

## The complaint

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

## What happened

Ms L took five home collected loans between November 2014 and December 2015. I've included some of the information we've received about these loans in the table below.

loan number	loan amount	agreement date	loan repayment date	term (weeks)	weekly repayment
1	£200.00	28/11/2014	19/05/2015	34	£10.00
2	£200.00	24/02/2015	09/09/2015	34	£10.00
3	£200.00	19/05/2015	04/12/2015	34	£10.00
4	£200.00	09/09/2015	balance sold	34	£10.00
5	£500.00	04/12/2015	balance sold	52	£17.50

The weekly repayment column is the cost per week per loan, so where loans overlapped Ms L's commitment to Morses was greater. For example, when loans 1 and 2 were running her commitment was £20 per week.

Morses considered Ms L's complaint and issued a final response letter on 9 September 2021. In it, Morses concluded that the checks it made before granting the above loans were proportionate and the checks showed Ms L could afford these loans. It didn't uphold her complaint.

Unhappy with this response, Ms L's representative referred the complaint to the Financial Ombudsman Service.

The case was then considered by an adjudicator.

Our adjudicator didn't think it was wrong for Morses to have granted loans 1 - 4. He said, there wasn't anything in Ms L's circumstances or the lending history which would've prompted Morses to have carried out further checks such as verifying the information she provided.

But the adjudicator thought that for loan five Morses's checks didn't go far enough and it should've at this point, tried to verify the information Ms L had provided. But at the time, he didn't have a copy of Ms L's bank statement, so he wasn't able to conclude whether Morses should've granted the loan.

Ms L's representative responded and asked for some further time to allow Ms L to provide the bank statements for the period when loan five was granted.

After Ms L provided her bank statements the adjudicator reconsidered his findings. The adjudicator still felt it was reasonable for Morses to have provided loans 1 – 4. But now he

had Ms L's bank statements he considered these, to decide whether had Morse carried out further checks, it would've still advanced the loan.

The adjudicator reviewed Ms L's bank statements from October 2015, and he said there wasn't anything in them that may have stopped Morse lending to her. So, he concluded that while Morse hadn't done proportionate checks, had it made further checks it wouldn't have changed its lending decision.

Ms L's representative didn't agree with the outcome, in response it provided the following comments from Ms L;

*"... she is unhappy with the outcome and still feel that the business should not have provided the loans due to her financial situation at the time."*

Morse didn't respond to either of the adjudicator's assessment.

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 short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

Morse had to assess the lending to check if Ms L 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. Morse'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 L'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 Morse should have done more to establish that any lending was sustainable for Ms L. These factors include:

- Ms L 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 L 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 L 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 L.

Morse was required to establish whether Ms L 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 L 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 L's complaint.

#### **Loans 1 – 4**

It looks like that, for all of these loans, Morses carried out the same sort of checks. It is likely that Ms L provided details of her weekly income and weekly expenditure. However, Morses has only been able to provide us with details of the expenditure and income it collected when loans three and four were approved.

Although, I don't have the income and expenditure information for loans one and two, what I have seen for loans three and four show that Ms L had between £140 - £340 of weekly disposable income. And given the proximity of loans one and two I think it's more likely than not that Ms L would've provided similar information to Morses.

It's also worth noting that Ms L's capital borrowing didn't increase, all loans were for £200 to be repaid with a weekly commitment of £10. So based on the declared weekly disposable income, Ms L had enough to afford the largest weekly commitment of £20 (when two loans were running concurrently).

Morses has also told us it would've carried out a credit search before these loans were approved. But it has told us the credit search results are no longer available for these loans. So, it isn't able to show the Financial Ombudsman what it saw at the time.

Ms L has provided the Financial Ombudsman with her full credit report, but having looked at that, there isn't anything that I can see from around the time these loans were approved that may have prompted Morses to either have declined the loan applications or have made it to carry out further, more in-depth checks.

For these loans loan I think Morses carried out proportionate checks which showed Ms L 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 L might've been having. Or anything 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'm therefore not upholding Ms L's complaint about these loans.

#### **Loan 5**

I do agree with the adjudicator that by this point in time Morses's checks needed to go further. It was no longer reasonable for it to have solely relied on the information that Ms L provided or from the credit check that it likely carried out. Although, as I've said above, the results of this credit search (indeed if one was carried out) are no longer available.

For this loan, Ms L declared she had weekly income of £400 and weekly outgoings of £120, at this point the outgoings didn't include the repayments that Ms L was due to make for loan 4 – that was running at the same time. So Morses was aware she had £280 per week to pay the total weekly commitment to it if of £27.50.

Morses may have reasonably believed that based on the information that Ms L declared she had more than enough disposable income to afford her repayments.

But Ms L had been borrowing from Morses for just over a year and this was now her largest capital loan, and this led to her largest weekly repayment. So I do think by now Morses's checks needed to go further than just relying on the information Ms L declared to it about her circumstances because I think it ought to have been concerned that Ms L was continually coming back for new lending.

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

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

Ms L has provided the Financial Ombudsman with bank statements that cover the period leading up to the loan being granted and I've considered these in detail. However, having done so I think that even if Morses had viewed the bank statements it still would've advanced the loan.

Looking at the bank statements there is very little in the way of obvious living costs, it seems to be that Ms L received her benefit payments into the account and then withdrew the funds in cash. In between those periods where payments aren't being received there are a few low value transactions using a well-known online payment method.

But the account doesn't go overdrawn and there are no signs that Ms L had other forms of high cost credit, or any other credit for that matter apart from a payment towards either a mobile phone or an internet service provider. And there was in my view, no other information that may have led Morses to conclude that Ms L was having wider financial difficulties. It is likely, that had Morses seen the bank statements that I've seen it would've concluded the loan was affordable.

In conclusion, had Morses carried out what I consider to be a proportionate check I think it would've likely concluded that Ms L was in a position to afford the repayments she was committed to making towards loan five.

Overall, I'm not upholding Ms L's complaint about her loans. I appreciate Ms L will likely be disappointed by the outcome of this complaint, but I hope my explanation has been useful in explaining why I've reached the outcome that I have.

### **My final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms L to accept or reject my decision before 15 April 2022.

Robert Walker  
**Ombudsman**