DRN-3626184

The complaint

Miss R complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted her loans. Had Morses carried out proportionate checks it would've discovered she was stuck in a cycle of borrowing and couldn't afford her repayments.

What happened

Miss R was advanced two home collected loans between July 2021 and February 2022. 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	09/07/2021	11/02/2022	35	£15.00
2	£600.00	11/02/2022	outstanding	35	£30.00

Morses has told the Financial Ombudsman that as of May 2022, Miss R still owed it around £630.

Following Miss R's complaint Morses wrote to her to explain that it wasn't going to uphold her complaint. Miss R was unhappy with this response and referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint and he didn't uphold it. He said, Morses made a reasonable decision to provide these loans. He said the information Morses gathered from Miss R showed she was able to afford these loans and he couldn't see anything within the checks which may have indicated Miss R was having (or likely having) financial difficulties.

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

Miss R's didn't agree with the outcome and she asked for an ombudsman's decision. She also provided some comments:

- She doesn't consider the checks to be proportionate because she made repayments monthly rather than weekly.
- Miss R repaid loan 1 with loan 2 and Morses didn't make enquires as to why she needed another loan.
- Miss R provided bank statements which showed she was living in her overdraft.
- Morses didn't check that she had other debts to repay.

As no agreement has been reached, the case has been passed to me to resolve.

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 Miss 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’ 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 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 Miss R. These factors include:

- Miss 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);
- Miss 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);
- Miss 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 Miss R.

Morses was required to establish whether Miss 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 Miss 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 Miss R’s complaint.

Loan 1

For this loan Miss R declared she had a weekly income of £400 and she declared weekly outgoings of £174. This left Miss R £226 per week in disposable income to be able to afford the contractual repayments of £15 per week.

Based solely on the income and expenditure, it was reasonable for Morses to have believed that Miss R would be able to afford the repayments.

Morses has also said for the first loan only, it carried out a credit search and it has provided the Financial Ombudsman Service with the results that it received from the credit reference agency.

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. And the information Morses received may have differed from what Miss R could see on her credit report due to a number of factors including the information Morses requested and any reporting delays by other credit providers. But what Morses 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 Morses I'm satisfied that while it was aware of some adverse information it wasn't in my view sufficient for Morses to either decline the application or to have prompted it to have carried out further, more in-depth checks.

I've summarised some of the key information that Morses was aware of, from the credit check results.

- Miss R had 10 active credit facilities with around £10,000 of existing debt.
- Miss R hadn't had any delinquent account markers (such as missed payments) reported in the previous 14 months.
- It had been 25 months since Miss R's most recent default had been applied.
- Between 25 and 48 months before this loan was approved 11 accounts had defaulted.
- Miss R had repaid five of the defaulted accounts.

Overall, while Morses knew that historically Miss R must have had some quite significant financial difficulties given the number defaulted accounts I don't think, in this case it would've led it to either further checks or it declining Miss R's credit application and I've explained why below.

The adverse credit file data did appear to be historic, given that there hadn't been any adverse credit file information reported within the last year. Morses could also see, from the credit report that Miss R was taking steps to repay the defaulted accounts because she had been able to settle almost half of them.

The historic defaults also wasn't a reflection of Miss R's current financial position or her ability to repay this loan – I think this is especially true as it had been almost a year since any sort of negative payment marker on her credit file. I think Morses would've most likely concluded that Miss R previously had significant problems in the past but was now in the process of rebuilding her finances.

I know Miss R has sent us her bank statements, but given what she declared to Morses and what it could see in her credit check results I don't think Morses needed to have carried out further checks such as verifying the information it had gathered by reviewing them. So, at this point in the lending relationship I think it would've been *disproportionate* to the circumstances for Morses to have reviewed her bank statements.

I do accept, after having looked at the bank statements that there were potential signs of financial difficulties given in the month before this loan was advanced there are a number returned direct debit payments – indicating that Miss R already didn't have enough money to service her outstanding commitments. There is also evidence of Miss R already repaying a number of other high cost credit providers – which again could be a sign that Miss R was struggling. But this information wasn't reflected in either the credit search results, or the information Miss R declared to Morses – information Morses was in my view, entitled to rely on.

Therefore, given it was still quite early on in the lending relationship, I think it was reasonable for Morses to have relied on the information Miss R provided along with the income and expenditure figures to show she had sufficient disposable income to afford the repayments. I'm therefore not upholding Miss R's complaint about this loan.

Loan 2

For loan 2 Morses carried out similar checks as it did for loan 1 – expect this time a credit check wasn't carried out. I can't uphold the complaint solely because a credit check wasn't carried out because what Morses needed to do was carry out a proportionate check which may (or may not) involve a credit check.

It asked Miss R for her income which she declared to have slightly increased to £440 per week. She also declared weekly outgoings of £100 leaving a slightly larger weekly disposable income of £330. Which was sufficient to be able to afford the weekly repayment due to Morses of £30.

I don't have copies of the application forms, so I don't know what reason was given as to why this loan was needed – and Morses hasn't told us. However, whatever reason Miss R needed the loan for that wouldn't set aside Morses regulatory obligation to carry out a proportionate check – which I think it has done here.

Given it was still quite early on in the lending relationship and although I accept that Miss R has borrowed more and her payments have doubled, that on its own wouldn't be enough to uphold the complaint considering there didn't appear to have been any repayment problems to date.

I can also see from the statement of account provided by Morses that Miss R was repaying loan one on a monthly basis rather than by weekly. However, home credit loans do provide a degree of flexibility with the repayments and I can see that Miss R was making monthly repayments equivalent to four-week contractual repayments. But this, on its own wouldn't have prompted Morses to have carried out further checks because ultimately, Miss R was appearing to repay her first loan without any difficulty.

I also think it was reasonable for Morses to have relied on the information Miss R provided which showed the loan repayments were affordable**.** This has led me to conclude that Morses made a reasonable decision to lend and I am not upholding Miss R's complaint about this loan either.

This decision has only dealt with whether Morses acted reasonably when it advanced Miss R credit. Miss R has told Morses that she is having financial difficulties and so, in line with the regulations Morses is reminded of its obligation to treat her fairly and with forbearance while she is repaying the outstanding balance due.

My final decision

For the reasons I've explained above, I'm not upholding Miss R's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 2 September 2022.

Robert Walker
Ombudsman