

The complaint

Mrs W complains that Quidie Limited trading as Fernovo ("Quidie") provided her with loans which she couldn't afford to repay.

What happened

Mrs W was granted two loans and I've summarised her borrowing in the table below.

| loan number | loan amount | agreement date | repayment date | number of monthly instalments | largest repayment per loan |
|-------------|-------------|----------------|----------------|-------------------------------|----------------------------|
| 1 | £250 | 13/02/2023 | 15/05/2023 | 3 | £132.06 |
| 2 | £350 | 15/05/2023 | outstanding | 4 | £152.48 |

Quidie considered the complaint and concluded it had made a reasonable decision to provide the loans because it had carried out proportionate checks. However, Quidie explained that should Mrs W withdraw the complaint then as a gesture of goodwill it would pay her £23 and it would be willing to delete the loans from the credit file once loan two had been repaid.

Unhappy with this response, Mrs W referred the complaint to the Financial Ombudsman. The complaint was then considered by an investigator, who didn't uphold it. Mrs W didn't agree with the assessment. Her view was that had Quidie reviewed her credit file it would've realised she had "*high levels*" of borrowing.

As no agreement could be reached, the complaint was passed to me, and I issued a provisional decision explaining why I was intending to uphold Mrs W's complaint. Both parties were asked for any further submissions to be received by no later than 19 March 2024.

Mrs W let us know that she accepted the provisional decision, and we didn't hear from Quidie.

A copy of the provisional findings follows this and forms part of this final decision.

What I said in my provisional decision:

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 Mrs W could afford to pay back the amounts she'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 Mrs W'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 Mrs W. These factors include:

- *Mrs W 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);*
- *Mrs W 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);*
- *Mrs W 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 Mrs W. The investigator didn't consider this applied in Mrs W's complaint and I agree given that there were only two loans.

Quidie was required to establish whether Mrs W could sustainably repay the loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Mrs W was able to repay her 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 Mrs W's complaint.

Before the loans were approved, Quidie asked Mrs W for details of her income, which she declared as being £1,850 per month for loan one and £3,050 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 Mrs W's declared income was accurate.

I recognise the significant increase in salary between the two loans despite Mrs W appearing to not have changed employers. I have looked at Mrs G's bank statements just to see whether there was a change or not, and it seems that she received around £1,870 per month in salary and then there was further money received in the form of benefits – all of this together was around the figure Quidie was able to verify through its check.

For loan one, Mrs W also declared monthly outgoings of £984 which was broken down as £450 for housing, £100 utilities, £154 for food, £80 for transport and £200 on credit commitments. For loan two, Mrs W declared monthly outgoings of £1,150.

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 Mrs W paid each month to her other credit commitments was more than the £200 she had declared for each loan. Based on the results of its checks it increased Mrs W's credit commitments to £407 for loan one and £1,037 for loan two.

Next, excluding credit commitments and the housing costs Mrs W had declared other living costs of £334 per month for loan one and £500 for loan two. Quidie says this is much lower than averages provided by the Office of National Statistics (ONS). Using the ONS averages for someone in a similar situation to Mrs W, for example income and age, it concluded her living costs should be around £695 per month for loan one and £1,237 for loan two and so these figures were used for Quidie's assessment.

Overall, Quidie using the ONS average for loan one of £695 of living costs, plus housing costs of £450 and the credit commitments of £407 giving total monthly outgoings of £1,552. With an income figure of £1,850 this left £298 per month in disposable income to afford the repayments of around £132.

Loan one looked affordable to Quidie at the time. For loan two, using the same process as above, Mrs W was left with £326 per month to afford the repayments of around £152, again the loan looked affordable.

Before each loan was approved Quidie also carried out a credit search and it has provided the full results it received from the credit reference agency for loan one. 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.

For loan one, the headline data wouldn't have given Quidie cause for concern. It knew that Mrs W didn't have any defaults, no other forms of insolvency and no County Court Judgements. It also knew that Mrs W had around £19,000 of existing debt through 25 active accounts.

As part of its affordability assessment Quidie had already increased Mrs W's credit commitments to £407 per month. But the results of the credit search ought to have alerted Quidie that even that increase wasn't sufficient.

When loan one was approved, Mrs W had outstanding loans – nine in total. At least one outstanding payday, a number of "Finance House" loans, budgeting loans and one from a bank. The total cost each month to service and repay the loans was almost £1,200. So Quidie had data to suggest that even the increase to the credit commitments it made wasn't enough and so it ought to have considered what the credit file showed.

