

Complaint

Miss C has complained about a high-cost short-term instalment loan Quidie Limited (trading as “Fernovo”) provided to her.

She says the loan was unaffordable and that she’d already been rejected for loans by a number of different companies.

Background

Fernovo provided Miss C with an instalment loan for £300 in June 2022. This loan was due to be repaid in four monthly instalments of around £123.

One of our adjudicators reviewed Miss C’s complaint and she thought bearing in mind the information it had been provided with, Fernovo ought to have realised that it shouldn’t have provided Miss C with her loan. So she thought that Miss C’s complaint should be upheld and that Fernovo needed to put things right.

Despite being chased for a response on more than one occasion, Fernovo didn’t respond to our adjudicator’s assessment. So the case was passed to an ombudsman for a final decision as per the next stage of our dispute resolution process.

My 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 the key relevant rules, guidance and good industry practice - on our website. I’ve referred to this when considering Miss C’s case.

Having carefully considered everything I’ve decided to uphold Miss C’s complaint. I’ll explain why in a little more detail.

Miss C was provided with a high-interest loan, intended for short-term use. So Fernovo needed to make sure that it didn’t provide this loan irresponsibly. In practice, what this means is Fernovo needed to find out enough about Miss C such that it could have a reasonable understanding of whether she could afford to make the repayments she was committing to before it lent to her.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect

a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

I know that Fernovo only provided one loan, for what was a relatively low amount, to Miss C and this might mean that it wouldn't have needed to find out too much about Miss C in order for its checks to have been proportionate.

Nonetheless, I think that it's more important to focus on the information that Fernovo did have rather than what it needed to obtain. And, in my view, Fernovo had enough information to reasonably have seen that Miss C was unlikely to have been able to make her payments in a sustainable manner when it provided this loan to her.

I say this because what was present in the information Fernovo itself obtained – the bank statements - showed that Miss C was already in a cycle of payday and other high-cost lending at the time of this application. And it looks like she had a number of outstanding loans with other providers.

This not only called into question the rest of the income and expenditure Fernovo obtained but in itself suggested that Miss C was already struggling to make ends meet – particularly as the statements clearly show that Miss C was also paying bank charges as a result of direct debits being returned unpaid.

Fernovo says its checks for these loans were proportionate. I don't disagree with this here as it obtained bank statements and I can't reasonably have expected it to do more than this. But Fernovo still had to properly apply itself to evaluating that information and make a fair lending decision. And I think it chose to ignore clear evidence of Miss C's likely inability to sustainably make her repayments and as a result it made an unfair lending decision.

Miss C had to pay (and as I understand it is still being expected to pay) interest and charges on a loan that Fernovo shouldn't have provided her with. So I think that she lost out and Fernovo should put things right.

Fair compensation – what Fernovo needs to do to put things right for Miss C

Having thought about everything, Fernovo should put things right for Miss C by:

- remove all interest and charges added to Miss C's loan from the outset. The payments that Miss C made, whether to Fernovo directly or any third-party debt purchaser should then be deducted from the new starting balance the £300 originally lent. If the amount Miss C has already repaid exceeds £300 then Fernovo should treat any extra as overpayments. And any overpayments should be refunded to Miss C;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Miss C to the date of settlement†;
- if no outstanding balance remains after all adjustments have been made, all adverse information Fernovo recorded about this loan should be removed from Miss C's credit file.

† HM Revenue & Customs requires Fernovo to take off tax from this interest. Fernovo must give Miss C a certificate showing how much tax it has taken off if she asks for one.

My final decision

For the reasons I've explained, I'm upholding Miss C's complaint. Quidie Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 27 November 2023.

Jeshen Narayanan
Ombudsman