complaint

Mr A complains that Provident Personal Credit Limited (trading as Satsuma) gave him loans irresponsibly.

background

The background to this complaint was set out in the provisional decision that I issued in February 2020. 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.

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.

Neither Satsuma nor Mr A have provided me with any further information or observations following my provisional decision and so I see no reason to depart from the conclusions I reached therein.

Putting things right

I don't think that Satsuma should have given loan four to Mr A and so it should:

- refund all interest and charges Mr A paid on loan four;
- pay interest on these refunds at 8% simple* per year from the dates of payment to the date of settlement;
- apply the refund to any outstanding principal balances before repaying any remaining balance to Mr A;
- remove any adverse information about loan four from Mr A's credit file.

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

my final decision

My final decision is that I uphold this complaint in part, and require 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 Mr A to accept or reject my decision before 13 April 2020.

Richard France
Ombudsman

EXTRACT FROM PROVISIONAL DECISION

background

This complaint relates to four instalment loans given to Mr A during 2018 and 2019. Each of the loans was due to be repaid in monthly instalments. Mr A successfully repaid loan two, but a balance remained outstanding on loans one, three and four at the time he made his complaint to Satsuma. A summary of Mr A's borrowing from Satsuma is as follows:

Loan No	Amount	Date lent	Repaid	Term of loan	Repayment pm
1	£800	18.4.18	Outstanding	12m	£132.80
2	£400	17.7.18	27.12.18	6m	£126.40
3	£600	30.10.18	Outstanding	8m	£150.00
4	£1,000	10.4.19	Outstanding	12m	£166.00

Our adjudicator didn't think that Satsuma had done anything wrong in providing the loans. He felt that the lender should've sought more information from Mr A before it gave him loan four but, from the information available, he didn't think that Satsuma would've seen anything to dissuade it from lending even if it had carried out better checks.

Mr A didn't agree – and so he provided us with copies of his bank statements from the time of the loans. But, having reviewed these, our adjudicator still felt that Satsuma hadn't been irresponsible in lending to him.

Because Mr A doesn't agree with our adjudicator's findings the complaint has been passed to me for a decision.

my provisional 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 Mr A 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 it's important for me to start by saying that Satsuma was required to establish whether Mr A 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 that 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.

So 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 A's complaint.

Before it agreed to provide the loans Satsuma asked Mr A for details of his income and expenditure. He told it that his monthly income was between £2,500 and £3,500 - and that his monthly expenditure (including mortgage, other loans and other outgoings) ranged between £800 and £1,500.

Satsuma also gathered data from credit reference agencies and it validated his expenditure against its own internal models. It then used this information to calculate how much disposable income Mr A had left over each month, after having added 'safeguard buffers' to any elements of his declared expenditure where it considered this to be appropriate.

Loans one to three

The repayments that Mr A had agreed to make on his first three loans were, individually, relatively modest compared to the income that he'd declared to Satsuma. I note, though, that loan two was given to Mr A whilst loan one was still outstanding, and then loan three was provided when both loans one and two remained owing. So I've taken into account the fact that he'd need to repay more than one loan at the same time for a period. But, even so, I think that the repayments would've appeared to be comfortably affordable based upon the disposable income that Satsuma had calculated.

I've also considered the credit file data that Satsuma obtained before it lent to Mr A and whether that ought to have led it to make further enquires. I think it's important to recognise that, generally, the information a consumer might see when they request a copy of their credit file might be very different to that seen by a lender. A lender might only see a small portion of the credit file, or some data might be missing or anonymised, or the data might not be up to date. So, this may explain any differences between the information obtained by Satsuma from its credit checks compared with information that may have been evident in Mr A's own credit reports. I should note that I haven't seen Mr A's own credit report.

Satsuma was aware of headline information such as the number of new accounts Mr A had opened in recent months, whether he was insolvent, and whether there had been any adverse credit file data recorded in the preceding months. I don't think that those headline findings would've raised any concerns at the time and, equally, I don't think that Satsuma had any reason to doubt the information that Mr A gave it when he applied for the loans.

So given the repayment amounts, what was apparent about Mr A's circumstances at the time and his borrowing history with the lender, I don't think it would've been proportionate for Satsuma to ask him for the amount of information that would be needed to show the lending was unsustainable. It follows that I don't think it was wrong for Satsuma to provide loans one, two and three.

Loan four

There was a gap of over five months between Mr A applying for loan three and loan four. But I note that, when he did apply for loan four, both loans one and three were still outstanding.

I agree with our adjudicator that, by the time he applied for loan four, Satsuma should've asked Mr A for more information about his financial commitments – most specifically, details of his other short term loans. I say this because Satsuma's own affordability assessment had, from its credit checks, recognised that Mr A's financial commitments were appreciably higher than what he'd declared to it in this particular loan application. Mr A had told Satsuma that his monthly financial commitment was £500 – to which Satsuma then added an additional 'safeguard' figure of £993, taking the total to £1,493 per month.

After making this adjustment, Satsuma's calculations indicated that Mr A still had sufficient monthly disposable to afford loan four. However, I think that the extent of the disparity between what Mr A declared to be his monthly financial commitment and that which Satsuma identified from its credit checks is so great that it should've sought to verify the information with him.

I've looked at Mr A's bank statements and can see that, at this time, he already had short term loans outstanding with four other lenders. I think that, had Satsuma undertaken the better checks that I'd consider proportionate in these circumstances, it would've seen that it was unlikely Mr A would be able to repay its loans in a sustainable manner, and that he was most likely borrowing to fill the hole in his finances from repaying other loans.

Taking all of this into account I don't currently think that Satsuma should've given loan four to Mr A, and so it should put things right as follows:

- refund all interest and charges Mr A paid on loan four;
- pay interest on these refunds at 8% simple* per year from the dates of payment to the date of settlement;
- apply the refund to any outstanding principal balances before repaying any remaining balance to Mr A;
- remove any adverse information about loan four from Mr A's credit file.

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