On top of this Mrs W had around £7,000 of credit card debt that needed repaying as well as telephone contracts and mail order accounts. All of which would've further increased her monthly credit commitments.

For loan one, I don't think Miss W had sufficient disposable income to afford the repayments – and of course this ignores that Mrs W already had what I consider to be a significant amount of outstanding loans. Taking account of her credit commitments of at least £1,200 plus her housing costs of £450 and then it is irrelevant whether Quidie used the ONS figures or the other living costs declared by Mrs W, because using either figure showed that Mrs W couldn't afford to take on this loan.

A similar picture is apparent when loan two was granted. Quidie was once again on notice that Mrs W's declared credit commitments weren't correct because it increased them by over five times what she had declared. I don't have a copy of the credit report checks for loan two – but as I am aware that Quidie was told about the active accounts, I've therefore reviewed Mrs W's bank statements to see what (if any) loan accounts and other credit commitments she already had.

I can see by loan two Mrs W had four outstanding payday loans, as well as car finance, other high-cost loans and a bank loan. The cost to service just her loans was £1,820 per month. On top of this she had other credit as well including mail order accounts and credit cards that were costing her at least another £350 per month.

Clearly in those circumstances, I really don't think any further lending was sustainable given the loan wasn't affordable once all her credit commitments and living costs were added together. Quidie also ought to have realised that she was overindebted and was likely borrowing from lenders in order to meet her repayments or at least supplement her living costs.

Taking account of what I've seen I'm intending to uphold Mrs W's complaint in full and I've outlined below what Quidie needs to do in order to put things right.

Mrs W has queried the help and support she's been offered when she tried to set up a repayment plan. I've looked at these emails and I can see that Quidie wanted a token payment of at least 10% of the balance before agreeing a plan and it has suggested this

because of failed plans before. I don't think that on the face of it, that is unreasonable approach. But now I've determined the complaint should be upheld, all interest, fees and charges on the last loan will now be removed and only the capital will need to be repaid – if it hasn't already been.

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.

As neither party has provided any further submissions, I see no reason to depart from the findings I reached in the provisional decision. I still think Quidie had sufficient information from the credit search results to show that Mrs W couldn't afford to take on either loan.

I am therefore upholding Mrs W's complaint and I've outlined below what Quidie needs to do in order to put things right for her.

Putting things right

In deciding what redress Quidie should fairly pay in this case I've thought about what might have happened had it not lent to Mrs W, 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 Mrs W 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 now accurately reconstruct. 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 Mrs W in a compliant way at this time.

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

Quidie shouldn't have given Mrs W any of her loans.

If Quidie has sold the outstanding debt it should buy it back if Quidie is able to do so and then take the following steps. If Quidie are not able to buy the debt back then it should liaise with the new debt owner to achieve the results outlined below.

- A. Quidie should add together the total of the repayments made by Mrs W towards interest, fees and charges on loan one.
- B. It should calculate 8% simple interest* on the individual payments made by Mrs W which were considered as part of "A", calculated from the date Mrs W originally made the payments, to the date the complaint is settled.
- C. Quidie should then remove all interest, fees and charges from the balance of loan two, and treat any repayments made by Mrs W as though they had been repayments of the principal. If this results in Mrs W having made overpayments then Quidie should refund these overpayments with 8% simple interest* calculated on the

overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Quidie should then refund the amounts calculated in “A” and “B” and move to step “E”.

- D. If there is still an outstanding balance, then the amounts calculated in “A” and “B” can be used to repay any balance remaining on the outstanding loan. If this results in a surplus, then the surplus should be paid to Mrs W. However, if there is still an outstanding balance then Quidie should try to agree an affordable repayment plan with Mrs W.
- E. Quidie should remove any adverse information recorded on Mrs W’s credit file in relation to loans 1 and 2.

*HM Revenue & Customs requires Quidie to deduct tax from this interest. Quidie should give Mrs W a certificate showing how much tax it has deducted, if she asks for one.

My final decision

For the reasons I’ve explained and in the provisional decision, I’m upholding Mrs W’s complaint.

Quidie Limited trading as Fernovo should put things right for Mrs W as directed above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs W to accept or reject my decision before 18 April 2024.

Robert Walker
Ombudsman