DRN-3309144

The complaint

Ms A, through a representative complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted her loans.

Ms A also says that she often had more than one loan running at the same time which meant she had to keep borrowing money to repay the loans.

What happened

Ms A was advanced eight home collected loans between May 2017 and February 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	£100.00	09/05/2017	29/09/2017	33	£5.00
2	£100.00	16/06/2017	12/01/2018	33	£5.00
3	£100.00	29/09/2017	20/04/2018	33	£5.00
4	£200.00	12/01/2018	23/11/2018	33	£10.00
5	£100.00	20/04/2018	30/11/2018	33	£5.00
6	£150.00	14/03/2019	25/10/2019	33	£7.50
7	£100.00	14/06/2019	13/12/2019	33	£5.00
8	£150.00	07/02/2020	28/08/2020	34	£7.50

The 'weekly repayment' column in the table above is the cost per week per loan. Where loans overlapped the cost per week was increased, for example when loans 1 and 2 were running at the same time Ms A's weekly commitment to Morses was £10.

Following Ms A's complaint Morses wrote to her representative to explain that it wasn't going to uphold her complaint. Ms A's representative didn't accept the outcome and referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint and he didn't uphold it. He said, Morses made a reasonable decision to provide loans 1 – 4. However, he thought from loan 5 Morses needed to have carried out more in-depth-checks but he hadn't seen anything to suggest these later loans were unaffordable for her. Finally, he didn't think the pattern of lending was harmful for Ms A.

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

Ms A's representative didn't agree with the outcome and asked for an ombudsman's decision.

The adjudicator went back to Ms A's representative and again asked for copies of Ms A's bank statements. But Ms A's representative told us no further information could be provided.

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 A 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' 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 A'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 A. These factors include:

- Ms A 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 A 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 A 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 A.

Morses was required to establish whether Ms A 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 A 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 A's complaint.

Loan 1

For this loan, Ms A declared she had a weekly income of £164 and she declared weekly outgoings of £130. This left, Ms A £34 per week in disposable income to be able to afford the contractual repayment of £5 per week.

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

Morses has also said for the first loan only, it carried out a credit search and it has provided the Financial Ombudsman Service with the results that it received from the credit reference agency.

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 seen.

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

- Ms A had 10 active accounts.
- Just under £4,000 of other debt.
- Two new credit accounts had been opened within the last six months.
- Zero defaults and no other evidence of insolvency.

Overall, I don't think it was unreasonable to have provided this loan based on the information that Ms A declared as well as the information within the credit report.

I'm therefore not upholding Ms A's complaint about this loan.

Loans 2 - 4

For these loans Morses carried out similar checks as it did for loan 1. It asked Ms A for her income which she declared to be between £164 and £171 per week.

She also declared weekly outgoings of between £85 and £135. This left Ms A with disposable weekly income of between £40 and £80 per week. Which was sufficient to be able to afford the largest combined weekly repayment due to Morses of £10.

Given it was still quite early on in the lending relationship and there didn't appear to have been any repayment problems to date, I think it was reasonable for Morses to have relied on the information Ms A provided which showed the loan repayments were affordable.

Importantly, Morses didn't carry out a credit check before these loans were approved. But as I've said above, Morses wasn't required to carry out such a search before each loan, so the fact one wasn't carried out here isn't something I can say is an error.

As a credit search wasn't carried out, I think the checks for these loans were proportionate and showed Ms A was able to afford the loan repayments.

I've also thought about the fact that some of these loans overlapped, but even taking into account the higher weekly repayments as a result of this these loans, they still looked affordable for Ms A. So, this doesn't change my mind about the checks that Morses carried out.

As this is the case, I'm not upholding Ms A's complaint about loans 2 - 4.

Loans 5 - 8

It is worth noting for these loans, there is a break in lending of around four months between Ms A repaying loan 5 and taking out loan 6. I've thought about this in the overall context of the borrowing, but whether this gap was there (or not) doesn't make any difference to the findings that I've made about these loans.

For loan 5, Ms A declared she had a weekly income of £176 with outgoings of £113 which gave Ms A disposal weekly amount of around £115 to meet her repayment of £15 per week.

Miss B also declared the same income for loans 6 – 8 and a similar amount of weekly outgoings of between £92 to £119. This may have then led Morses to believe that Ms A had sufficient disposable income and could afford the loan repayments she was committed to making.

Given what we know, it looks like for these loans Ms A's income was checked with a credit reference agency. But no other credit searches were carried out when these loans were approved.

But that doesn't mean that Morses carried out a proportionate check. Given by loan 5 it was now the second time that Ms A had taken a new loan on the same date that a previous loan had been repaid. As well, as her overall indebtedness and weekly commitments increasing, her weekly repayments at this point were now £15 per week.

In addition, Ms A had now been continuously indebted to Morses with no break for almost a year, so I think by now Morses needed to go beyond the checks it had carried out for loan 5 – as well as the later loans.

Overall, I don't think it was reasonable for Morses to have solely relied on what Ms A declared to it about her income and expenditure. Even though this information suggested Ms A could afford the loan repayments.

Instead, I think it needed to gain a full understanding of Ms A's actual financial position to ensure loan 5 and all later loans were affordable for her. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at bank statements.

The further checks might've helped verify Ms A's declared income and expenditure and possibly revealed whether there was any other information that Morses might've needed to consider about Ms A's general financial position.

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

Ms A's representative was asked to provide copies of Ms A's bank statements, but the representative informed us that no further information or evidence could be supplied to support the complaint.

Without the further information the adjudicator requested, I've been unable to build a complete and accurate picture of what Ms A's financial position may have been at the time these loans were provided.

So, in the absences of the information about Ms A's living costs and income, it's difficult for me to conclude what Morses would've likely seen had it made better checks.

Although Morses didn't carry out proportionate checks, I'm not able to conclude that further checks would've led it to conclude this loan was unaffordable for Ms A.

Looking at everything together though, I've not seen quite enough evidence to suggest Morses shouldn't have lent loans 5 – 8, even considering what Ms A declared to Morses for her income and expenditure. I'm therefore concluding it was reasonable of Morses to provide this lending.

As this is the case, I'm not upholding Ms A's complaint.

My final decision

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

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

Robert Walker
Ombudsman