

The complaint

Ms S, through a representative complains that Morses Club PLC (Morses) gave her loans she couldn't afford to repay.

What happened

Morses believes that Ms S was advanced 8 home collected loans. However, Morses didn't have any information at all about loans 1 and 2 and Ms S has also not provided any information about those loans either.

In total, Morses provided details of 6 loans, and I've included some of the information we've received about these loans in the table below. The loan table numbering is the same as outlined in Morses final response letter.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
3	£200.00	12/11/2010	30/09/2011	34	£10.00
4	£200.00	15/12/2011	12/10/2012	34	£10.00
5	£400.00	21/12/2012	11/10/2013	34	£20.00
gap in lending					
6	£400.00	16/12/2014	18/08/2015	34	£20.00
7	£400.00	18/08/2015	17/05/2016	34	£20.00
8	£500.00	17/05/2016	30/03/2017	33	£25.00

Following Ms S's complaint Morses wrote to her representative to explain that it wasn't going to uphold the complaint because it had carried out proportionate checks before it granted these loans. Ms S's representative didn't agree with the outcome and referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint and based on the two lending chains she wasn't able to uphold the complaint because in her view, there was nothing in the information Ms S provided that may have led Morses to have declined the lending.

She thought further checks needed to be carried out before loans 5 and 8 were granted, given the time in debt and the fact the loans were increasing in values. But she couldn't say what Morses may have seen at the time because Ms S's representative had already told the Financial Ombudsman it wasn't able to provide any information such as bank statements or a credit file.

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

Ms S's representative didn't agree with the proposed outcome, it said verbatim:

Our client does not wish to accept this offer please can you refer this for final decision with the Ombudsman

As no agreement could be reached the case has been passed to an ombudsman for a 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.

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 S 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 S'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 S. These factors include:

- Ms S 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 S 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 S 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 S.

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

In the loan table above, there is one significant gap of around 14 months between loans 5 and 6. In my view, this gap was big enough for a new lending chain to begin. This means that for loan 6, Morses was entitled to treat Ms S's application afresh and in effect treat loan 6 as loan 1 in a new lending chain.

There are also, in the first chain a number of smaller gaps of around two months between each loan. While, these gaps aren't enough to break the chain (or create a new chain of

lending) I have considered the gaps because it does show that Ms S wasn't necessarily reliant on this type of credit.

Loans 3 – 4

Due to the passage of time Morse isn't able to provide evidence of the checks that it carried out before these loans were approved. I don't consider this to be unusual or suspicious, but I have to recognise that these loans were approved up to 12 years ago and therefore it's reasonable that some information isn't available.

However, from my experience of working these sorts of cases that it is likely that before these loans were approved Morse would've asked Ms S for details of her income and expenditure.

Ms S also hasn't been able to provide any details of what her likely income and expenditure was at the time these loans were approved.

Without information from either party to show exactly what information and checks Morse carried out, I am not going to be in a position to be able to conclude that Morse shouldn't have granted these loans or didn't carry out a proportionate check.

I'm therefore not upholding Ms S's complaint about these loans.

Loan 5 and 8

The adjudicator said that for these two loans, Morse may have wanted to have gone further with its checks given the amount of time that Ms S had spent in debt and the fact that her loans were increasing in value. Looking at the lending history I agree with the adjudicator.

For loan 5, albeit there were some small gaps between the loans, Ms S's loans had increased in value and this loan was for now twice as much as loan 3.

For loan 8, Ms S had been indebted in this chain for 19 months and Ms S's loans had now reached £500 again. In addition, for both loans 5 and 8 there was an emerging pattern of Ms S repaying her loans late, for example loan 7 was repaid 4 weeks later than planned.

Taking account of these factors I think it would've been reasonable for Morse's checks to go further than they did. Instead, I think it needed to gain a full understanding of Ms S's actual financial position to ensure loans 5 and 8 were affordable. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at her bank statements. This might've helped verify information provided and revealed whether there was any other information Morse might've needed to consider about Ms S's 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 Morse carried out a proportionate check it would've likely discovered that Ms S couldn't afford the loan.

Ms S's representative has told us that Ms S can't get hold of her bank statements or her credit file or any other information that may have shown what Ms S's financial position was at the time. So, without the requested information from Ms S about her living costs and her wider financial position, it's difficult for me to conclude what Morse would've likely seen had it made better checks.

Looking at everything together though, I've not seen quite enough evidence to suggest Moses shouldn't have lent loans 5 and 8. As this is the case, I'm not upholding Ms S's complaint about these loans.

Loans 6 and 7

As the adjudicator pointed out, loan 6 was the first loan in a new lending relationship. This means I think it was reasonable for Moses to have treated Ms S's application afresh and in effect treat her as a new customer. This therefore has implications for the level and type and checks that I think it needed to do.

Ms S returned for these loans after around a 14-month break, and these loans were for the same sum as loan 5. This, along with the break have led me to conclude that Moses carried out a proportionate check for these loans and the information it likely gathered suggested Ms S was in a position to afford the repayments for these loans.

For these loans, I understand Moses would've carried out similar checks as it had done so on the previous loans. Moses hasn't been able to provide the income and expenditure information for Ms S and as I've said above, I don't know what her situation was at the time as her representative has told us it can't get bank statements or a credit file.

Moses has also said for loan 6 only, it carried out a credit search and it has provided the Financial Ombudsman Service with the results. 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 Moses 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 Moses I'm satisfied there was no adverse information such as defaults, delinquent accounts or County Court Judgements. Ms S also only had three active credit accounts and had outstanding debts of just under £1,000. It wasn't in my view sufficient for Moses to either decline the application or to have prompted it to have carried out further in-depth checks given the results of the credit search.

It was early on in the lending relationship in this chain and it was reasonable for Moses to have relied on the information Ms S provided and there wasn't anything, as far as I can see that would've prompted Moses to have either declined these loans or asked for further information from Ms S. I'm, therefore not uphold Ms S's complaint about these two loans.

Overall, I am not upholding Ms S's complaint about any of her loans.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 14 October 2022.

Robert Walker
Ombudsman