DRN-4210224

The complaint

Mr H complains through a representative that Quidie Limited trading as Fernovo (“Quidie”) provided him with loans without carrying out the appropriate affordability checks.

What happened

Mr H was granted two loans and I’ve summarised his borrowing in the table below.

loan number	loan amount	agreement date	repayment date	number of monthly instalments	largest repayment per loan
1	£150.00	31/01/2021	26/02/2021	4	£61.70
2	£300.00	10/06/2021	31/10/2021	4	£116.74

Quidie considered the complaint and concluded it had made a reasonable decision to provide the loans because it had carried out proportionate checks which showed Mr H should be able to afford them. However, Quidie explained that should Mr H withdraw his complaint then as a gesture of goodwill it would pay him £45 and it would be willing to delete the loans from the credit file.

Unhappy with this response, Mr H’s representative referred the complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator, who didn’t uphold it. She said Quidie had reasonable grounds to believe Mr H could afford the loans and Quidie had carried out proportionate checks including a credit search.

Mr H’s representative didn’t agree and instead asked for an ombudsman’s final decision. As no agreement has been reached, the case has been passed to an ombudsman for a final decision.

What I’ve decided – and why

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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

Quidie had to assess the lending to check if Mr H could afford to pay back the amounts he’d borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Quidie’s checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr H’s income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Quidie should have done more to establish that any lending was sustainable for Mr H. These factors include:

- Mr H having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Mr H having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mr H coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr H. The adjudicator didn't consider this applied in Mr H's complaint and I agree given that there were only two loans with a four month break in-between them.

Quidie was required to establish whether Mr H could *sustainably* repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr H was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr H's complaint and having done so, I've concluded this complaint shouldn't be upheld and I've explained why below.

Before the loans were approved, Quidie asked Mr H for details of his income, which he declared as being £4,000 per month for loan one and £3,700 per month for loan two. Quidie says the income figures were checked by using a third-party report which gave Quidie a high level of confidence that Mr H's declared income was accurate. Given these were the first loans, it was reasonable for Quidie to have relied on the results of its check.

For loan one, Mr H also declared monthly outgoings of £580 which was broken down as £400 for housing, £90 utilities, £45 for food and £45 on credit commitments. For loan two, Mr H declared outgoings of £1,360. This was broken down as £385 for housing, £70 for utilities, £313 for food, £94 transport and £498 on credit commitments.

Quidie then went about checking this information. Firstly, Quidie said it used an "affordability" report provided by a credit reference agency and that report indicated that the amount Mr H paid each month to his other credit commitments was more than the zero he had declared for loan one and the £498 for loan two. Based on the results of its checks it increased Mr H's credit commitments to £520 for loan one and £563 for loan two.

Secondly, while Mr H declared monthly housing costs of £400 and £385 per month, following taking information from Mr H's credit report Quidie increased this cost to £771 per month and Quidie used this higher figure for its affordability assessment.

Thirdly, excluding credit commitments and the mortgage Mr H had declared other living costs of £135 per month for loan one and £477 for loan two. Quidie says this is much lower than averages provided by the Money Advice Service (MAS). Using MAS averages for someone in a similar situation to Mr H for example income and age it concluded his living costs should be around £1,168 per month and so this is the figure which was used for Quidie's assessment.

Overall, Quidie using the MAS average for loan one of £1,168 of living costs, plus housing costs of £771 and the credit commitments of £520 gave total monthly outgoings of £2,459. With an income figure of £4,000 this left £1,541 per month in disposable income to afford the repayments of around £62. Loan one looked affordable to Quidie at the time.

For loan two, following the same calculations as above, Mr H was left with £1,249 per month to afford his repayments of around £117, again the loan looked affordable.

Before each loan was approved Quidie also carried out a credit search and it has provided the summary for loan one and the full results it received from the credit reference agency for loan two. It is worth saying here that although Quidie carried out credit searches, there isn't a regulatory requirement to do one, let alone one to a specific standard. But what Quidie couldn't do is carry out a credit search and then not react to the information it received.

The headline data wouldn't have given Quidie cause for concern, it knew that Mr H didn't have any defaults within the past year, no other forms of insolvency and no Count Court Judgements. It also knew that Mr H had around £27,00 of existing debt through 10 active accounts by loan two – and half that debt was on a recently opened hire purchase account.

It did know about the open accounts that Mr H had and I can see from the loan two results that he had recently opened a new hire purchase agreement for a vehicle in March 2021. Overall, the open accounts were up to date with no recent adverse payment information.

Although having looked at the open accounts including loans and credit cards, I do think Quidie had information, when loan two was advanced to suggest his monthly commitments were at least £789 – which is slightly more than Quidie had initially calculated. But even if you substitute this larger figure into the rest of the affordability assessment, Mr H still had sufficient disposable income to be able to afford his loan.

There was some adverse credit file data, Quidie knew that Mr H had defaulted on an account in November 2018, but he had satisfied the default by September 2019. There were also arrears – recorded for two months on a loan in September 2020. But this loan had been brought up to date and then closed. And looking at the rest of the credit reports, I don't think there was enough adverse data to have either prompted further checks or for Quidie to have declined these loans.

Overall, there was also nothing else in the information that I've seen that would've led Quidie to believe that it needed to go further with its checks – such as verifying the information Mr H had provided. So, while Mr H's representative has provided his bank statements, in this case, it would've been disproportionate for Quidie to have considered them.

Given the evidence provided, I think it was reasonable for Quidie to have relied on the information Mr H gave about his income and expenditure as well as its additional checks to show he had sufficient disposable income to afford the repayments he was committed to making. There also wasn't anything else to suggest that Mr H was having financial difficulties or that the loans would be unsustainable for him.

I'm therefore not upholding Mr H's complaint.

My final decision

So, for the reasons I've explained above, I'm not upholding Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr H to accept or reject my decision before 22 November 2023.

Robert Walker
Ombudsman