

The complaint

Mrs W complains (through a representative) that Morses Club PLC (Morses) didn't carry out appropriate affordability checks. Had it done so, then Mrs W wouldn't have been provided with the loans because she was in a cycle of borrowing.

What happened

Our adjudicator partly upheld Mrs W'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 Mrs W's complaint. A copy of the background to the complaint and my provisional findings follow this in italics and a smaller font and form part of this final decision.

What I said in my provisional decision:

Mrs W took three loans between November 2014 and March 2016 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 | 03/07/2015 | 34 | £10.00 |
| 2 | £400.00 | 03/07/2015 | 13/11/2015 | 50 | £14.00 |
| 3 | £500.00 | 04/03/2016 | 05/08/2016 | 33 | £25.00 |

Following Mrs W's complaint to Morses it issued its final response letter on the matter. In it, Morses said that it had carried out proportionate checks which showed the loans as being affordable. So Morses feels it was appropriate for these loans to have been provided.

Our adjudicator didn't think it was wrong for Morses to have granted loans 1 - 2. But the adjudicator thought that loan 3 shouldn't have been lent because in his view, the weekly repayment Mrs W was going to be making represented a significant proportion of her declared weekly income.

Mrs W's representative told us that she agreed with the recommendation to uphold her final loan.

Morses disagreed with the adjudicator's assessment. It said that although Mrs W's disposable income was low for loan three at £120, she also had a low amount of outgoings and Morses doesn't feel the £25 per week payment was unaffordable or unsustainable.

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.

Mrs W agreed with the adjudicator's assessment about the outcome of the complaint, which includes not upholding her complaint about loans one and two. 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 Mrs W.

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

Morses had to assess the lending to check if Mrs W 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 have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mrs W'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 Mrs W. These factors include:

- Mrs W 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);
- Mrs W 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);
- Mrs W 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 Mrs W.

Morses was required to establish whether Mrs W 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 Mrs W 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 Mrs W's complaint.

Loan 3

This was the third loan Mrs W had taken in little over a year, but it is worth pointing out that there was a four-month period preceding this loan where Mrs W hadn't been making repayments to Morses.

When this loan was approved, I can see Morses took details of Mrs W's declared weekly income of £170 and it asked her for details of her outgoings which she declared as being £50 per week. So Morses may have felt that the loan was affordable based on the information that she had provided.

The adjudicator upheld this loan because in his view, Mrs W needed to use a significant proportion of her income to make her contractual repayments. I can see, based on the loan amount and term, that her payments had increased by more than two-fold, since she started borrowing from Morses.

I can also quite understand why in this case the adjudicator thought the loan should be upheld. But I don't agree with him in relation to this because as I've said about there was a gap in lending before this loan was approved, and there wasn't any obvious repayment problems when Mrs W repaid loans one and two.

So, while, Mrs W may have needed to have paid a significant proportion of her income, in this case I don't think that, on its own is sufficient to uphold this loan.

But that doesn't mean Morses carried out a proportionate check. Mrs W had been making repayments to Morses for around a year by the time loan two had been repaid. And as I've said above, Mrs W was making a not insignificant commitment to Morses for another 33 weeks.

Overall, I don't think it was reasonable for Morses to have relied on what Mrs W declared to it about her income and expenditure. Instead, I think it needed to gain a full understanding of Mrs W's actual financial position to ensure loan three was affordable.

This could've been done in several ways, such as asking for evidence of outgoings, or looking at bank statements and/or a full review of Mrs W'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 Mrs W'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 Mrs W couldn't afford this loan.

Mrs W has told us she can't provide the Financial Ombudsman with either copies of her bank statements or a copy of her full credit report. So, I don't know what further checks may have highlighted about her financial situation at the time.

Without any further information from Mrs W about her living costs, it's difficult for me to conclude what Morses may have seen if it had 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 that these loans were unaffordable for Mrs W.

Looking at everything together though, I've not seen quite enough evidence to suggest Morses shouldn't have lent loan three. Even considering what Mrs W declared to Morses for her income and expenditure, the loan appeared affordable. I'm not minded therefore to think Morses was wrong to have provided this loan.

As this is the case, I'm not intending to uphold Mrs W's complaint about all her loans.

Response to the provisional decision

Both Mrs W and Morses were asked to provide any further comments and evidence they wanted the Financial Ombudsman Service to consider no later than 16 March 2022.

Morses didn't respond to the provisional decision and so it hasn't provided anything further for the Financial Ombudsman to consider.

Mrs W, through her representative provided the Financial Ombudsman with a copy of her full credit report. But she didn't provide any further comments or evidence for consideration.

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.

Morses hasn't provided anything further for the Financial Ombudsman to consider, so I have nothing further to add here.

However, Mrs W has now provided a copy of her credit file following the provisional decision. I've therefore reviewed the credit file, to see whether at the time the third loan was approved Morses would've likely realised the loan was either unaffordable or unsustainable for her.

However, having looked at the credit file, while I can see some adverse information, this was recorded *after* the final Morses loan was advanced so it wouldn't have been aware of this at the time the loan was given.

For the entries that were active at the time of the loan, there isn't anything to suggest financial difficulties or the loan would be unaffordable for Mrs W. For example, there aren't any missed payment markers around the time of the advance, other repayment problem, signs she was over indebted or any information that may have indicated Mrs W was having financial problems.

Taking into account what I've seen in the credit report, I'm now of the view that even though for the reasons I gave in the provisional decision, Morses didn't carry out a proportionate check before it advanced loan three. Further checks, in my view, based on what I've seen wouldn't have made a difference to the decision to lend – Morses would've still likely provided the loan.

The information Mrs W has provided from her credit report, has in this case, not changed my view on what is a fair and reasonable outcome to the complaint, and I am not upholding her complaint.

I appreciate Mrs W will be disappointed with the outcome that has been reached on her case, but I hope my explanation has been useful in explaining why I have reached the conclusions that I have.

My final decision

For the reasons I've explained above and in the provisional decision, I'm not upholding Mrs W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 28 April 2022.

Robert Walker
Ombudsman