

The complaint

Mr E complains that Oodle Financial Services Limited (“Oodle”) irresponsibly granted him a hire purchase agreement he couldn’t afford to repay.

What happened

In June 2022 Mr E acquired a used car financed by a hire purchase agreement from Oodle. The cash price of the car was £12,729.00. Mr E was required to make an initial payment of £422, followed by 49 payments of £372 and then a final payment of £422. The total repayable under the agreement was £19,072.00.

Mr E says that Oodle didn’t complete adequate affordability checks. He says if it had, it would have seen the agreement wasn’t affordable.

Oodle didn’t agree. It said that it carried out a thorough assessment which included asking Mr E to confirm the accuracy of what Mr E said in his application, using information provided by a credit reference agency as well as statistical information.

Our investigator at first didn’t recommend the complaint be upheld. But when Mr E provided further information about credit he’d taken out shortly before the agreement, she decided that the complaint ought to be upheld.

As Oodle didn’t agree 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.

Oodle will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Before the finance was provided, Oodle has explained that it carried out affordability checks before approving Mr E’s application. Mr E had given details about his job and salary when making his application. He had also said he was a tenant renting a property.

Oodle said it verified Mr E’s income using information from a credit reference agency. Based on this I think the income checks were reasonable. I haven’t seen anything to suggest that the income figure provided by Mr E and as verified by the credit reference agency might have been unreasonable and this has been backed up by Mr E’s bank statements, which I’ll talk about later in this decision.

Oodle also carried out a credit check that showed Mr E’s other credit commitments. It said the checks didn’t raise concerns that could suggest the finance shouldn’t be provided. I’ve seen from the results of those checks that Mr E had a number of historical defaults in

relation to credit he'd taken out previously. These had all since been settled. The most recent default was over two years old. Defaults that are old enough to be treated as historical can sometimes be relevant, particularly if they remain unpaid. But I don't think in this complaint they would be enough to prevent the finance being approved based on the information that had already been obtained about Mr E's financial situation.

In terms of his existing credit commitments, Mr E had an ongoing unsecured loan he was repaying that had started in November 2021 and would take three years to repay, requiring monthly payments of £151. I've also seen that Mr E had taken out a hire purchase agreement in March 2020 with monthly repayments of £198 – this looks likely to have been Mr E's previous car finance agreement. But of particular interest for my findings is the unsecured loan Mr E had taken out in May 2022 – a month before he applied for the finance – requiring monthly repayments of £197 for 48 months.

I haven't seen evidence to show that Oodle asked Mr E about his expenditure. Although it did complete a credit check, this won't have indicated what Mr E's actual regular living expenses were. And whilst Oodle has confirmed it used statistical information to try and estimate Mr E's typical financial commitments each month, this wasn't a borrower-focused check. Without knowing what Mr E's regular committed expenditure was, Oodle wouldn't have got a reasonable understanding of whether the agreement was affordable or not. It therefore didn't complete proportionate checks.

I have looked through the bank statements provided to us as well as to Oodle for its investigation into the complaint. Oodle said these showed Mr E's regular income to be around £2,250. Mr E told our investigator that much of the typical household costs such as rent, shopping and utilities, didn't show on his account as these were shared and also handled by his partner, with Mr E making monthly transfers to them. Mr E explained how these payments appeared on his statements to help our investigator identify them.

Taking all this into consideration, given Mr E's level of income and allowing for the credit he was repaying and contribution towards household costs, totalling around £1,700, it looks likely that Mr E would be able to afford the monthly repayment of £372. That's assuming that this represented a reasonably full and complete picture of Mr E's financial situation. Unfortunately, for reasons I'll now explain, I don't think it did.

Following our investigator's initial view Mr E told them about the unsecured loan he took out May 2022, which showed on the credit report Oodle obtained before agreeing the finance. This was at a cost of £197 per month. This was a type of lending where the borrower's salary is taken out of their salary, before being paid into their bank account. I recognise that new borrowing can sometimes take several weeks to show up on credit report. But in Mr E's case, Oodle ought to have been aware of it as it was clearly present on its credit check. So it was able to make allowance for it as a new and financial commitment which would be continuing for the next four years. I think this puts a different complexion on Mr E's financial situation as it means that he would likely be left with no disposable income after paying for the loan. This calls into question the affordability of the new finance, given that at this overall level of borrowing Mr E would be left with zero disposable income. That means he would be left with no flexibility with which to fund his monthly outgoings, which would be likely to include occasional unexpected costs – not least in relation to running his car. I also don't consider it unreasonable to make allowance for reasonable ad hoc leisure spending.

All of this leads me to conclude that with the information it had to hand, it was open to Oodle to carry out better checks to establish a more complete picture of Mr E's financial situation. I think there was a real likelihood that the new agreement would be unaffordable. Given the lack of disposable income, Mr E was at risk of the level of repayments over the agreement period contributing to a worsening of his financial situation. I think this was likely to be to the

extent that continuing with the agreement would be unsustainable, requiring him to borrow further.

Oodle therefore didn't make a fair lending decision.

Putting things right – what Oodle needs to do

As I don't think Oodle ought to have approved the lending, it should therefore refund all the payments Mr E has made, including any deposit. However, Mr E has had use of the car for around 25 months, so I think it's fair he pays for that use. But I'm not persuaded that monthly repayments of around £289 a month are a fair reflection of what fair usage would be. This is because a proportion of those repayments went towards repaying interest.

There isn't an exact formula for working out what a fair usage should be. In deciding what's fair and reasonable I've thought about the amount of interest charged on the agreement, Mr E's likely overall usage of the car and what his costs to stay mobile would likely have been if he didn't have the car. In doing so, I agree that a fair amount Mr E should pay is £249 for each month he has use of the car. This means that currently Oodle can only ask him to repay a total sum of £6,225. Anything Mr E has paid in excess of the final amount should be treated as an overpayment.

To settle Mr E's complaint Oodle should do the following:

- End the agreement and collect the car with nothing further to pay.
- Refund all the payments Mr E has made, less fair usage
 - As Mr E has paid more than the fair usage figure, Oodle Financial Services should refund any overpayments, adding 8% simple interest per year* from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Mr E's credit file regarding the agreement.

*HM Revenue & Customs requires Oodle to take off tax from this interest.

Oodle must give Mr E a certificate showing how much tax it's taken off if he asks for one.

My final decision

I uphold this complaint and require Oodle Financial Services Limited to put things right in the manner I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 11 July 2024.

Michael Goldberg

Ombudsman