

The complaint

Ms D (through a representative) complains that Morses Club PLC (Morses) gave her loans she couldn't afford to repay because at the time she was unemployed, and her credit score was poor.

What happened

Ms D was advanced five home collected loans between December 2015 and September 2017. 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	£300.00	19/12/2015	02/06/2016	21	£23.51
2	£250.00	03/06/2016	24/11/2016	20	£18.75
3	£250.00	24/11/2016	05/04/2017	20	£18.75
4	£250.00	05/04/2017	22/09/2017	20	£18.75
5	£250.00	22/09/2017	24/01/2018	20	£18.75

Following Ms D's complaint Morses wrote to her representative to explain that it wasn't going to uphold her complaint because it considered that it had carried out proportionate checks before these loans were advanced.

Ms D's representative, unhappy with the outcome referred the complaint to the Financial Ombudsman Service.

The case was then considered by an adjudicator. He didn't think it was unfair of Morses to have granted loans 1 – 4.

However, he didn't think Morses should have approved loan 5. The adjudicator concluded that this was now the third occasion that Ms D had returned for new lending on the same day a previous loan had been repaid and it was now the fourth occasion of re-borrowing. In these circumstances the adjudicator didn't think this loan was sustainable for Ms D.

Neither Ms D or her representative responded to or acknowledged the assessment.

Morses disagreed with the adjudicator's decision to uphold loan 5. In summary it said:

- There was no evidence Ms D was using other lending or other funds in order to meet her repayments.
- Morses wasn't aware of any financial difficulties Ms D may have been having at the time.
- Ms D's disposable income had increase from loan 3 and she could've asked for, and been granted, larger loans.
- Morses considers it appropriate to lend to Ms D because the loans looked affordable and sustainable.

As no agreement was reached, the case was passed to me and I issued a provisional decision outlining that I was intending to not uphold Ms D's complaint.

A copy of the background to the complaint and my provisional findings follow this in italics and forms 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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

Ms D didn't disagree with the adjudicator's findings in relation to loans 1 – 4. So, it seems this lending isn't in dispute but for the avoidance of doubt, I agree with the adjudicators outcome and approach for these loans. 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 Ms D.

Instead, this decision will focus on whether it was reasonable to advance loan 5 to Ms D.

Morses had to assess the lending to check if Ms D 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 Ms D'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 D. These factors include:

- *Ms D 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 D 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 D 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 D.

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

Loan 5

The adjudicator upheld this loan for a couple of factors but the crux of the upheld was that Ms D returned for new lending on the same day that previous loans had been repaid.

I can quite understand why the adjudicator has concluded this, after all when a consumer keeps coming back for new lending after loans have been repaid, it could be a sign of a customer having or likely having financial difficulties.

I can foresee where this sort of situation could lead us to conclude that loan(s) were now unsustainable for a consumer. For example, cases where each new loan is larger than the last and or the consumer was potentially declaring smaller sums of disposable income. And I think there are cases, where this sort of pattern would lead me to conclude that a loan shouldn't have been granted. But I don't think, having looked at everything that I can fairly conclude that here.

Ms D's borrowing didn't always increase with each new loan – indeed, loans 2 – 5 were for the same capital value with the same weekly repayment. So, Ms D's indebtedness didn't increase and at the same time it looks like Ms D's disposable income was increasing.

Thinking about these factors, I don't think Morses would've likely concluded the loan was unsustainable for Ms D.

For loan 5, Morses was aware that Ms D had disposable weekly income of £222 – which is the largest amount of disposable income Ms D had declared. So, knowing this, along with Ms D's pattern of needing to return for further borrowing (of the same amount) ought to have led Morses to have checked and verified the information she was declaring in order to check the loan was affordable for her.

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

Instead, I think it needed to gain a full understanding of Ms D's actual financial position to ensure loan 5 was affordable for her. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at bank statements and/or Ms D's full credit report. This might've helped verify information provided and revealed whether there was any other information that Morses might've need to consider about Ms D'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 Ms D couldn't afford the loan.

Ms D's representative hasn't been able to provide copies of her bank statements or a copy of her full credit report. Without either of these documents, and with no other information about her situation at the time, it's not possible for me to conclude that had Morses carried

out the sorts of checks I think it needed to have done that it would've discovered Ms D couldn't afford the loan repayments.

Looking at everything together though, I've not seen quite enough evidence to suggest Moses shouldn't have lent loan 5. Even considering what Ms D declared to Moses for her income and expenditure. I'm not minded therefore to think Moses was wrong to have provided this loan.

As this is the case, I'm intending to not uphold Ms D's complaint about this loan, based on the current information I have available. I'm also not upholding Ms D's complaint about loans 1 – 4.

Response to the provisional decision

Both Ms D and Moses were asked to provide any further information for consideration as soon as possible, but in any event, no later than 13 May 2022.

Neither Ms D nor Moses has responded to the provisional decision and both were reminded of the deadline by an adjudicator.

As the deadline for responses has now passed, I see no reason why I can't 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 by either Moses or Ms D I see no reason to depart from the findings which I made in the provisional decision.

I still don't think Moses carried out a proportionate check before it granted loan 5. However, without any further information from Ms D about her circumstance at the time, I can't say what Moses may have seen had it carried out the level of check I'd have expected it to. Therefore, as it stands, Moses appears to have made a reasonable decision to lend.

I'm therefore not upholding Ms D's complaint.

My final decision

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

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

Robert Walker
Ombudsman