

The complaint

Ms W complains through a representative that Oodle Financial Services Limited (“Oodle”) gave her a hire purchase agreement without carrying out suitable affordability checks.

What happened

In October 2019, Oodle provided Ms W with a hire purchase agreement through a credit intermediary for a used car. The cash price for the vehicle was £13,790 and Ms W paid a £500 deposit, so the total amount of the finance was £13,290. To this £4,744.60 worth of interest, fees and charges was added making a total to repay of £18,534.60. This was to be repaid with an initial instalment of £348.91 followed by 58 payments of £298.91 followed by a final payment of £348.91. The agreement was settled in May 2022.

Oodle issued a final response letter, in response to Ms W’s complaint. It didn’t uphold it because it considered that it had undertaken proportionate checks before lending. Ms W’s representative then referred the complaint to the Financial Ombudsman.

Ms W’s complaint was considered by an investigator, who upheld it saying that had Oodle taken a closer look at Ms W’s income and expenditure information it would’ve discovered that she didn’t have sufficient funds in which to be able to afford the agreement.

Ms W accepted the investigator’s findings. But Oodle didn’t accept the proposed outcome, saying in summary, that the investigator hadn’t placed sufficient weight on the help and support Ms W was receiving from an ex-partner and it disagreed that Ms W had such a large negative disposable income each month.

These comments didn’t change the investigator’s mind and so the complaint has been passed to me, an ombudsman, 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 explained how we handle complaints about irresponsible and unaffordable lending on our website. And I’ve used this approach to help me decide Ms W’s complaint. Having carefully thought about everything I’ve been provided with; I’m upholding Ms W’s complaint. I’d like to explain why in a little more detail.

Oodle needed to make sure that it didn’t lend irresponsibly. In practice, what this means is that Oodle needed to carry out proportionate checks to be able to understand whether any lending was sustainable for Ms W before providing it.

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 that information – 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, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay.

Oodle, as part of the application process, took details of Ms W's income which she declared was £36,000 working for herself. As far as I can see, no further checks were made into Ms W's income, and it was this figure that was used for the affordability assessment.

Oodle conducted a credit search before granting the agreement and it has provided a copy of the results that it received. I've considered these results to in order to see whether Oodle was given any indication that Ms W was, or was likely having, financial difficulties at the time.

Oodle discovered she had nine active accounts including a utility account, credit cards, a mail order account and insurances to name a few. She owed just over £1,000 to a mail order company and nearly £9,400 to a credit card provider. The two insurance entries were costing her a total of £85 per month. On top of this, she had a secured loan which was costing £317 per month. All of these had been managed well with no missed payments.

But I have some concerns because the headline monthly repayment figure has come out at £402 – which given the cost of the secured loan and insurance can't be correct when the credit card and mail order payments were taken into account. To be clear, I don't know if Oodle used this figure for its affordability assessment as it hasn't provided a breakdown, but if it did use this figure, I think it ought to have been aware that it wasn't likely to be accurate.

But it's worth saying there were no adverse information recorded on Ms W's credit file, such as defaults, missed payments or any other types of insolvency. And so, the credit search results wouldn't have indicated to Oodle that Ms W was currently having, or was likely having, financial difficulties. I don't think these results would've been sufficient, to have led Oodle to carry out further checks or to have declined her application.

Oodle then conducted an affordability assessment, which it says took into account Ms W's declared income, homeowner status, the financial commitments Oodle was able to work out from the credit file, car running costs and then a cost of living payment using data extracted from the Office of National Statistics (ONS). Having carried out these checks, Oodle was satisfied that the monthly repayments Ms W was due to make were affordable.

However, like the investigator, I don't think Oodle's checks went far enough. It hadn't taken steps to verify her income and it was reliant on statistical data for its assessment of affordability, and it hasn't provided the figures it used for this assessment. In the absence of that I can't agree the checks were proportionate.

Oodle's checks could've gone further simply by asking Ms W what her living costs were, asked for evidence from Ms W about her bills or as I've done, it could've asked for copy bank statements. In relation to the income, Oodle could've asked for copy statements, self-assessment form or used one of the verification tools used by the credit reference agencies.

But to be clear, I've only used the bank statements to get an idea of what Ms W's regular living costs and income are likely to have been at the time. – I've not done this because I think Oodle ought to have requested this information as part of underwriting this loan. Afterall Oodle already had a reasonable idea of Ms W's existing credit commitments.

I accept had Oodle conducted proportionate checks it may not have seen all the information that I have seen. But, in the absence of Oodle conducting a proportionate check I do think

it's fair and reasonable to consider the bank statements that I now have access to. And having looked at the statements I've come to the same conclusions as the investigator for broadly the same reasons.

Turning to the income, I do agree with the investigator, with regards to how they calculated Ms W's monthly income. The tax return document she's provided for the relevant tax year shows a monthly pretax income of around £1,300. And I can see from her statements that she was paying herself a salary of at least £250 per week. So, I'm satisfied that Ms W's actual monthly income was significantly smaller than what Oodle believed – and it would've realised this had it conducted a proportionate check.

Oodle has said, there are payments into the account that are regular – and Ms W confirmed that these were payments from her ex-partner. Oodle has suggested that some of the payments were in fact the ex-partners share of the living costs and or the ex-partner was providing additional financial support to Ms W.

I've thought about this point, and for the reasons I've set out below, whether or not I include a monthly contribution of say £250 – which is what Oodle suggested, this doesn't make any difference to the outcome that I've reached.

The statements show that in July, August, September and October 2019 around the start of the month Ms W did receive a payment of at least £250. These appear to be regular and these payments may or may not be a contribution towards the living costs. After the funds are received they aren't immediately moved out the account this would lead me to think this £250 has just been absorbed into account to cover household living expenses.

The ex-partner transferred more into Ms W's account in August 2019. However, those payments appear to coincide with transactions that were then made for what appears to be a holiday. So, I'm satisfied those larger payments weren't being used for household living expenses but for a one off event – and so I've not counted those as part of Ms W's normal monthly living costs or the ex-partners normal monthly transfers.

However, the bank statements do show living costs, including credit repayments, insurances, and other regular costs you would expect to see such as council tax, utilities and other subscription services. These costs come to around £1,300 before any other costs are considered such as food, petrol and the cost to repay the loan.

So, even taking account of the additional £250 that Ms W may have received towards the living costs, as well as the existing direct debit costs, then the loan wasn't affordable for Ms W. She may not have had such a large negative income that the investigator calculated, but given her income and the known costs each month, this finance was unaffordable for her.

I've set out below what Oodle needs to do in order to put things right for Ms W.

Finally, I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Ms W in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

Ms W made use of the credit facility Oodle provided, and she purchased a car with this. So, it's fair that she pays the car price. However, as Oodle shouldn't have approved her loan

application, I don't think it's fair she should pay any interest and charges. So, Oodle should refund these, with interest. Oodle should:

- refund anything Ms W paid above the cash price of the car of £13,790;
- apply 8% simple yearly interest on the refund, calculated from the date Ms W made the overpayments to the date of the refund⁷; and
- remove all adverse entries relating to this agreement from Ms W's credit file.

⁷HM Revenue & Customs requires Oodle to take off tax from this interest. Oodle must give Ms W a certificate showing how much tax they've taken off if she asks for one.

My final decision

For the reasons I've outlined above, I am upholding Ms W's complaint.

Oodle Financial Services Limited should put things right for Ms W as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 21 February 2025.

Robert Walker
Ombudsman