

The complaint

Mr H has complained that Morses Club PLC (Morses) provided loans he couldn't afford to repay because he was in a debt cycle and these loans were unaffordable for him.

What happened

Mr H took three loans from Morses between January and August 2019. A summary of his borrowing based on information provided to this Service by Morses can be found below;

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£500.00	19/01/2019	07/08/2019	29	£25.00
2	£1,000.00	19/01/2019	07/08/2019	29	£50.00
3	£1,500.00	07/08/2019	outstanding	33	£75.00

Loans 1 and 2 were approved on the same day, so Mr H's total weekly repayments he was due to make to Morses was £75 per week.

Mr H has had some problems repaying his final loan. Based on the statement of account, up to July 2021 a balance of £380 remained due.

One of our adjudicator's looked at Mr H's complaint and she didn't uphold it. She said the checks Morses carried out were proportionate and she didn't think it had got to the point where Morses needed to verify the information Mr H had provided. Finally, she didn't think the lending history suggested these loans were unsustainable for Mr H.

Morses appears to have agreed with our adjudicator's opinion.

Mr H disagreed with the adjudicator's findings. In response he said;

- No checks were carried before loan one was granted and therefore this contributed to his debt cycle.
- Loan 3 was for three times the amount of the first loan, this increase ought to have alerted Morses to the fact this loan was irresponsibly provided.
- At the point of each application Mr H was self-employed with no steady income and when taxes were paid, Mr H actually had more outgoings than income.
- Mr H's credit file had a lot of adverse credit file data.

As no agreement could be reached the complaint has been passed to me for a final 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.

I've also taken into account the law, any relevant regulatory rules and good industry practice at the time the loan was provided.

Morses needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr H could repay the loan in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, and the consumer's income and expenditure. With this in mind, 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 Mr H. These factors include:

- the lower a consumer's 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 higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become or was becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that Morses was required to establish whether Mr H could sustainably repay his loan – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, 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. This is because the relevant regulations define sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to do so without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all mean for Mr H's complaint.

Loans 1 and 2

It's worth noting that loans 1 and 2 weren't provided by Morses. They were in fact provided by another company who is no longer trading. It is my understanding Morses purchased the loan book of the company and it has agreed to take responsibility for the sale of these loans.

These loans were approved on the same day, and so as Morses has agreed to take on responsibility for these loans, it needed to satisfy itself that Mr H could afford the combined weekly repayment of £75. For 29 weeks.

As part of the application process it's likely that Mr H was asked about his income and expenditure. However, the information that Morses would've likely collected is not available due to Morses "*data cleansing*". This means I can't be sure what information Mr H may or may not have declared at the time these loans were approved.

But, we do know that when Mr H applied for a loan three, seven months later, he declared he had an income of £600 with outgoings of £375, leaving disposable income of £225. Which would've been enough to afford the weekly repayment he was committed to making.

I've looked at the bank statements Mr H has provided, and I would agree with Mr H that his income seems irregular. However, this pattern carries on throughout the time he was taking loans from Morses, so it's likely, that the figures he provided for loans 1 and 2 may have been similar to what was declared in August 2019 when loan 3 was advanced.

Even if it wasn't given the information Mr H declared in August 2019, I don't think it's likely that he declared information to Morses that may have showed it that these loans were likely to be unaffordable for him.

When this loan was approved Morses also carried out a credit search. It's provided this Service with a copy of the results and I've considered this. But it is worth noting that Morses wasn't required by the regulations to do a credit search before granting the loans or indeed carry out a credit search to a specific standard. But what Morses had to do was carry out a proportionate check.

Again, the results of the checks for around the time when the first loan was approved aren't available. But I do have the information from a check carried out in July 2019. So, some of the information that would've been available to Morses in the January 2019 would still show on the credit file by the July 2019.

