DRN-4015934

The complaint

Mr B complains through a representative that Stagemount Limited trading as Quidmarket (Quidmarket) gave him loans he couldn't afford to repay as a result he struggled to pay for essentials.

What happened

Mr B took eight loans from Quidmarket between January 2016 and February 2020. I've outlined a summary of his borrowing below.

loan number	loan amount	agreement date	repayment date	term (months)	monthly repayment
1	£200.00	11/01/2016	19/04/2016	3	£103.68
gap in lending					
2	£300.00	22/02/2018	03/07/2018	5	£99.43
3	£300.00	05/07/2018	23/10/2018	4	£119.60
4	£400.00	26/11/2018	09/04/2019	5	£135.35
5	£400.00	25/04/2019	30/07/2019	4	£144.69
6	£300.00	03/09/2019	19/11/2019	3	£140.06
7	£300.00	26/11/2019	11/02/2020	3	£141.03
8	£400.00	29/02/2020	02/06/2020	4	£140.46

Following Mr B's complaint, Quidmarket issued its final response letter (FRL). In summary, it said it had carried out proportionate checks which showed these loans were affordable. Although, Quidmarket didn't uphold the complaint, as a gesture of goodwill it offered to remove these loans from Mr B's credit file. Mr B's representative didn't agree and instead referred the complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator who didn't uphold the complaint about loan 1. But the adjudicator did uphold the rest of the loans. In relation to loans 2 – 6 he said the credit check results Quidmarket received showed Mr B had multiple adverse markings including defaults, arrears and a County Court Judgement (CCJ). So, in the adjudicator's view Mr B was already experiencing financial difficulties. Finally, he thought by the time loan 7 was granted, the lending had now become harmful for him. Overall, the adjudicator upheld the complaint about loans 2 – 8.

Neither Mr B nor his representative responded to the adjudicator's assessment.

Quidmarket didn't agree with the outcome the adjudicator proposed for loans 2 - 8. In summary it said:

- At loan 2, there were two small defaults on the credit file but that wouldn't be enough of a reason to say the loans were irresponsibly provided.
- Some adverse information is expected.
- Mr B's repayment history shows he was able to repay these loans.

- The loan values stayed roughly the same which didn't lead Quidmarket to conclude the pattern of borrowing was harmful for Mr B.

As no agreement could be reached the complaint has been passed to me for a 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 short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

Quidmarket had to assess the lending to check if Mr B 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. Quidmarket'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 B'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 Quidmarket should have done more to establish that any lending was sustainable for Mr B. These factors include:

- Mr B 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 B 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 B 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 B. The adjudicator thought this point was reached by the time loan 7 was granted.

Quidmarket was required to establish whether Mr B 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 B was able to repay his loan sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and in particular, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr B's complaint.

Neither Mr B (or his representative) nor Quidmarket appear to have disagreed with the adjudicator's findings about loan 1. To me, this suggests the loan is no longer in dispute and therefore I will say no more about it. Instead, this decision will focus on whether Quidmarket did all it ought to have done before advancing loans 2 - 8.

Loan 2

Although this was Mr B’s second loan, there had been a gap in lending of nearly two years since loan 1 had been repaid. Given this significant gap, while this was his second loan it could be treated as the first loan in a new lending chain.

Quidmarket has shown, that as part of the affordability assessment it asked Mr B for details of his income and expenditure. Mr B’s income has been recorded as being £1,400 per month (after tax), Quidmarket says this income was electronically verified.

Mr B also declared his monthly outgoings were £700. This left disposal income of around £700 per month. Mr B had a sufficient amount of disposable income for Quidmarket to believe Mr B could afford the largest repayment of around £100. The loan looked affordable.

However, before this loan was approved Quidmarket also carried out a credit search and it has provided the Financial Ombudsman with a copy of the results it received from the credit reference agency. I want to add that although Quidmarket carried out a credit search there isn’t a regulatory requirement to do one, let alone one to a specific standard. But what Quidmarket couldn’t do, is carry out a credit search and then not react to the to the information it received – if necessary.

Having looked at the credit check results; I do agree with the adjudicator that it showed a significantly amount of recent and current adverse credit file data. The headline figures aren’t particular concerning, Mr B had debts of nearly £4,500 and he was utilising around 82% of his available credit.

But looking at the rest of the data, Quidmarket was aware of two CCJs being recorded against Mr B – with one being added to the credit file 5 months before this loan was approved. Which shows that Mr B, fairly close to when this loan was approved, had significant enough financial problems for a creditor to take Mr B to court for the outstanding debt.

Mr B within the last year had defaulted on four accounts, however three of those defaults had occurred within six months of this loan application. Mr B had defaulted on a credit card, a mail order account and a payday loan. So, Mr B had shown, in the recent past that he had significant financial difficulties because he defaulted on a number of different accounts within a relativity short period of time.

Mr B also had three accounts that were in delinquency – so accounts that Mr B had taken and had struggled to repay. One was a payday loan, the other two were also likely to have been payday loans given the repayment term. Two of the accounts were being recorded as ‘6’ in arrears – indicating that Mr B was at least six months in arrears with his repayments. And the other account, as of December 2017 was showing as being at least ‘5’ months in arrears. This is further evidence that Mr B was at the very time this loan was being approved was already struggling to repay his current credit commitments.

This is further evidenced by the fact, that Mr B had been in an arrangement to pay on one active account for at least the last 18 months.

Overall, I do think the credit check results build a picture of a customer who had been for at least the last 12 months in financial difficulties given the number of defaults and the CCJs. Even if I were to discount the defaults, the fact remains that Mr B had four active accounts that were either in delinquency due to missed payments and / or subject to a payment arrangement.

