

The complaint

Mr M complains that Morses Club PLC (Morses) didn't carry out checks before it granted a loan which he couldn't afford to repay. Mr M went on to say that had proper affordability checks been carried out Morses would've seen adverse information recorded on his credit file – including a default and not lent to him.

Finally, Mr M says that the interest, fees and charges were excessive and even though he repaid the loan within the 'cooling off' period the loan is still showing on his credit file.

What happened

Mr M took one loan from Morses for £300 on 10 November 2021. Mr M repaid this loan in full on 23 November 2021. Due to Mr M repaying the loan within the 14 day cooling off period Morses' statement of account shows no interest or fees were charged.

Morses considered Mr M's complaint and issued its final response letter. Morses concluded it hadn't made an error when it approved the loan because it carried out a proportionate check which showed that Mr M could afford the loan. In addition, it concluded "*... you were not charged any interest on this loan so it cannot be deemed unaffordable.*"

Unhappy with this response, Mr M referred his complaint to the Financial Ombudsman. The complaint was considered by an adjudicator. She concluded Morses made a reasonable decision to lend the loan. So, she didn't uphold the complaint.

Morses didn't respond to or acknowledge the adjudicator's assessment. Mr M didn't agree with the outcome and he made two points in response:

1. the loan shouldn't have been provided because it wasn't affordable and
2. as the loan was cancelled and was unaffordable it shouldn't be showing on his credit file.

As no agreement has been reached, the case has been passed to me for a 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 short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses had to assess the lending to check if Mr M could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Morses' checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr 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 Moses should have done more to establish that any lending was sustainable for Mr M. These factors include:

- Mr 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);
- Mr 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);
- Mr 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 Mr M.

Moses was required to establish whether Mr M could *sustainably* repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr M was able to repay his 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 Mr M's complaint.

Unaffordable lending

Before the loan was approved, Moses took details of Mr M's income and expenditure. Moses recorded Mr M's income as being around £461 per week with weekly outgoings of £276. Moses was therefore aware that he had around £185 per week in which to make the weekly loan payment.

Based solely on the income and expenditure information Moses would've been reasonably confident Mr M could afford his loan repayments.

Before this loan was approved Moses also carried out a credit search and it has provided a copy of the results.

It is worth saying here that although Moses carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. Therefore, it's entirely possible that the information Moses received may not entirely reflect the information Mr M may be able to view on the credit report that he can obtain. There could be for a number of reasons for this, such as Moses only asking for certain pieces of information such as the number of active credit accounts.

But what Moses can't do is carry out a credit search and then not react to the to the information it received – if necessary.

I've considered the results that it has provided. The results show there is some adverse information such as Morses being aware of two defaults. However, the most recent default was recorded over two years before the loan was applied for. Which in my view, is too far away from this loan application to make Morses think Mr M was having current financial difficulties. So, I don't think the credit checks would've alerted Morses to either have declined the loan application or to have prompted it to make further enquires with Mr M.

There was also nothing else in the information that I've seen that would've led Morses to believe that it needed to go further with its checks – such as verifying the information Mr M had provided.

Given it was early on in the lending relationship, I think it was reasonable for Morses to have relied on the information Mr M provided along with the income and expenditure figures to show he had sufficient disposable income to afford the repayments he was committed to making. So, like the adjudicator I'm not upholding Mr M's complaint about the loan.

It is worth saying here, that Mr M repaid the loan the within the 14 day cooling off period afforded to him. As a result, and what is confirmed by Morses' statement of account, there was no interest or fees added to the amount borrowed.

So even, if I were to conclude that the loan shouldn't have been granted – (to be clear I don't think this) - then there wouldn't have been any refund due to Mr M because he only repaid what he borrowed – which is what we'd expect. The Financial Ombudsman Service would only ask Morses to refund any interest fees and charges and so as none were charged, no refund would've been due.

I'm therefore not upholding this element of Mr M's complaint.

Credit file

Mr M hasn't provided a copy of his credit file, so I don't know exactly what information Morses is reporting to the credit reference agencies about this loan. But Mr M has said he can see the loan on his credit file and I have no reason to doubt that.

Mr M does suggest that because he cancelled the loan agreement then no information should be reported to the credit reference agencies. I've thought about this carefully and while I understand Mr M's frustration, Morses has done nothing wrong in reporting the loan to the credit reference agencies as long as it hasn't reported any adverse information about the loan and what it is reporting is an accurate reflection of how the account was repaid.

I've considered what the Consumer Credit Act says about cancelling a credit agreement but there is nothing in there, as far as I can see, that would prevent a lender from reporting a cancelled loan to the credit reference agencies. So Morses reporting the loan, isn't in my view, an error.

However, even if I had concluded that Morses shouldn't have provided the loan, given it was early on in the lending relationship I'd have asked Morses to remove any adverse information it may have reported to the credit reference agencies. I wouldn't have asked, at this point in the lending relationship for Morses to delete the record because it was too soon to conclude the loan was unsustainable for Mr M.

Taking everything into account I'm not upholding Mr M's complaint. I appreciate the outcome will come as a disappointment to Mr M but I hope my explanation is useful as to why I can't uphold either element of his complaint.

My final decision

So, for the reasons I've explained above, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 30 September 2022.

Robert Walker
Ombudsman