Financial Ombudsman Service

## complaint

Mr F complains about four instalment loans that he took out with Provident Personal Credit Limited, trading as Satsuma Loans, ("SL"), which he said were unaffordable.

## background

Mr F was given four instalment loans by SL from November 2016 to September 2017. A summary of the loans taken out by Mr F is shown below:

| Loan number | Date of loan | Repayment date | Loan amount | Repayment amounts |
|---|---|---|---|---|
| 1. | 17/11/16 | 26/1/17 | £100 | 12 monthly repayments of £16.60 |
| 2. | 8/2/17 | 26/5/17 | £220 | 12 monthly repayments of £36.52 |
| 3. | 30/7/17 | 30/9/17 | £300 | 12 monthly repayments of £49.80 |
| 4. | 5/9/17 | 2/10/17 | £100 | 12 monthly repayments of £16.60 |

SL said that it had carried out a credit check before each loan and asked Mr F for details of his income and expenditure. SL also applied extra safeguards and buffers to Mr F's declared expenses to reflect the information it obtained from its credit check.

*our adjudicator's view*

The adjudicator recommended that all the loans should be upheld. He said that proportionate checks would have shown Mr F was having problems managing his money as he was borrowing from multiple payday lenders.

SL disagreed and said that its credit checks didn't indicate that Mr F had other payday loans at the point of application. SL said that all its loans had been repaid early and there were no issues with the repayment of the loans.

*my provisional decision*

After considering all the evidence, I issued a provisional decision on this complaint to Mr F and to SL on 24 September 2019. I summarise my findings:

I noted that when SL lent to Mr F the regulator was the Financial Conduct Authority (FCA) and relevant regulations and guidance included its Consumer Credit Sourcebook (CONC). The CONC contained guidance for lenders about responsible lending.

I said that SL needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this meant that it should have carried out proportionate checks to make sure Mr F 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 SL should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors included:

- 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 had been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There might even come a point where the lending history and pattern of lending itself clearly demonstrated that the lending was unsustainable.

I thought it was important to say that SL was required to establish whether Mr F could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

I explained that the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it didn't automatically follow this was the case. This was because the CONC defined sustainable as being without undue difficulties and in particular the consumer should be able to make repayments, 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 wouldn't be able to make their repayments sustainably if they were 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 F's complaint.

I could see that SL had made a number of checks before it lent to Mr F. It had asked him for details of his income and expenditure. Mr F had declared his monthly income as £1,250 and his expenditure as £705 before Loan 1, his income as £1,250 with expenditure of £630 before Loan 2, his income of £1,250 and expenditure of £730 before Loan 3 and his income as £1,300 and expenditure of £430 before Loan 4. And SL had increased Mr F's declared expenditure in its assessments of Loans 1 to 4 to reflect what it had seen in its credit checks and internal models.

I'd also noted that SL had checked Mr F's credit file before agreeing to the loans. SL had provided this service with a summary of its credit checks. I could see that there was one active credit account with payments in arrears in the previous six months before Loan 3 and no payday loan accounts were shown before any of the loans. Otherwise, I couldn't see any adverse information on SL's credit checks that I thought should have caused additional concerns to SL. Mr F has provided this service with a copy of his credit report. I could see there were other short term loans shown on that report.

But I was also aware that when a lender carried out a credit check, the information it saw didn't usually provide the same level of detail that a consumer's credit report would and it wasn't necessarily up to date. A lender might only see a small portion of a borrower's credit file, or some data might be missing or anonymised. I was also aware that not all payday and short term lenders reported to the same credit reference agencies. So, this might have explained any differences between the information provided by SL's credit check and Mr F's actual situation.

I'd noted that all the loans were repayable over 12 months. So the amount that Mr F needed to repay each time was smaller than if he'd taken a normal payday loan. But of course he was committing to making those repayments over a far longer period.

I could see that Loan 1 was for £100 repayable by 12 monthly repayments of £16.60. This was repaid early after around two months. Loan 2 was for £220 with 12 monthly repayments of £36.52. SL's credit check before both loans showed that Mr F had no active accounts which were in arrears. SL said that Mr F had a disposable income of £247.77 before Loan 1 and a disposable income of £426.94 before Loan 2 after its safeguards had been applied to Mr F's expenses.

