

complaint

Miss G says Provident Personal Credit Limited (trading as Satsuma) irresponsibly lent to her.

background

This complaint is about 9 instalment loans Satsuma provided to Miss G between December 2015 and March 2017. This is a summary of Miss G's lending history from Satsuma.

Loan	Taken out	Repaid	Amount, £
1	09/12/2015	09/12/2015	100
2	14/01/2016	11/03/2016	100
3	12/03/2016	17/05/2016	150
4	21/05/2016	02/07/2016	130
5	02/07/2016	09/08/2016	220
6	21/08/2016	26/08/2016	130
7	30/08/2016	03/09/2016	200
8	06/03/2017	08/03/2017	100
9	13/03/2017	05/04/2017	180

In Satsuma's final response letter it upheld Miss G's complaint about loan 3 and made an offer to compensate her in line with our guidelines. Our adjudicator upheld Miss G's complaint in part and thought loans 5 to 7 shouldn't have been given. Satsuma disagreed 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 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 Miss G 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 is important for me to start by saying that Satsuma was required to establish whether Miss G 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 Consumer Credit Sourcebook ("CONC") 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 Miss G's complaint.

There was a significant break in Miss G's borrowing from Satsuma. There was a gap of over six months between loan 7 and loan 8. I think it would have been reasonable for Satsuma to view that gap as an indication that Miss G's finances had stabilised after whatever the circumstances that had caused her to take out her previous loans. So I will look at Miss G's borrowing in two separate lending chains.

The first chain was made up of loans 1 to 7, and the second of loans 8 and 9. Satsuma has already said there was an error in its lending decision for loan 3 and offered to compensate Miss G accordingly so I will focus on the other loans and comment no further on that loan.

I agree with the adjudicator, and for the same reasons, that there was nothing to indicate Satsuma needed to do more when it approved loans 1, 2 and 4. The amounts that Miss G needed to repay were small compared to the disposable income she had declared. Given these repayments and what was known about Miss G's circumstances at the time and her borrowing history with the lender, I don't think it would have been proportionate for Satsuma to have asked for the amount of information that would be needed to show the lending was unsustainable before agreeing these loans. Similarly, for loans 8 and 9 in the second lending chain. Given the gap in lending of over six months I think it was reasonable for Satsuma to assume Miss G's financial position had stabilised and based on this, I think the checks it carried out for these two loans were proportionate, and didn't show anything that should have caused Satsuma to make a different decision. So I don't think Satsuma was wrong to give loans 1,2,4, 8 and 9 to Miss G.

However I don't think Satsuma carried out proportionate checks for loan 5. Had it done so, I think Satsuma would most likely have made a different lending decision. I say this because by loan 5 there were clear signs that Miss G was struggling to manage her money. In June 2016 she had at least three other active short-term high cost credit agreements in place with different lenders. So it was most likely she was just borrowing to pay off other loans. And there were frequent gambling transactions on her bank statements, further indicating it was likely Mrs R had wider financial problems. She bet over £2000 in June 2016 and this should have raised concerns about her ability to meet her loan repayments ongoing. A fuller financial review would have alerted Satsuma to these issues.

I've then looked at the overall pattern of Satsuma's lending history with Miss G, 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 until there was a significant gap in lending.

Given the particular circumstances of Miss G's case, I think that this point was reached at loan 6. I say this because:

- Miss G took out loan 6 less than two weeks after she had settled the previous loan. It was her sixth loan in nine months and it was for more than her first loan. At this point Satsuma ought to have known that Miss G was not likely borrowing to meet a temporary shortfall in their income but to meet an ongoing need.
- The loans were instalment loans, each with 13 week terms. But Miss G frequently repaid her loans early, often just days after she'd taken it out. This isn't how instalment loans should usually work. I think this pattern of lending should also have alerted Satsuma to the likelihood that Miss G was having problems managing her money. I think that Satsuma should've been concerned that Miss G might be borrowing elsewhere to repay loans, again increasing her indebtedness unsustainably.
- Miss G wasn't making any real inroads to the amount she owed Satsuma. When Miss G applied for loan 7 she had taken out seven loans in just over 9 months (considering solely lending chain 1), and loan 7 was for double the value of the first. Miss G had paid high interest charges to, in effect, service a debt to Satsuma over an extended period.

I think that Miss G lost out because Satsuma provided loans 6 and 7 because:

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

So I'm upholding the complaint about loans 5 to 7, and Satsuma should put things right.

putting things right – what Satsuma needs to do

- refund all interest and charges Miss G paid on loans 5 to 7;

- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement†;
- remove any negative information about loan 5 from Miss G's credit file
- any information recorded about 6 and 7 is adverse, so the entries about these loans should be removed from Miss G's credit file.

† HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Miss G a certificate showing how much tax it's taken off if she asks for one.

It is unclear if Satsuma has already sent Miss G the compensation it offered for loan 3. The offer it made was in line with our guidelines. We have sought clarification but Satsuma hasn't replied, Miss G says she hasn't received a cheque. If Satsuma hasn't made payment it should now do so, following the steps it set out in its final response letter. When it puts things right as I have set out above, it should make clear to Miss G whether or not the total payment includes the compensation for loan 3. If not, it should evidence when it sent her the cheque it referred to, and when it was cashed. If the cheque was sent, but not received by Miss G it should cancel the first cheque and include the payment with my award.

my final decision

For the reasons given above, I'm partially upholding Miss G's complaint. Provident Personal Credit Limited (trading as Satsuma) should pay Miss G compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 7 December 2019.

Rebecca Connelley
ombudsman