

The complaint

Miss M complains (through a representative) that Morses Club PLC (Morses) gave her loans she couldn't afford to repay. Had Morses carried out proportionate checks it would've discovered that Miss M was having financial difficulties.

What happened

Miss M was advanced 6 home collected loans between July 2013 and May 2016. 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
4	£200.00	30/07/2013	13/03/2014	32	£10.00
5	£100.00	13/03/2014	21/10/2014	32	£5.00
6	£100.00	23/10/2014	09/06/2015	34	£5.00
7	£100.00	09/06/2015	02/02/2016	34	£5.00
8	£100.00	18/12/2015	19/04/2016	20	£7.50
9	£150.00	24/05/2016	27/12/2016	33	£7.50

The 'weekly repayment' column is the cost per week per loan. Where loans overlapped Miss M's commitment to Morses was greater. For example, when loans 7 and 8 overlapped Miss M's commitment to Morses was £12.50 per week.

The numbering of the loans is based on Morses' table that it provided the Financial Ombudsman, and which was used by the adjudicator in her assessment. It's likely Miss M had 3 further loans preceding loan 4 in the table above.

Morses has told us it is likely these earlier loans were provided by a different company. This other company was acquired by Morses in March 2014, and it only took responsibility for any loans that were still active at the time of purchase. Therefore, this decision will only be able to deal with the loans listed in the table above.

Following Miss M's complaint Morses explained in its final response letter that it had carried out affordability checks before the loans were advanced and based on the information it received it was reasonable to lend.

Miss M's representative didn't agree with the findings in the final response letter and instead referred the complaint to the Financial Ombudsman Service.

The case was then reviewed by an adjudicator. She concluded it was reasonable for loans 4 – 7 in the table above to have been advanced. So, she didn't uphold the complaint about this lending.

However, she thought loans 8 and 9 shouldn't have been granted because the lending pattern was now harmful for Miss M. So, she upheld the complaint about those final two loans.

Neither Miss M nor her representative responded to the adjudicator's assessment.

Morses disagreed with the adjudicator's assessment in summary, Morses said:

- Although the loans were taken out consecutively Miss M could've closed the lending had she wished.
- There is no evidence Miss M was using other sources of borrowing to repay her loans.
- Miss M didn't tell Morses about any financial difficulties.
- Miss M didn't get into arrears on any of her loan accounts.
- Miss M confirmed the income and expenditure to confirm it was an accurate reflection of her circumstances.
- Miss M had sufficient disposable income to be able to afford the weekly repayments for loans 8 and 9.
- Morses says it is reasonable to lend to a customer who it believes can afford the loan repayments and sustainable.

As no agreement could be reached, the case was passed to me and I issued my provisional decision explaining why I was intending to not uphold Miss M's complaint, based on the information I had available at the time.

A copy of the background to the complaint and my provisional findings follow this and form part of this final decision.

What I said in my provisional 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.

Miss M (or her representative) don't appear to have disagreed with the adjudicator's findings in relation to loans 4 – 7. 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 for completeness I don't disagree with the adjudicator's assessment that it wasn't unfair of Morses to have provided these loans. But I have kept these loans in mind when thinking about the overall lending relationship between Morses and Miss M.

Instead, this decision will focus on whether Morses did anything wrong when it granted loans 8 and 9.

Morses had to assess the lending to check if Miss M 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 Miss M'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 Miss M. These factors include:

- Miss M 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);
- Miss M 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);
- Miss M 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 Miss M.

Morses was required to establish whether Miss M 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 Miss M 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 Miss M's complaint.

Loans 8 and 9

The adjudicator upheld these loans because the adjudicator concluded these loans were harmful for Miss M because it was now unsustainable to continue to lend to her.

I can understand why the adjudicator has concluded this, but I don't think, Morses would've concluded these loans were now harmful to Miss M.

I accept, that Miss M had been indebted with Morses for just around two years, which in some situations could be a sign that she was now reliant on these loans or at the very least having longer term money management problems. Neither can I ignore that the lending was consecutive and overlapped, which could show that Miss M had a continued need for credit.

But I also have to keep in mind that these loans were for fairly small sums to be repaid over a longer period of time, longer than say a payday loan. Miss M borrowed the same capital sum for loans 2 – 8 and loan 9 was only marginal larger. In summary, Miss M's indebtedness didn't seem to be increasing unsustainably.

There also hadn't been any obvious repayment problems when Miss M had settled previous loans.

So, taking everything together, I don't think Morse would've or ought to have realised these loans were unsustainable for Miss M, but that doesn't mean Morse did all it should've done before advancing these loans.

Morses hasn't provided us with the income and expenditure information Miss M declared for

loan 8. But, for loan 9 Miss M declared a weekly income of £250 with outgoings of £178 which gave Miss M a disposal weekly amount of £72 in order to meet her repayment of £7.50 per week. This may have then led Morses to believe that Miss M had sufficient disposable income and could afford the loan repayment.

But that doesn't mean that Morses carried out a proportionate check. I do think the time in debt ought to have altered Morses to the possibility that Miss M may have been reliant on this credit. In addition, the information Morses collected from Miss M for loan 9, didn't leave her with too much left over each week in order to cover any unexpected costs. These factors ought to have prompted it to consider whether it knew enough about Miss M's financial position.

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

Instead, I think it needed to gain a full understanding of Miss M's actual financial position to ensure loans 8 and 9 were affordable. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at bank statements and/or Miss M'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 Miss M's general financial position.

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

Miss M's representative hasn't, to date provided copies of Miss M's bank statements so I don't know and can't say what Morses may have seen had it verified the information she provided through her bank statements.

However, Miss M's representative has provided a copy of her credit report which was generated in March 2021. So, there will be information contained within the report that covers the period of time around loans 8 and 9 were granted. I've considered the credit report to see whether had Morses looked into Miss M's finances in more detail it would've concluded these loans weren't affordable for her.

Looking at the credit report I can see three credit accounts were open when loans 8 and 9 were approved. These are a mobile phone, mail order and a credit card account. However, the information I've been given doesn't show Miss M's monthly costs for these credit accounts.

This means I can only conclude that Miss M did have some other outstanding credit. But I don't know whether this may or may not have made a difference to the affordability of these loans because the credit file provided doesn't provide the cost of those agreements.

Based on the information I've been given to date, had Morses done further checks, such as looking at Miss M's full credit report, it would've likely concluded these loans were affordable and sustainable for her.

So, without any further information from Miss M about her other living costs which, it's difficult for me to conclude what Morses would've likely seen had it made better checks.

Although Morse 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 Miss M. As this is the case, I'm intending to not uphold Miss M's complaint about loans 8 and 9 and therefore I'm intending to not uphold Miss M's complaint.

Response to provisional decision

Both Miss M and Morse were asked to provide any further information they wanted considering as soon as possible, but no later than 13 May 2022.

Neither party has responded to the provisional decision and an adjudicator has chased for a response. As the deadline for a response has now passed, I see no reason not to issue the final decision.

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.

As no new information has been provided, I see no reason to depart from the findings that I reached in the provisional decision. So, I'm not upholding Miss M's complaint for the same reasons as outlined in the provisional decision.

For completeness, I still don't think Morse carried out a proportionate check when it granted loans 8 and 9. But, Miss M's credit file provided doesn't show any signs of either financial difficulties or over indebtedness. So, I don't think that Morse made an unreasonable decision to lend.

As that is the case, I'm not upholding Miss M's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 15 June 2022.

Robert Walker
Ombudsman