The complaint

Ms R (through a representative) complains that Morses Club PLC (Morses) gave her loans she couldn't afford to repay.

What happened

Ms R was advanced 5 home collected loans between February 2020 and December 2020. 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	£200.00	04/02/2020	04/06/2020	34	£10.00
2	£300.00	04/06/2020	08/12/2020	34	£15.00
3	£100.00	02/09/2020	15/10/2020	34	£5.00
4	£100.00	06/11/2020	outstanding	34	£5.00
5	£400.00	08/12/2020	outstanding	34	£20.00

The 'weekly repayment' column is the cost per week per loan. Where loans overlapped the cost would be greater. For examples when loans 2 and 3 were running at the same time Ms R's commitment to Morses was £20 per week.

Ms R has had some problems repaying her final two loans and the statement of account provided by Morses shows an outstanding balance remains due.

Following a complaint by Ms R's representative to Morses it issued its final response letter in September 2021. In it, Morses explained that it had carried out proportionate checks before granting these loans and it was reasonable to lend.

Ms R's representative didn't agree with the outcome and instead referred the complaint to the Financial Ombudsman Service.

The case was then reviewed by an adjudicator who didn't uphold the complaint. She thought that it was reasonable for Morses to have advanced loans 1 – 4. However, she concluded that given loan 5 was taken on the same day loan 2 was repaid and it was the largest capital loan to date that Morses needed to have carried out further checks before this loan was advanced.

But she couldn't conclude Morses was wrong to lend this loan because she didn't have any information about Ms R's financial position at the time the loan was advanced. Finally, she hadn't seen anything to suggest that the loans were inherently unsustainable for Ms R.

Ms R's representative didn't agree with the assessment. In response, it said that Ms R was having financial difficulties when these loans were approved especially in the months leading up to the first loan.

It also provided copies of Ms R's bank statements from November and December 2019.

As no agreement has been reached, the case has been passed to me to resolve.

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 set out our general approach to complaints about this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses had to assess the lending to check if Ms R could afford to pay back the amounts she'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Morses's checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Ms R'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 Ms R. These factors include:

- Ms R 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);
- Ms R 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);
- Ms R 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 Ms R.

Morses was required to establish whether Ms R could *sustainably* repay the loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Ms R was able to repay her loans sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that 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 Ms R's complaint.

Loans 1 – 4

It looks like that, for all of these loans, Morses carried out the same sort of checks. Morses has shown that for each of these loans it asked Ms R for details of her income, which she declared to be around £500 per week for loans 1 – 3 and for loan 4 she declared an income of around £461 per week.

In addition to this, Morses asked Ms R for details of her expenditure, and she declared this to be between £238 and £354 per week. This left a declared disposable income of at least £107, which was more than enough to afford the largest weekly commitment for these loans of £25.

Morses has also told us it would've carried out a credit search before at least the first loan was provided and Morses has provided a summary of the results that it was provided at the time.

I've reviewed these results, to see whether there was anything contained within it that would've given Morses cause for concern. It was aware that Ms R had a fairly low amount of debt of just under £3,000. She had a total of 9 active credit accounts of which 2 had a zero balance. It was aware of some defaults, but these seem to have been applied around two years before loan 1 was granted.

So having looked at that, there isn't anything that I can see from around the time these loans were approved that may have altered Morses decision to either have declined the loan applications or have prompted it to carry out further, more in-depth checks.

For these loans loan I think Morses carried out proportionate checks which showed Ms R was likely to be able to afford the repayments she was committing to making. I also haven't seen any further information that shows its likely Morses was made aware of any financial problems Ms R might've been having. Or anything else that would've prompted it to investigate her circumstances further. So, I think it was reasonable for Morses to rely on the information it obtained and approve these loans.

I accept that from looking at the bank statements provided by Ms R's representative that Morses would've had to think very carefully before advancing these loans. But, as this was early on in the lending relationship I don't think it would've been proportionate or reasonable for Morses to have started to verifying the information Ms R had provided – which means I don't think Morses needed to go as far or was expected to request bank statements at this point in time.

So, taking everything into account, for these loans, I think Morses carried out proportionate checks, and these checks showed it that Ms R was likely to be able to afford the weekly repayments she was committed to repaying. Therefore, I'm not upholding Ms R's complaint about these loans.

Loan 5

The adjudicator concluded for this loan that further checks needed to have been carried out and Morses needed to have a thorough understanding of Ms R's financial situation.

I agree with this, for much the same reason as the adjudicator. Ms R had now returned on the same day loan 2 was repaid to borrow her largest capital loan. Loan 4 was also outstanding that increased Ms R's weekly repayment to £25 per week. There was also no time, since loan 1 was granted that Ms R wasn't indebted to Morses.

So, Morses needed to consider these factors when deciding what it needed to do in order to make sure it carried out a proportionate check before the loan was advanced.

Ms R had declared a larger income of £654 and a slight increase in expenditure compared to loan 4 – of £493. But when this loan was approved Morses may have believed that Ms R had sufficient disposable income of £130 per week to afford the repayments she was committed to making.

But that doesn't mean that Morses carried out a proportionate check. I've already explained some of those factors that Morses was aware of at the time this loan was approved, for example it was Ms R's largest loan to date. Thinking about these factors, I can't fairly say a proportionate check has been carried out.

Overall, I don't think it was reasonable for Morses to have relied on what Ms R declared to it about her income and expenditure.

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

However, that isn't the end of the matter. For me to be able to uphold this loan, I have to be satisfied that had Morses carried out a proportionate check it would've likely discovered that Ms R couldn't afford the loan.

Ms R has provided copies of bank statements from November and December 2019 but I can't rely on these to show what her financial situation was at the time when loan 5 was advanced because they are from too long before – around 12 months. So, I don't know what further checks may have highlighted about her financial situation at the time this loan was approved.

I've also considered the full credit file that Ms R's representative has provided the Financial Ombudsman Service. I would point out that the report says it was 'searched' on 3 March 2020. From this I take this to the be the date the report has been generated. Which is several months before loan 5 was granted. So, the credit report is of limited use because it may not show all of the credit commitment that were outstanding when loan 5 was advanced.

Looking at everything together though, I've not seen quite enough evidence to suggest Morses shouldn't have lent loan 5. I'm therefore concluding that I think it was reasonable for Morses to have advanced this loan.

An outstanding balance remains on the final two loans, and I'd remind Morses of its obligation to treat Ms R fairly and with forbearance.

I appreciate this outcome will be disappointing for Ms R, but I hope my explanation as been helpful for her to understand why I have reached the decision that I have.

My final decision

For the reasons I've explained above, I'm not upholding Ms R's.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 27 May 2022.

Robert Walker
Ombudsman