

The complaint

Mrs L (through a representative) complains that Morses Club PLC (Morses) didn't carry out proper affordability checks before it granted her loans. Had it done so, Mrs L says it would've likely discovered she was over indebted.

What happened

Mrs L was advanced five home collected loans between November 2018 and September 2020. 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	£200.00	28/11/2018	11/06/2019	33	£10.00
2	£200.00	09/04/2019	29/10/2019	33	£10.00
3	£500.00	11/06/2019	24/01/2020	33	£25.00
4	£500.00	24/01/2020	03/09/2020	34	£25.00
5	£500.00	03/09/2020	30/03/2021	34	£25.00

The 'weekly repayment' column in the table above is the cost per week per loan. So, where loans overlapped Mrs L's weekly commitment was more. For example, when loans 1 and 2 were granted her weekly commitment to Morses was £20 per week.

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

Mrs L'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. She thought it was fair for Morses to have granted loans 1 – 4. However, she concluded loan 5 shouldn't have been advanced because it was clear that the lending was now harmful to Mrs L.

Mrs L's representative acknowledged the adjudicator's assessment but hasn't provided any further comments.

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

- Mrs L only had five loans in two years.
- Mrs L's loan value hadn't increased between loans three and five.
- Mrs L had a good repayment history and had repaid her loans early.
- Mrs L had a sufficient amount of disposable income to be able to afford the loan repayments for loan five.
- There were no indications of financial difficulties.

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

I issued my provisional decision explaining the reasons why I was intending to not uphold Mrs L's complaint. A copy of the provisional findings follows this in italics and a smaller font and forms part of this final decision.

What I said in my provisional decision

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.

Mrs L appears to have agreed with the adjudicator's findings in relation to loans 1 – 4. So, it seems this lending isn't in dispute and 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 Moses and Mrs L.

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

Moses had to assess the lending to check if Mrs L 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. Moses's checks could've considered a number of different things, such as how much was being lent, the size of the repayments, and Mrs L'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 Mrs L. These factors include:

- *Mrs L 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);*
- *Mrs L 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);*
- *Mrs L 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 Mrs L.

Moses was required to establish whether Mrs L 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 Mrs L 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 Mrs L's complaint.

Loan 5

The adjudicator upheld this loan due to a number of factors. But ultimately, she concluded that by now this loan was harmful for Mrs L and so it was now unsustainable to continue to lend to her.

I can understand why the adjudicator has concluded this, but I don't think, Moses would've concluded that this loan was now so harmful to Mrs L for the reasons I've outlined below.

I accept, that Mrs L had been indebted with Moses for just under two years, which in some situations could be a sign that she was now reliant on these loans or at the very least was having longer term money management problems. Neither can I ignore that the lending was consecutive, which could be a sign that Mrs L had a continued need for credit – without a break. But I also have to keep in mind the loan repayments were fairly modest at £25 per week, and there were no other overlapping loans at this time.

There also hadn't been any obvious repayment problems – up to this point all the loans had been repaid at least a week early. So, I don't think I can fairly uphold this loan solely because in effect Mrs L had been indebted to Moses for around two years.

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

Mrs L had declared a weekly income of £553 with outgoings of £340 which gave Mrs L a disposable weekly amount of around £213 to meet her loan repayment of £25 per week. This may have then led Moses to believe that Mrs L had sufficient disposable income and could afford the loan repayment.

But that doesn't mean that Moses carried out a proportionate check. I do think, by this time, considering the time in debt and the fact that Mrs L's lending hadn't decreased since she started borrowing ought to have prompted it to consider whether it knew enough about Mrs L's financial position.

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

Instead, I think it needed to gain a full understanding of Mrs L's actual financial position to ensure loan 5 was affordable. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at bank statements. This might've helped verify information provided and revealed whether there was any other information Moses might've needed to consider about Mrs L'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 Moses carried out a proportionate check it would've likely discovered that Mrs L couldn't afford the loan.

Mrs L's representative hasn't been able to provide copies of her bank statements (which may have shown us and Moses what other commitments Mrs L had and / or her living costs) or any other information that may have shown what Mrs L's financial position was at the time.

So, without any further information from Mrs L about her living costs and her wider financial position, it's difficult for me to conclude what Moses would've likely seen had it made better checks.

Looking at everything together, I've not seen quite enough evidence to suggest Moses shouldn't have lent loan 5. Even considering what Mrs L declared to Moses for her income

and expenditure. I'm therefore minded to think it was reasonable for Moses to have provided this loan.

As this is the case, I'm intending to not uphold Mrs L's complaint about this loan and therefore I'm not intending to uphold Mrs L's complaint.

Response to the Provisional Decision

Both Mrs L and Moses were asked to provide any further information they wanted considering in response to the provisional decision as soon as possible, but no later than 16 September 2022.

Mrs L's representative explained the decision would be sent to Mrs L and it will provide to the Financial Ombudsman any further comments it receives. To date, nothing further has been received from either Mrs L or her representative.

Moses didn't acknowledge or respond to the provisional 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 reason to depart from the findings that I reached in the provisional decision.

I still don't think Moses carried out proportionate checks before it approved loan 5. But Mrs L hasn't provided any information about her living costs and credit commitments at the time, so I can't reasonably conclude that Moses was wrong to have approved not just loan 5, but all of Mrs L's loans.

I am therefore not upholding Mrs L's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 20 October 2022.

Robert Walker
Ombudsman