On balance, I thought that the checks SL carried out before agreeing Loans 1 and 2 were proportionate. The repayments that Mr F needed to make on Loans 1 and 2 were relatively modest compared to the income that he'd declared to SL. And I didn't think the repayments were so large that it was obvious they would've caused Mr F financial difficulty.

So given Mr F's repayment amounts, what was apparent about his circumstances at the time, and his history with the lender, I didn't think it would've been proportionate for SL to have asked him for the amount of information that would have been needed to show the lending was unsustainable.

And there wasn't anything in the information Mr F provided or the information SL should've been aware of, which meant it would've been proportionate to start verifying what he was saying. So I didn't think SL was wrong to give Loans 1 and 2 to Mr F.

Loan 2 was repaid early. I thought that behaviour might have caused SL some concerns about Mr F's finances. Loan 3 had increased to £300 and the twelve monthly repayments had increased to £49.80. SL's credit check before Loan 3 showed that there was one active credit account with payments in arrears in the previous six months.

I appreciated that SL had asked Mr F for his income and expenditure. But I thought the pattern and increasing amount of Mr F's borrowing with repayments over a long period together with the arrears shown in SL's credit check were such that it wasn't reasonable for SL to rely on that information. So I thought this should have prompted SL to do some additional checks such as asking Mr F for more information about his other short term borrowing commitments.

I'd looked at Mr F's credit report to see what proportionate checks might have shown. I'd seen one other short term loan on Mr F's credit report which was repayable at the same time as Loan 3. On balance, I didn't think this suggested that Mr F was having significant difficulties managing his money. So I couldn't safely say that SL shouldn't have given Loan 3 to Mr F.

Loan 4 was taken out whilst Loan 3 was still outstanding and was Mr F's fourth loan in around nine months. By the time of Loan 4, I thought SL should have been concerned that Mr F might have become reliant on its lending. And he wasn't showing any signs of getting to grips with his borrowing. So I didn't think it was reasonable for SL to base its assessment before Loan 4 on the information provided by Mr F. I thought it would have again been proportionate here for SL to do some additional checks such as asking Mr F for more information about his other short term borrowing commitments.

Had it done so, SL would have discovered that Mr F was borrowing from at least eight other short term lenders and was committed to repaying them at the same time as he'd be repaying Loan 4. I had seen these loans on Mr F's credit report. So I thought it would have been clear to SL if it had done proportionate checks that Mr F was facing significant problems managing his money and unlikely to be able repay Loan 4 in a sustainable manner. So I didn't think SL should have provided Loan 4 to Mr F.

I'd noted that SL had said that there were no issues with repayment of the loans. But I thought SL would (or ought to) have known from previous decisions that this service considered there would be times when the pattern of lending alone was enough to indicate that a consumer was likely to be in financial difficulty – or would otherwise be harmed should 'relending' have continued. So it followed that "successful" repayment of a loan didn't automatically mean it was repaid sustainably.

Subject to any further representations by Mr F or SL my provisional decision was that I intended to uphold this complaint in part. I intended to order SL to put things right as follows.

**putting things right – what SL needs to do**

- with regard to Loan 4, refund all the interest and charges that Mr F has paid on this loan;
- pay 8% simple interest* a year on the refunds from the date of payment to the date of settlement;
- remove all adverse entries about Loan 4 from Mr F's credit file.

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

Mr F responded to my provisional decision to say that that he had nothing else to add.

SL hasn't provided a response to my provisional 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.

Given that Mr F and SL have given me nothing further to consider, I see no reason to depart from the conclusions I reached in my provisional decision. It follows that I uphold part of the complaint and require SL to pay Mr F some compensation as set out below.

**my final decision**

My decision is that I uphold this complaint in part. In full and final settlement of this complaint I order Provident Personal Credit Limited, trading as Satsuma Loans, to:

1. With regard to Loan 4, refund all the interest and charges that Mr F has paid on this loan;

2. Pay 8% simple interest* a year on the refunds from the date of payment to the date of settlement; and

3. Remove all adverse entries about Loan 4 from Mr F's credit file.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 4 December 2019.

Roslyn Rawson
**ombudsman**