DRN-3037413

The complaint

Mr I complains that Morses Club PLC did not carry out the right checks before approving a loan for him in 2013. Mr I says that Morses should not have approved that loan.

What happened

Morses approved Mr I for a loan of £400 on 18 November 2013. It was scheduled to be paid over 50 weekly instalments of around £14 a week. From the information Morses sent to us, the loan was repaid in October 2014.

Morses' response to Mr I's complaint was to say that as the loan had been approved more than six years before his complaint, then it did not think it needed to investigate. Mr I referred his complaint to this Service, after which Morses gave us its consent to investigate.

However, due to the age of the loan Morses had no information or records to send to us other than the basic details of the loan. No information about Mr I's application from 2013 has been supplied to us.

One of our adjudicators looked at the complaint and thought that he could not see any evidence to suggest to him that Morses had not done what it ought to have done at the time it approved the loan.

Mr I did not agree and so the complaint was passed to me to decide.

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 have set out our general approach to complaints about high cost credit and short term lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr I could repay the loans in a sustainable manner. These checks could include several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

In the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But certain factors might point to the fact that Morses should fairly and reasonably have done more to establish that any lending was sustainable for the consumer.

These factors include:

- 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 level of income);
- having many 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);
- 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, but this does not apply to Mr I's situation as he took one loan only which was not enough to establish a pattern.

Morses was required to establish whether Mr I could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

The loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. At the time the loan was approved for Mr I, the Office of Fair Trading had issued its Irresponsible Lending Guide (ILG) which gave lenders such as Morses guidance as to how to approach loan applications. That indicated that being able to repay in a 'sustainable' way meant the ability to repay without undue difficulties. The customer should be able to make repayments on time, while meeting other reasonable commitments, and without having to borrow to meet the repayments.

I have carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr I's complaint.

Morses has not been able to send to us any information about what Mr I informed it when he applied for the loan. As Mr I would have been a new customer to Morses and he was applying for a relatively modest amount of £400, then I would expect Morses to have looked at his income and his expenditure. Mr I has sent to us some details of his income at the time which looked to have been around £690 each four weeks. As the likelihood is that Mr I informed Morses that this was his income then I'll proceed on that basis.

Mr I's outgoings at the time would likely have been accepted by Morses as being what he declared on the application. We do not have that detail.

I know that Mr I's view is that had Morses carried out extensive checks such as looking at his credit file and/or reviewing his bank statements then it would have realised that he had financial difficulties.

However, we would not expect a lender in 2013 to have carried out a credit check as it was not a requirement to do so. And therefore my view is it's likely that Morses did not. And we would consider it disproportionate for a lender to review an applicant's bank statements for a first loan.

So, the weekly repayments of £14 would likely have looked affordable to Morses. And I don't have any evidence from 2013 to contradict that.

With the limited information I have and applying the reasonable expectations of that time for lenders, then I do not think that Morses lent irresponsibly.

My final decision

My final decision is that I do not uphold Mr I's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I to accept or reject my decision before 4 November 2021.

Rachael Williams
Ombudsman