

The complaint

Mr H complains (via a representative) Morses Club PLC (Morses) didn't carry out effective affordability checks. Had it done so, then Mr H wouldn't have been provided with the loans.

What happened

Our adjudicator partly upheld Mr H's complaint. Morses didn't agree with the adjudicator's opinion. The complaint was then passed to me.

I issued my provisional decision explaining the reasons why I was not intending to uphold Mr H's complaint. A copy of the background to the complaint and my provisional findings follow this and form part of this final decision.

What I said in my provisional decision:

Mr H took four loans between December 2016 and July 2018. I've included some of the information we've received about these loans in the table below.

Loan Number	Loan Amount	Term (weeks)	Cost per week	Date of Loan	Actual Repayment Date
1	£260	20	£19.50	02/12/2016	19/07/2017
2	£200	33	£10	19/07/2017	12/12/2017
3	£300	33	£15	12/12/2017	06/07/2018
4	£100	20	£7.50	26/07/2018	14/02/2019

Our adjudicator didn't think it was wrong for Morses to have granted loans 1 to 3. But the adjudicator thought that loan 4 shouldn't have been lent. He said the pattern of lending indicated Mr H had become persistently reliant on the loans and therefore shouldn't have provided it.

Mr H appears to have accepted the adjudicator's findings.

Morses disagreed with the adjudicator's assessment about loan 4. In summary, it said;

- *the number of loans in 20 months wasn't excessive,*
- *loan 4 was the smallest loan to date,*
- *based on what Mr H declared about his income and expenditure, he had £150 a week disposable income to afford the repayment of £7.50 and*
- *there is no other evidence to suggest the loan was unsustainable.*

As no agreement has been reached, the case has been passed to me for a final decision.

What I've provisionally 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.

Mr H doesn't appear to disagree with our adjudicator's findings that Moses wasn't wrong to lend loans 1, 2 and 3. So, it seems this lending isn't in dispute and so I no longer think that I need to make a finding about it. But I have kept these loans in mind when thinking about the overall lending relationship between Moses and Mr H. Instead, this decision will focus on whether Moses did anything wrong when it granted loan 4.

Moses had to assess the lending to check if Mr H 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. Moses'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 H'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 Moses should have done more to establish that any lending was sustainable for Mr H. These factors include:

- Mr H 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 H 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 H 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 H.

Moses was required to establish whether Mr H 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 H was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

The Financial Conduct Authority's (the industry regulatory) says in the Consumer Credit Sourcebook ("CONC") states 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 H's complaint.

Loan 4

As the adjudicator has pointed out, by loan 4 Mr H had taken four loans in around 20 months and Mr H was regularly taking a new loan either on the day the previous one was repaid or very shortly afterwards. Which is why the adjudicator thought this loan should be upheld.

Overall, I don't think the loan activity was quite enough to suggest Mr H had become reliant on the loans. The quick uptake of lending is in my view a concern. But there was a small break of three weeks between repaying loan 3 and taking loan 4 which I've considered. Loan 4 was also Mr H's smallest loan to date – with the smallest weekly repayment. And this did turn out to be Mr H's final loan. But the number of loans and time in debt, is in my view, not particularly concerning, at this point in time. So, I don't agree with the adjudicator that Morses ought to have reasonably concluded that this loan was unsustainable for Mr H.

But that doesn't mean that Morses carried out a proportionate check. Mr H had been almost continuously indebted to Morses for 20 months, and he was returning for further credit, extending his indebtedness for at least another five months. I don't think it was reasonable for Morses to have relied on what Mr H declared to it about his income and expenditure. Even though this information suggested Mr H had disposable income of around £150 per week, Morses, in my view still needed to do more.

Instead, I think it needed to gain a full understanding of Mr H's actual financial position to ensure loan 4 was affordable. This could've been done in several ways, such as asking for evidence of outgoings, or looking at bank statements and/or his own credit report. This might've helped verify information provided and revealed whether there was any other information that Morses might've needed to consider about Mr H's general financial position.

Mr H hasn't been able to provide his bank statements, but his representative has provided us a copy of a credit report. The credit report shows two historic County Court Judgements from 2014. There is also, in my view, a significant amount of historic high cost credit between 2014 – 2015. But given the time that had passed I think it would've been proportionate for Morses to conclude that he wasn't as reliant on this form of lending as he once was.

But when loan 4 was approved in July 2018 I can see that Mr H has some outstanding credit including a personal loan, another home credit loan from another provider and what appears to be two hire purchase agreements. The total monthly cost of this credit appears to be around £400 per month. So, the loan would've still looked affordable to Morses, especially because the repayment was small.

But without any further information from Mr H about his living costs, it's difficult for me to conclude that had Morses carried out proportionate check it would've likely thought that the loan was unaffordable for Mr H.

Looking at everything together though, I've not seen quite enough evidence to suggest Morses shouldn't have lent loan 4. Even considering the content of the credit report, based on what Mr H declared to Morses for his income and expenditure, loan 4 appeared affordable. I'm not minded therefore to think Morses was wrong to have provided this loan.

As this is the case, I'm not intending to uphold Mr H's complaint about loan 4. I appreciate this will be disappointing for Mr H. But I hope that he'll understand why I'm intending to reach these findings.

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.

Morses didn't respond to the provisional decision and it therefore hasn't provided any new comments or evidence for me to consider.

Mr H didn't appear to agree with the findings that I reached in the provisional decision. In response he said Morses' would offer a new loan prior to the outstanding loan finishing and money from new loans went to repay previous loans. This, in Mr B's view, is irresponsible lending.

I accept that for loans 2 and 3, which were taken out on the same day the previous loan was repaid it was likely, that these were in effect refinances. But, when loan 4 was approved, there was a couple of weeks gap after loan 3 had been repaid, so I don't think any money from loan 4 went towards repaying loan 3.

And I don't think, Mr H's borrowing pattern would've indicated to Morses that the loans were being lent irresponsibly or that the lending was now unsustainable. But there were, in my mind, signs that Morses needed to do further checks, as I outlined in the provisional decision.

But Mr H's comments haven't persuaded me to change my view on this part of his complaint case and I see no reason to depart from the findings I reached in the provisional decision.

So, for the reasons I explained in my provisional decision, I do think Morses needed to do more when the final loan was granted. But based on what I've seen, I still think had Morses carried out more in-depth checks, it would've believed Mr H could've afforded the fourth and final loan. I'm therefore not upholding Mr H's complaint.

My final decision

For the reasons I've explained above and in the provisional decision, I'm not upholding Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 31 August 2021.

Robert Walker
Ombudsman