DRN-4029478

The complaint

Mr S complains that Stagemount Limited trading as Quidmarket (Quidmarket) failed to carry out proportionate checks before it advanced him loans.

What happened

Mr S took two loans from Quidmarket, I've outlined a summary of his borrowing below.

loan number	loan amount	agreement date	repayment date	term (months)	monthly repayment
1	£300.00	27/07/2020	25/09/2020	5	£108.88
2	£500.00	26/10/2020	26/02/2021	5	£181.23

Following Mr S'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 S's credit file. Mr S didn't agree and instead referred the complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator who didn't uphold it about loan 1. But the adjudicator did uphold loan 2. This is because the credit search carried out by Quidmarket showed Mr S had four outstanding payday loans and two of them were in arrears. And so, the adjudicator concluded Mr S wouldn't be able to repay this loan in a sustainable manner.

Mr S accepted the adjudicator's assessment.

Quidmarket didn't agree with the outcome reached about loan 2, and I've summarised the response below:

- Mr S provided a copy of his wage slip for loan 2 – which showed his income was larger than when loan 1 was approved.
- While Mr S's debts were larger, this was as a result of a new hire purchase agreement – excluding this Mr S's debts had increased by only £81.
- Mr S's credit search showed he had three active unsecured loans – one of which had come out of an arrangement between loans 1 and 2.

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 S 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 S'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 S. These factors include:

- Mr S 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 S 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 S 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 S.

Quidmarket was required to establish whether Mr S 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 S 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 S's complaint.

Neither Mr S 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 loan 2.

Loan 2

Mr S told Quidmarket that this loan was to be used for car repairs. Quidmarket has shown, that as part of the affordability assessment it asked Mr S for details of his income and expenditure. Mr S's income has been recorded as being £2,115 per month. Quidmarket says it received a copy of Mr S's wage slip but a copy of what it received has not been provided to the Financial Ombudsman.

Mr S also declared his monthly outgoings were £200. He declared £50 each for credit commitments and 'other'. Finally, he declared £100 for rent. This rent payment does seem low but Mr S told Quidmarket that he was living at home with parents – so it may have expected to have seen a lower level of costs associated with this. And so, I don't think it was unreasonable for Quidmarket to have accepted the monthly rent figure.

This left disposal income of around £1,915 per month. However, Quidmarket also carried out further checks including a credit search (which I go into more detail below) and having done that it increased Mr S's monthly expenditure to take account of the information it received – Quidmarket believed that Mr S had around £1,252 in expenditure each month. This was broken down as £100 for rent, £300 for 'other' living costs and £852 for credit commitments.

Quidmarket says, on the information it provided this left £1,163 of disposable monthly income, but I think taking account of the updated figures it actually left Mr S with £863 a month of disposable income. But whatever monthly disposable income figure is used, the loan looked affordable. But as I've said above, Quidmarket also had to consider whether the loan was sustainable for Mr S.

Before this loan was approved Quidmarket 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.

The credit check results, indicated that he was regularly using payday and / or instalment loans. The headline figures aren't particularly concerning, Mr S had debts of £13,231 (but most of that was due to a recently opened Hire Purchase (HP) agreement) he was utilising 109% of his available budget / revolving credit. But Mr S had 13 active accounts and he had opened 9 new credit accounts within the six months leading up to the loan being granted.

It does look like that in 2018 Mr S experienced significant difficulties because a number of accounts were defaulted in the year. But that was around two years before this loan was approved, so I don't think, Quidmarket would've been too concerned by them.

As part of the affordability check – before this loan was approved, Quidmarket had calculated monthly credit commitments of around £852 and I think that was broadly accurate given the open accounts and the payments that Quidmarket could see in the credit check results.

The adjudicator upheld the complaint about this loan because of the increase in Mr S's overall indebtedness as well as the number of active payday loan accounts. I've thought about this, and I do agree, that there was concerning information.

The main increase in Mr S's overall indebtedness was as a result of him opening a new HP account in September 2020 – and so while his debt had increased – his monthly credit commitments for this facility was £274 per month and it was this that Quidmarket had to take into account. The increase of Mr S's debt on its own wouldn't be a reason to say that Quidmarket ought to not have approved this loan.

But Quidmarket also knew, in addition to the HP loan that Mr S had two active "*Finance House*" loans – which given the terms are either payday loan or high-cost instalment loans. These cost Mr S a total of £344 per month.

Mr S also had a home credit account – which was being reported as being in delinquency. This account entered delinquency in November 2019 but Mr S had been making payments towards it, yet the account was still in arrears and was being reported as such.

There was also an unsecured loan which was subject to an arrangement to pay and this was being recorded on his credit file. This loan was for £1,150 and currently Mr S was paying £1 per month towards the balance which as of July 2020 was £809. Mr S making £1 payments per month is to be a sign that he was likely having financial difficulties – after all these payments are so small, they would be considered as ‘token’ and would point towards financial difficulties.

So, Mr S had 2 active loans opened in September 2020 as well as having two loan in arrears – one of which Mr S was only expected to pay £1 per month towards – this alone, would indicate that Mr S was likely having problems managing his money and therefore any further lending was likely to be unsustainable for him.

In addition to the recently opened accounts – which were still active, Quidmarket was on notice that Mr S had been using other payday loan companies during and before the time that loan 1 was granted.

Since July 2020 (only three months before loan 2 was granted) Mr S had settled (including loan 1) six payday or high-cost instalment loans. In my view, Mr S was clearly returning not just to Quidmarket but to other high-cost creditors after these loans had been settled.

To me, this indicates someone in constant need of credit and wasn’t using the loans to plug a short-term hole in his finances. In my view, it is more likely than not Mr S was having difficulties managing his long-term finances, as he was regularly seeking and then repaying payday loans.

Overall, thinking about the credit check results, I am concluding that Mr S ought to not have been advanced loan 2, because the results indicated he was already having problems managing his existing commitments.

I am therefore upholding Mr S’s complaint about loan 2.

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 loan 2 to Mr S, 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 S 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 S 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 S 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 S loan 2.

A. Quidmarket should add together the total of the repayments made by Mr S towards interest, fees and charges on the loan, including payments made to a third party where applicable, but not including anything Quidmarket have already refunded.
B. Quidmarket should calculate 8% simple interest* on the individual payments made by Mr S which were considered as part of "A", calculated from the date Mr S originally made the payments, to the date the complaint is settled.
C. Quidmarket should pay Mr S the total of "A" plus "B".
D. Quidmarket should remove any adverse information Quidmarket has recorded on Mr S's credit file in relation to loan 2.

*HM Revenue & Customs requires Quidmarket to deduct tax from this interest. Quidmarket should give Mr S 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 S's complaint in part.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 7 July 2023.

Robert Walker
Ombudsman