DRN-3180855

The complaint

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

What happened

Our adjudicator partly upheld Mr G'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 intending to not uphold Mr G's complaint. A copy of the background to the complaint and my provisional findings follow this in italics and form part of this final decision.

What I said in my provisional decision:

Mr G took seven loans between December 2013 and July 2016. I've included some of the information we've received about these loans in the table below.

loan number	*loan amount*	*agreement date*	*repayment date*	*term (weeks)*	*weekly repayment*
1	*£400.00*	*05/12/2013*	*11/07/2014*	*32*	*£20.00*
2	*£400.00*	*11/07/2014*	*05/06/2015*	*50*	*£14.00*
3	*£200.00*	*11/07/2014*	*27/02/2015*	*34*	*£10.00*
4	*£600.00*	*07/08/2015*	*24/06/2016*	*50*	*£21.00*
5	*£600.00*	*21/07/2016*	*14/07/2017*	*52*	*£21.00*

Morses acquired at least one account from a previous lender, but it only purchased loans that were open in March 2014, which is when the acquisition took place. So Morses believes there may have been a further loan before December 2013, but it doesn't have any information about it because the loan was likely sold, settled or closed. So, the loans that this decision covers are those loans listed in the table above.

Our adjudicator didn't think it was wrong for Morses to have granted loans 1 - 4. But the adjudicator thought that loan 5 shouldn't have been lent. She said the pattern of lending indicated Mr G had become persistently reliant on the loans and therefore Morses shouldn't have been provided with the final loan.

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

Morses disagreed with the adjudicator's assessment in relation to loan 5. In summary, it doesn't feel Mr G had become persistently reliant on this loan for the following reasons:

- *5 loans in two and half years isn't excessive,*
- *the loan looked affordable based on what Mr G declared about his income and expenditure and*

- *there was a significant break in lending between loans 3 and 4 and another month gap between loans 4 and 5.*

As no agreement has been reached, the case has been passed to me for a 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 G doesn't appear to disagree with our adjudicator's findings that Morses wasn't wrong to lend loans 1 – 4. 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 Morses and Mr G.

Instead, this decision will focus on whether Morses did anything wrong when it granted loan 5.

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

- *Mr G 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 G 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 G 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 G.

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

Industry regulators says in the 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 G's complaint.

Loan 5

As the adjudicator has pointed out, by loan 5 Mr G had taken at least four loans in around 30 months and he did at times, take 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.

However, as Morses has pointed out, there was a significant gap in lending between loans 3 and 4, and then a much smaller gap of around a month between loans 4 and 5.

I've carefully considered the larger gap between loans 3 and 4, I don't agree with Morses that the lending relationship was split across two lending chains. However, whether the lending was split across two lending chains, doesn't make a difference, because I think the gap is large enough to demonstrate that Mr G wasn't reliant on this type of lending and therefore, the loan was likely to be sustainable for Mr G.

Overall, I don't think the loan activity was quite enough to suggest Mr G had become reliant on the loans. The loan amounts had only slightly increased and there wasn't any obvious repayment difficulties – such as missed payments. So, I don't agree with the adjudicator that Morses ought to have reasonably concluded that this loan was unsustainable for Mr G.

But that doesn't mean that Morses carried out a proportionate check. Mr G had been indebted for the majority of at least the last 30 months. This loan was also the joint largest loan of £600 to be repaid over another year. So, Mr G was extending his indebtedness into a fourth year.

Overall, I don't think it was reasonable for Morses to have relied on what Mr G declared to it about his income and expenditure. Even though this information Morses gathered suggested Mr G had disposable income of around £225 per week, Morses, in my view still needed to do more.

Instead, I think it needed to gain a full understanding of Mr G's actual financial position to ensure loan 5 was affordable. This could've been done in several ways, such as asking for evidence of outgoings or looking at bank statements and / or Mr G's 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 G's actual financial position.

However, that isn't the end of the matter. For me to be able to uphold loan 5, I have to be satisfied that not only Morses didn't carry out proportionate checks, but had it carried out further checks it would've likely discovered that Mr G couldn't afford this loan.

Mr G hasn't provided this Service with a copy of his bank statements or his credit report. So, I don't know what further checks may have highlighted about his financial situation at the time this loan was approved. So, without any further information from Mr G about his living costs, it's difficult for me to conclude what Morses would've seen if it had made better checks.

Looking at everything together, I've not seen quite enough evidence to suggest Morses shouldn't have lent loan 5. So, I'm minded therefore to think Morses wasn't wrong to have provided this loan to Mr G and I'm intending to not uphold his complaint about it.

Responses to the provisional decision

Both parties were asked to provide any further comments and evidence to this Service no later than 18 November 2021.

Morses confirmed it had received the provisional decision and it didn't have anything further to add.

Mr G (through his representative) responded and said; "*happy to go ahead with the 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.

Both Mr G and Morses received the provisional decision and neither party provided any further comments or evidence for me to consider. I therefore see no reason to depart from the findings I made in the provisional decision.

Which in summary is, Morses didn't carry out proportionate checks before the final loan was granted. But I don't know what it may have seen had it carried out further checks. I'm therefore not upholding Mr G's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 30 December 2021.

Robert Walker
Ombudsman