DRN-4661562

The complaint

Mr H complains that Quidie Limited trading as Fernovo ("Quidie") provided him with loans which weren't affordable.

What happened

A summary of Mr H's borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	number of monthly instalments	monthly repayment per loan
1	£200.00	02/03/2023	20/03/2023	1	£228.80
2	£350.00	03/09/2023	outstanding	6	£113.98

Mr H's second loan was due to be paid on 29 February 2024, so it's possible the loan has now been repaid.

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, as a gesture of goodwill and on the basis that Mr H withdrew his complaint Quidie would reduce the outstanding balance on the final loan by £21. Unhappy with this response, Mr H referred the complaint to the Financial Ombudsman.

The complaint was considered by an investigator, who didn't uphold it. She said Quidie had reasonable grounds to believe Mr H could afford the loans and that it had carried out proportionate checks including credit searches. There also wasn't anything to suggest the loans would be unstainable for Mr H.

Mr H didn't agree and asked for an ombudsman to review the complaint. As no agreement could be reached the complaint has been passed to me 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 investigator didn't consider this applied in Mr H's complaint, and I agree given that there were only two loans with a gap 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 loan 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. Having done so I am satisfied Quidie carried out proportionate checks which demonstrated the loans would be affordable for Mr H.

Before these loans were approved, Quidie asked Mr H for details of his income, which he declared as being £2,250 for loan 1 and £2,150 for loan 2 per month from his full-time employment. Quidie says the income figure was verified 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 two loans – and there was a break in lending between loans 1 and 2, I think it was reasonable for Quidie to have relied on the results of its check.

Mr H also declared total monthly outgoings of £1,385 for loan 1, which was broken down as £435 for housing, £450 utilities, £350 for food, £50 for transport and £100 on '*other credit commitments'*. The same information was requested before loan 2 was granted, and this time Mr H's declared outgoings amounted to £1,503 for the month.

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 for his 'other credit commitments' was more than the £100 he had declared for loan 1. Based on the results of its checks it increased Mr H's credit commitments to £428 each month and used this in the affordability assessment for the first loan. The same process was followed for loan 2, and this time Quidie believed the credit commitments came to £495 per month.

Secondly, excluding credit commitments and the mortgage, Mr H had declared other living costs of £850 per month for both loans. 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, age and number of dependents, it concluded his living costs should be around £944 per month and so this was the figure which was used for Quidie's assessment.

Overall, and as an example for loan 1, Quidie used the MAS average of £944 of living costs, plus housing costs of £435 and the credit commitments of £428 giving total monthly outgoings of £1,807. With an income figure of £2,250 this left £443 per month in disposable income to afford the repayment of around £229. Loan 1 looked affordable.

The same calculations were carried out for loan 2, and this time, after using the MAS average, housing costs and credit commitments, it left disposable monthly income of £258. Again, with a monthly repayment of around £114 the loan looked affordable.

Before each loan was approved Quidie also carried out a credit search and it has provided the results it received from the credit reference agency. 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 for loan 1 wouldn't have given Quidie cause for concern, there was a default recorded in July 2022 but as there were no other defaults recorded, I think Quidie could've reasonably concluded Mr H didn't have any ongoing financial difficulties.

Having looked at the open accounts at loan 1, including loans and credit cards, I do think the amount Quidie calculated for Mr H's monthly credit commitments appears too not have been accurate. Although it calculated payment of around £428 I think Mr H's costs were higher than this at around £578 per month. But even with these increased costs (beyond what Mr H declared and what Quidie calculated) when loan 1 was granted Mr H still just about had sufficient disposable income to afford the repayment.

A similar picture was apparent in the loan 2 credit search results. There hadn't been any new defaults recorded and, his monthly commitments (excluding the mortgage) came to around the amount Quidie had calculated of £495 per month. There was evidence that Mr H had recently had some problems servicing a mail order account, but that had now been brought up to date. Given everything else Quidie did and knew, I don't think that would've caused it any concern.

Overall, there wasn't enough in the information Quidie collected to have made it think it needed to go further with its checks – such as verifying the information Mr H had provided. It would've been disproportionate for Quidie to have considered his bank statements.

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 it carried out to show he had sufficient disposable income to afford the repayments he was committed to making. Finally, there 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 17 April 2024.

Robert Walker
Ombudsman