

The complaint

Mr O complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted him a loan. Had it done so, Mr O says Morses would've seen that he had a large amount of debt and was spending significant sums on gambling.

What happened

Mr O was advanced one home collected loan on 22 June 2021 of £300. Mr O was contracted to make 35 weekly repayments of £15. Mr O has had some problems repaying his loan and an outstanding balance remains due to Morses.

Following Mr O's complaint Morses wrote to him outlining the checks it had carried out before this loan was approved and it considered these checks to be proportionate. Mr O didn't accept the outcome and referred the complaint to the Financial Ombudsman.

An adjudicator reviewed the complaint and he didn't uphold it. He explained that there wasn't anything in the information that suggested Mr O wouldn't have been able to afford to repay the loan.

Morses didn't respond to the adjudicator's assessment.

Mr O didn't agree with the outcome. In response he provided some screen shots of his credit file to show some of his debts. He also says a lot of the credit he sought at the time was so he could gamble.

The adjudicator went back to Mr O to explain why his comments and additional information hadn't changed his mind about the outcome given this was early on in the lending relationship so in his view, Morses didn't need to make better checks.

Mr O provided some additional comments for consideration, he said;

"I would have expected a company's initial checks to show that my utilisation was high, my credit score was low and a large number of defaults and late payments meaning that giving further credit would and has worsened my situation.

I would like this escalated please as I firmly believe the loan being given to someone in my dire situation was irresponsible and even the most basic of checks would have shown this."

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 Mr O 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' checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr O'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 O. These factors include:

- Mr O 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 O 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 O 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 O.

Morses was required to establish whether Mr O could *sustainably* repay the loan – 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 O was able to repay his 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 Mr O's complaint.

For his loan Mr O declared he had a weekly income of £311.78 which Morses says was checked with the information it received from the credit reference agencies. Mr O's declared weekly expenditure was £115. This left, Mr O with around £196 per week in disposable income to be able to afford the contractual repayments of £15 per week.

Based solely, on the income and expenditure it was reasonable for Morses to have believed that Mr O would be able to afford the repayments.

Morses has also said before this loan was granted it carried out a credit search and it has provided the Financial Ombudsman Service with the results.

It is worth saying that there is no requirement within the regulations at the time to have carried out a credit search let alone one to a specific standard. But what Morses couldn't do

is carry out a credit search and then not react to any concerning information that it may have been made aware of.

I appreciate that Mr O has provided a screen shot of his credit file which shows some adverse information from another home credit provider as well as providing us an overview of his credit score.

So, I'm going to be relying on the credit search results provided to the Financial Ombudsman by Moses, because I know this is the information that it saw at the time and the information that it used when making its lending decision.

The credit results that Moses were provided with may not exactly match the information that Mr O is able to see in a full credit report. As I've said there is no requirement for a credit search to be carried out, let alone to a required standard. So, it is possible that some information visible to Mr O wasn't reported to the credit reference agency at the time of the loan application or Moses didn't ask to see certain information.

Looking at the credit file data provided by Moses I'm satisfied that while it was aware of some adverse information but it wasn't in my view sufficient for Moses to either decline the application or to have prompted it to have carried out further more in-depth checks.

Moses knew from its credit checks that Mr H had:

- 8 active credit accounts with four having a zero balance.
- Active debt of around £2,541.
- There was some evidence that in the past that Mr O had taken out and used both home credit loans as well as short term payday loans.
- But Mr O didn't, according to the credit report, have any active payday loans and hadn't taken a home credit loan within the year preceding this loan.
- It was aware that Mr O had six defaults recorded on his credit file, but the most recent one had been recorded more than eight months before the start of the loan.

The number of defaults may have led Moses to consider whether it was appropriate to lend. However, there wasn't anything else in the credit file data— such as evidence of more recent delinquent accounts and or evidence of being reliant on other forms of high cost credit. So, weighing everything up, I think it was reasonable for Moses to provide this loan.

Based on the information Mr O declared Moses could've been confident he was in a position to afford the contractual repayments he was due to make for this loan. Given this was in the early part of the lending relationship, I think the checks that Moses did were proportionate and it didn't need to do any further checks before agreeing to the loan.

Finally, I've thought about Mr O says about why he likely took this loan and that had Moses seen his bank statement it wouldn't have lent to him. But given this was early on the in the lending relationship and there wasn't anything else in the information that I have seen that may have prompted Moses to investigate Mr O's circumstances further - I think it would've been disproportionate at this point in time to have asked to see his bank statements.

I'm therefore not upholding Mr O's complaint.

Mr O still has an outstanding balance that does need to be repaid but I'd remind Moses of its regulatory obligation to treat Mr O fairly and with forbearance while discussing a way forward.

My final decision

For the reasons I've explained above, I'm not upholding Mr O's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 21 July 2022.

Robert Walker
Ombudsman