

The complaint

Ms O complains (through a representative) that Morses Club PLC (Morses) didn't carry out affordability checks before it granted loans which she couldn't afford to repay.

What happened

Ms O took two home collected loans from Morses between November 2016 and February 2017. A summary of her borrowing can be found below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£200.00	09/11/2016	02/02/2017	20	£15.00
2	£300.00	02/02/2017	sold	20	£22.50

Ms O had some problems repaying her final loan and Morses' statement of account shows it was sold to a third party on 10 October 2017 with an outstanding balance of around £305.

Morses considered Ms O's complaint and issued its final response letter. Morses concluded it hadn't made an error when it approved these loans. Unhappy with this response, Ms O's representative referred her complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator. He concluded Morses made a reasonable decision to lend these loans - he, therefore didn't uphold the complaint.

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

Ms O's representative didn't agree with the outcome, explaining (verbatim):

Our client has said they don't agree with this decision and wont (sic) accept this and would like it referred to the ombudsman for final decision.

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 Ms O 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 have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Ms O'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 Ms O. These factors include:

- Ms O 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 O 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 O 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 O.

Moses was required to establish whether Ms O 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 O 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 O's complaint.

There were some initial indications from Ms O's representative which suggested Ms O may have had further loans. However, having double checked with both Moses and Ms O's representative only the loans in the table at the start of this decision are being considered here.

Before loan one was approved, Moses took details of Ms O's income and expenditure. Moses recorded Ms O's income as being £378 per week with weekly outgoings of £135. Moses was therefore aware that she had around £243 per week in which to make the weekly loan payment of £15.

Similar income and expenditure details were collected before loan two was granted. Ms O declared a weekly income of £378, outgoings of £158 leaving £220 per week in disposable income to afford the loan repayment of £22.50.

Based solely on the declared income and expenditure information Moses could've reasonably concluded Ms O would be in a position to afford the weekly repayments she had committed to.

In addition to the above, before loan one only, 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. 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.

Having reviewed these results, there is some adverse information such as Morses being aware of a total of four defaults – two of which had been settled. However, the most recent default was recorded 15 months before loan one was approved. Which in my view, is too far away from her loan application to have made Morses think Ms O was likely having current financial difficulties.

So, I don't think the credit checks – on its own would've alerted Morses to either have declined the loan applications or to have prompted it to make further enquiries with her.

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 Ms O had provided.

Given it was early on in the lending relationship, I think it was reasonable for Morses to have relied on the information Ms O provided along with the income and expenditure figures to show she had sufficient disposable income to afford the repayments she was committed to making.

I'm therefore not upholding Ms O's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms O to accept or reject my decision before 23 November 2022.

Robert Walker
Ombudsman