Looking at the results, Morses would've been aware of a CCJ recorded, over two years before loans 1 and 2 were granted. Which may have been of a concern, but given it was recorded about two years prior, I don't think that would've alerted Morses of any current financial difficulties.

And Morses was aware that Mr H didn't have any other defaulted or gone into arrears on any account within the last three years. Which would've indicated to Morses that he was likely not having current financial difficulties.

The credit report results also told that Mr H had a total of five active accounts of which 4 had been opened within the last six months. This isn't a particularly high number and doesn't suggest that Mr H was reliant on other forms of high cost credit. I also don't think that the total balances on Mr H's debt that Morses was aware of, would've prompted it to have done more.

Overall, there wasn't anything in my view to have given Morses cause for concern. I also don't think there was enough negative information to have suggested that Morses should either decline the application or to have prompted it to carry out further checks.

So, while I accept that what Mr H has told us about his total outgoings exceeded his monthly income this wasn't apparent in the information that Morses gathered (or was likely to have gathered) from him. And it is of course possible that had Morses carried out further checks, such as asking for evidence of Mr H's outgoings it may have discovered he couldn't afford this loan.

But as it was early on in the lending relationship, I don't think it would've been proportionate for Morses to have gathered the level of information needed to show it that these two loans were unaffordable. So, for Mr H's first two loans I think Morses carried out proportionate checks which showed Mr H was likely to be able to afford the repayments he was committing to making.

I also haven't seen any further information that shows its likely Mr H was made aware of any financial problems Mr H might've been having. Or anything that would've prompted it to investigate his circumstances further. So, I think it was reasonable for Mr H to rely on the information it obtained and approve these loans.

Loan 3

This was the largest capital loan to date, however because of the combined borrowing for loans 1 and 2, Mr H wasn't actually borrowing a larger total capital sum than he'd previously taken. This is reflected by the fact that his weekly repayment remained the same at £75.

For this loan, we do have the income and expenditure information which Mr H declared to Mr H. These amounts have been mentioned in relation to loan 1 and 2. So, Mr H believed Mr H to have had £225 in order to meet his payment of £75. So, based on this information Mr H would've thought the loan looked affordable for Mr H.

It once again, carried out a credit check. The results from the August check show similar information to the one mentioned above that was carried out in July 2019. Mr H was aware of the CCJ, at this point though it had been recorded nearly three years prior. And like at loan 1 and 2 there wasn't any indication of current financial difficulties, such as recent missed payments or recent defaults. Neither, was there any evidence in the report Mr H received to suggest that Mr H had a recent history of rapid uptake of new lending from other high cost credit providers.

Based on the information Mr H provided and the credit check results, Mr H would've thought he'd be able to afford the repayments he was committed to paying.

The question here, is whether Mr H needed to go further with the checks before this loan was granted. I've weighted up the information Mr H gave, and what Mr H found out in the credit search.

This was in effect, only the second time a new lending decision was being taken, Mr H hadn't spent that long in time, relevant to the length of time of the product. He had come back for the same amount, and the loan looked affordable.

Taking all of these factors together and for the same reasons as loan 1 and 2. I don't think Mr H needed to do further, more in-depth checks such as verifying the information Mr H had provided. In my view, the checks for this loan were proportionate and reasonable.

It is of course possible that had Mr H taken further loans, that Mr H may have needed to have done further checks before granting any future loans. But at loan 3, I don't yet think it had reached the point whether Mr H either needed to do further checks, or that the lending history in of itself showed it that the loan was now unsustainable for Mr H.

I'm therefore not upholding Mr H's complaint. I appreciate Mr H will be disappointed by this outcome, but I hope my explanation has been useful in explaining why I've reached the outcome that I have.

Finally, I'm, sorry to see that repaying this loan has proved difficult for Mr H but I'd remind Mr H of its obligation to treat Mr H fairly and with forbearance when working with him to repay the balance.

My final decision

For the reasons I've explained above, 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 9 February 2022.

Robert Walker
Ombudsman