Given the this I do think, there was just too much evidence pointing towards Mr B having current financial difficulties and therefore this loan and any further lending wasn't likely to be sustainable for him.

In addition – and as it makes no difference to the outcome that I've reached, I would say the information provided by the credit reference agencies showed that in the year before this loan was approved Mr B had taken and settled six payday loan accounts. Indeed, looking back through all the settled accounts, I can see that Mr B had been a regularly user of payday loan accounts since at least 2013. Which ought to have further indicated to Quidmarket that Mr B was having financial difficulties, as he was using short term loans to clearly cover a long-term hole in his finances.

I am therefore upholding Mr B's complaint about loan 2.

Loans 3 - 6

For these loans Quidmarket carried out the same sort of checks. Mr B's income was recorded as being £1,400 and £1,500 per month for these loans. With declared monthly expenditure as being between £550 and a maximum of £800. The smallest monthly disposable income figure recorded by Quidmarket during this time was £600. So as with loan 2, these loans appeared affordable based solely on the income and expenditure information Mr B provided.

And even though as I've said above, I do think these loans ought to not have been advanced, given that loan 2 was already upheld I did have a look to see what Quidmarket was provided with when it carried out its credit searches before it approved these loans. I've considered the results that it received, and I still think the results given for these loans indicated that Mr B continued to have long term financial difficulties.

For example, when loan 4 was advanced, Mr B still had roughly the same amount of debt as he did when loan 2 was advanced and he had continued to open new credit accounts. Indeed, in the period of time when loan 2 was running up to loan 4 being granted Mr B repaid seven high-cost short term loan accounts – and two of these accounts had sustained arrears on them.

In addition, he still had two active payday loan accounts – indicating a continued need for credit. One recently closed mobile phone contract account had been in arrears in July 2018 and he was over his credit limit on one of his credit cards.

By the time of loan 6, Mr B had a new CCJ recorded against him (in December 2018) so while he was still repaying his Quidmarket loans Mr B was still showing that he was struggling to repay his outstanding debts.

And while no new defaults had been applied, Mr B was now at least three months in arrears with a "*Finance House*" loan that was advanced in November 2018. Importantly, these arrears had occurred within the three months leading up to loan 6 being advanced, so this is further evidence that Mr B wasn't able to manage his existing credit commitments.

He was also still above his credit limit which had been set on 2 credit cards and there was still evidence that Mr B was regularly taking high-cost short term loans. So even looking further into Mr B's credit report for these later loans I'm still satisfied Quidmarket was on notice that Mr B was likely having immediate financial problems as he was struggling to pay his existing debts. I'm also upholding Mr B's complaint about these loans.

Loans 7 and 8

In addition to looking at the checks that Quidmarket did I've also looked at the overall pattern of Quidmarket's lending history with Mr B, with a view to seeing if there was a point at which Quidmarket should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Quidmarket should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr B's case, I think that this point was reached by loan 7. I say this because:

- At this point Quidmarket ought to have realised Mr B was not managing to repay his loans sustainably. Mr B had taking out his six loans in 21 months. So Quidmarket ought to have realised it was more likely than not Mr B was having to borrow further to cover a long-term short fall in his living costs.
- From his first loan, Mr B was generally provided with a new loan shortly after the previous loan had been repaid, for example, before loan 7 there was only a gap of 7 days. I accept there some larger gaps, such as just over a month between loans 5 and 6 but I don't think that along shows that Mr B wasn't likely borrowing to fill a short-term hole in his finances. To me, at times, the quick up take in borrowing is a sign that Mr B was using these loans to fill a long-term gap in his income rather than as a short-term need.
- Mr B's first loan was for £300 and loan 7 was for the same amount. At this point Quidmarket ought to have known that Mr B was not likely borrowing to meet a temporary shortfall in their income but to meet an ongoing need.
- Mr B wasn't making any real inroads to the amount he owed Quidmarket. Loan 8 was taken out 24 months after Mr B's second loan (the first in a new chain) and was to be repaid over a similar term. Mr B had paid large amounts of interest to, in effect, service a debt to Quidmarket over an extended period.

I think that Mr B lost out when Quidmarket provided loans 7 and 8 because:

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

Overall, I'm upholding Mr B's complaint about loans 2 - 8 and I've outlined below what Quidmarket needs to do in order to put things right.

Putting things right

In deciding what redress Quidmarket should fairly pay in this case I've thought about what might have happened had it not lent loans 2 to 8 to Mr B, as I'm satisfied it ought not to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mr B may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if they had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to reconstruct now accurately. From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mr B in a compliant way at this time.

Having thought about all these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mr B would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Quidmarket's liability in this case for what I'm satisfied it has done wrong and should put right.

Quidmarket shouldn't have given Mr B loans 2 to 8.

A. Quidmarket should add together the total of the repayments made by Mr B towards interest, fees and charges on this loan.
B. Quidmarket should calculate 8% simple interest* on the individual payments made by Mr B which were considered as part of "A", calculated from the date Mr B originally made the payments, to the date the complaint is settled.
C. Quidmarket should pay Mr B the total of "A" plus "B".
D. Quidmarket should remove any adverse information it has recorded on Mr B's credit file in relation to loans 2 – 6. The overall pattern of Mr B's borrowing for loans 7 and 8 means any information Quidmarket has recorded about them is adverse, so it should remove these loans entirely from Mr B's credit file.

*HM Revenue & Customs requires Quidmarket to deduct tax from this interest. Quidmarket should give Mr B a certificate showing how much tax it has deducted if he asks for one.

My final decision

For the reasons I've explained above, I'm upholding Mr B's complaint in part.

Stagemount Limited trading as Quidmarket should put things right for Mr B as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 8 June 2023.

Robert Walker
Ombudsman