

The complaint

Mrs R, through a representative complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted her loans. As a result, she was provided with lending that wasn't affordable.

What happened

Mrs R was advanced 6 home collected loans between August 2019 and November 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	15/08/2019	03/03/2020	33	£10.00
2	£200.00	26/11/2019	11/06/2020	34	£10.00
3	£300.00	03/03/2020	15/09/2020	34	£15.00
4	£200.00	11/06/2020	24/11/2020	34	£10.00
5	£500.00	15/09/2020	sold	34	£25.00
6	£300.00	24/11/2020	sold	34	£15.00

Mrs R had some problems repaying loans 5 and 6 and it appears Morses sold the balances of these loans to a third-party collection agency in December 2021.

The 'weekly repayment' column in the table above is the cost per week per loan. Where loans overlapped the cost per week was increased, for example when loans 1 and 2 were running at the same time Mrs R's weekly commitment to Morses was £20.

Following Mrs R's complaint Morses wrote to her representative to explain why it wasn't going to uphold the complaint. Mrs R's representative then referred the complaint to the Financial Ombudsman Service.

An adjudicator initially reviewed the complaint. He didn't uphold Mrs R's complaint about her loans. But he did accept that for the later loans further checks ought to have been carried out to build a more detailed picture of Mrs R's finances. He also, finally, didn't think the loans looked unsustainable for her in any other way. Overall, he didn't uphold the complaint.

Morses didn't acknowledge or provide any further comments about the proposed outcome.

Mrs R's representative disagreed and below are its comments (verbatim)

We have spoken with our client regarding your decision of not upholding any of her loans. Our client is not Accepting this decision as she believes she is entitled to something and would like this referred to the final Ombudsman to take a look.

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 Mrs 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 Mrs 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 Mrs R. These factors include:

- Mrs 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);
- Mrs 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);
- Mrs 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 Mrs R.

Morses was required to establish whether Mrs 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 Mrs 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 Mrs R's complaint.

For all of these loans, Morses asked Mrs R to declare her weekly income and her weekly expenditure. For these loans she declared her weekly income was between £287 and £313. While her weekly expenditure was declared as being between £180 and £206 per week for all these loans.

Based solely on the information Mrs R declared to Morses, it could've been reasonably confident she'd be in a position to afford her largest weekly repayment (when loans 5 and 6 were running at the same time) of £40.

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. 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 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 it was aware of some concerning adverse information. It knew that Mrs R had seven unsatisfied defaults, but the most recent of these was recorded around three years before loan one was granted. In addition, it received information that suggested Mrs R was above her credit limit on one or more of her accounts and already had significant amounts of outstanding debt.

These results are, in my mind are concerning enough that it ought to have prompted Morses to carry out further checks before not just loan 1, but before all the loans were approved. So, I don't think proportionate checks were carried out before it provided Mrs R her loans.

Given the contents of the credit file as well as what became apparent to Morses during the lending relationship, I think, like the adjudicator that there may be reason enough to have made further enquiries with Mrs R to establish her actual financial position before any of the loans were granted.

The further checks might've helped verify what Mrs R had declared and provided and revealed whether there was any other information that Morses might've needed to consider about Mrs R's general financial position given the results of the credit check.

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 Morses carried out a proportionate check it would've likely discovered that Mrs R couldn't afford them.

As part of the complaint handling process, the Financial Ombudsman Service asked Mrs R's representative to provide copies of her credit file or her bank statement during the time these loans were lent. Mrs R's representative said;

I have spoken with our client and the only thing our client has got is her Account number which is [removed] Our client isn't able isn't able (sic) to provide any other evidence

Therefore, even if I think Morses ought to have done more, and there is a strong argument that it ought to have done given the credit search results. I'm not able to say whether these further checks would've shown it that Mrs R couldn't afford her loan repayments or there was something else which suggested these loans were unsustainable for her. And Mrs R's representative has been clear with us – nothing else can or will be sent.

Looking at everything together though, I've not seen quite enough evidence to suggest Morses shouldn't have provided these loans to Mrs R, even considering what Mrs R declared to Morses for her income and expenditure. I also don't yet think it had reached the point where Morses may have felt the loans were unsustainable.

As this is the case, I'm also not upholding Mrs R's complaint about this loan.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or

reject my decision before 2 November 2022.

Robert Walker
Ombudsman