

The complaint

Ms R (through a representative) complains that Morses Club PLC (Morses) irresponsibly provided her with loans that she couldn't afford to repay.

What happened

Ms R was advanced three home collected loans between August 2018 and February 2019. 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 of loan (weeks)	total weekly repayment
1	£400.00	13/08/2018	13/02/2019	33	£20.00
2	£400.00	13/02/2019	22/08/2019	33	£20.00
3	£500.00	13/02/2019	22/08/2019	33	£45.00

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

Ms R's representative didn't accept the outcome and instead referred the complaint to the Financial Ombudsman.

The case was then considered by an adjudicator and it was partly upheld. He thought it was fair for Morses to have granted loans 1 and 2. However, he concluded loan 3 shouldn't have been advanced because Ms R's total weekly repayment to Morses represented a significant portion of her declared income.

Ms R's representative responded but didn't provide any new comments on the proposed outcome, instead it provided a copy of Ms R's full credit file which was generated in December 2021.

Morses disagreed with the adjudicator's decision to uphold loan 3. In summary it said:

- Ms R's declared income figure for loan 3 was verified with the credit reference agencies.
- A total of 14.2% of Ms R's uncommitted and available income was due to be used to repay both loans 2 and 3.
- These loans were repaid without any undue difficulty and these loans were actually settled early.
- Ms R never made Morses aware of any financial difficulties which she may have been having.
- Morses consider it appropriate to lend to a consumer who can show that loans are both affordable and sustainable.

As no agreement has been reached, the case has been passed to me to resolve and I issued a provisional decision.

In my provisional decision, I explained the reasons why I was not intending to uphold Ms R's complaint. A copy of the provisional findings follows this in italics 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 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 R 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 R'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 R. These factors include:

- *Ms R 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 R 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 R 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 R.

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

Loan 1

As part of its affordability checks Morses asked Ms R about her weekly income and expenditure. She declared to Morses she had a weekly income of £229.20 with outgoings of £52. Based solely, on the income and expenditure it was reasonable for Morses to have believed that Ms R would be able to afford the weekly repayment of £20.

It was still quite early on the lending relationship which means, in my view, Morses could rely on the information Ms R had provided.

Morses also carried out a credit check before this loan was approved and I've considered the results that it has provided. Having reviewed these results, while there is some adverse information such as defaults. However, the most recent default was recorded around two years before the loan was applied for. Which in my view, is too far away from this loan application to make Morses think Ms R was having current financial difficulties.

So, I think, there wasn't anything in my view would've led it to either decline the application or prompt it to carry out further checks such as to verify any of the information Ms R had provided.

I think the checks that Morses did were proportionate and it didn't need to do any further checks before agreeing to these loans.

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

Loans 2 and 3

These loans were approved on the same day that loan 1 was repaid and based on the repayment history Ms R didn't have any problems repaying her first loan.

It is, in my view, peculiar for Morses to have approved two loans on the same day, for the same term. To me this doesn't make any sense to have approved two loans when it could've just provided Ms R with a loan of £900 rather than one of £400 and one of £500.

As these loans were taken out on the same day when thinking about what happened, in the circumstances of this case, I'll consider these loans as one i.e. a loan on the same day of £900 rather than two separate loans.

The effect of these two loans was that Ms R's weekly repayments had more than doubled from £20 to £45 per week which is why our adjudicator upheld the complaint. He concluded that after loan 3 was granted Ms R was committed to repaying too higher portion of her income towards loan repayments.

I can quite understand why the adjudicator has concluded this, but I don't think, Morses would've concluded loan 3 was unsustainable. I accept, that Ms R was now having to pay Morses close to 20% of her declared income each week, for the next seven months – which isn't an insignificant commitment.

But there wasn't anything in the way that Ms R repaid loan 1 that would've given Morses cause for concern and based on Ms R declared weekly income of £235 and outgoings of £60 per week. Morses may have believed both of these loans were affordable.

So, taking everything together, I don't think Morses would've or ought to have realised that this loan was unsustainable for Ms R, but that doesn't mean Morses did all it should've done before advancing this loan.

But unlike the adjudicator, I don't think the portion of income on its own is sufficient to say the case should be upheld, but I do think this is a factor in deciding whether a proportionate check had been carried out for these two loans.

For these two loans I don't think a proportionate check had been carried out. I do think the large increase in weekly repayment as well as the significant increase in capital borrowing ought to have prompted it to consider whether it knew enough about Ms R's financial position.

Instead, I think it needed to gain a full understanding of Ms R's actual financial position to ensure loans 2 and 3 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 Ms R'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 Ms R'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 Ms R couldn't afford them.

Ms R's representative has provided a copy of her credit report which was generated in December 2021. So, there will be information contained within the report that covers the period of time around when loans 2 and 3 were granted.

I've considered the credit report to see whether had Morses looked into Ms R's finances in more detail it would've concluded these loans weren't affordable for her. Looking at the credit report I can see there two defaults showing. However, one was recorded 18 months after these loans were approved and so was unlikely to be in arrears at the point of lending.

The other default was recorded in July 2016 for £944 – based on the record the credit account had been sold to a third-party collection agency. However, as this was nearly three years before the loan was granted, I don't think Morses would've considered this to be problematic because there aren't any other signs of financial difficulties within the credit report that has been provided. For example, there is no indication that Ms R was a regular user of home credit or other forms of high cost credit.

Based on the information I've been given to date, had Morses done further checks, such as looking at Ms R's full credit report, it would've likely concluded the loan was affordable and sustainable for her.

So, without any further information from Ms R about her other living costs which aren't visible on the credit report that I have been provided, 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 that these loans were unaffordable for Ms R.

Looking at everything together though, I've not seen quite enough evidence to suggest Morses shouldn't have lent loans 2 and 3. Even considering what Ms R declared to Morses for her income and expenditure. I'm therefore intending to conclude it was reasonable for Morses to have provided these loans.

Response to the provisional decision

Both Ms R (and her representative) as well as Morses were asked to respond to the provisional decision and provide any further information, comment or evidence for consideration as soon as possible but no later than 13 July 2022.

However, neither Ms R (or her representative) as well as Morses responded to the provisional decision.

The deadline for responses has now passed, given this, I don't think it is unreasonable to proceed 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 neither party has provided anything further for my consideration, I see no response to depart from the findings that I made in the provisional decision.

I still think Morses may a reasonable decision to provide Ms R with loan one. For loans two and three I think, given what Morses was aware off, it ought to have carried out further checks to satisfy itself Ms R could afford these loan repayments in a sustainable manner.

However, the credit report provided by Ms R's representative didn't show any signs of financial distress or difficulties – and so as I can see, based on the evidence provided Morses also made a reasonable decision to provide loans two and three.

Overall, I still think Morses made a reasonable decision to provide these loans.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 12 August 2022.

Robert Walker
Ombudsman