compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 11 December 2019.

Jeshen Narayanan
ombudsman