

## The complaint

Mrs A, through a representative complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it provided loans she couldn't afford to repay.

## What happened

Mrs A was advanced five home collected loans between August 2017 and September 2021. 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	04/08/2017	18/01/2018	33	£15.00
2	£300.00	18/01/2018	21/09/2018	33	£15.00
3	£200.00	22/06/2018	25/01/2019	33	£10.00
gap in lending					
4	£400.00	21/06/2021	outstanding	35	£20.00
5	£400.00	17/09/2021	outstanding	35	£20.00

Mrs A has had some problems repaying her final two loans and based on the statement of account provided by Morses the outstanding balance were passed to a third-party collection agency in May 2022.

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 4 and 5 were running at the same time Mrs A's weekly commitment was £40.

Following Mrs A's complaint Morses wrote to her representative to explain that it wasn't going to uphold her complaint. Mrs A's representative didn't agree with the outcome and referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed what had happened and concluded Mrs A's complaint shouldn't be upheld. She explained based on the gap in lending of over two years between loans 3 and 4 that in her view Morses carried out proportionate checks which showed Mrs A was likely to be able to afford the credit commitments that Mrs A was due to make. She also couldn't conclude the lending was obviously harmful or unsustainable for Mrs A.

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

Mrs A's representative didn't agree with the findings. It said:

*I am afraid that we do not agree with the decision made and therefore request the case be transferred for a Final Decision by an Ombudsman.*

Later on, Mrs A's representative said (verbatim):

*We discussed this with the client and we would like an Ombudsman to make a FD is that the clients credit deteriorated throughout the borrowing. By the 3rd loan*

*application the client had a Default worth £2132.00, and multiple late payments in the 3 months prior. The client would like a refund of interest from loan 4 onwards.*

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 A 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 A'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 A. These factors include:

- Mrs A 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 A 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 A 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 A.

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

### **Loans 1 – 3**

For these loans Morses carried out the same type of check.

For all of these loans Mrs A declared she had an income of between £300 and £400 per week. She also declared her weekly expenditure was between £155 and £190 per week. Morses was therefore aware that Mrs A had between £145 and £213 per week disposable income.

These levels of disposable income were sufficient for Mrs A to be able to afford the largest weekly repayment due to Morses of £25. Morses, could've reasonably concluded that these loans were affordable for Mrs A.

Before loan 1 was approved, in addition to the above checks, Morses also carried out a credit search and it has provided the Financial Ombudsman with the results that it was provided with.

It is worth saying here that although Morses 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 Morses received may not entirely reflect the information Mrs A 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 Morses only asking for certain pieces of information such as the number of active credit accounts. But what Morses 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. Having reviewed these results, there is some adverse information such as Morses being aware of a default, but this had been recorded around 60 months before this loan was approved, so I don't think that would've given Morses cause for concern.

However, Morses was aware that Mrs A had, 8 months before loan 1 being approved had a County Court Judgement (CCJ) registered against her for £3,196. This is quite close to the loan being approved and so I've thought about this carefully.

However, in this case, typically CCJs, is the end of a process for recovering a debt so it's quite likely the debt owed on the CCJ was historic. In addition, there wasn't anything in the credit checks that highlighted to Morses that Mrs A was either having current and immediate financial difficulties or anything else that in my view would've prompted it to have carried out further checks or to have declined the loan. I don't think the CCJ on its own is enough to uphold this complaint.

It also was aware that there were four active credit accounts with a current outstanding balance of around £1,300. But there wasn't anything else to suggest that Mrs A was using either high cost short term loans or that the outstanding credit commitments weren't being managed correctly.

Overall, 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 Mrs A.

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 Mrs A had provided.

Given it was still quite early on in this lending relationship and there didn't appear to have been any repayment problems when Mrs A repaid her loans, I think it was reasonable for Morses to have relied on the information Mrs A provided which showed the loan repayments were affordable.

I've also thought about the fact that some of these loans overlapped but even taking into account the higher weekly repayments as a result of this the loans still looked affordable. So, this doesn't change my mind about the checks that Morses carried out.

I've also noted what Mrs A's representative says about the deteriorating state of her credit file at the point loan 3 was approved. I've considered this but it doesn't change my mind about the outcome I've reached. I say this because, Morses wasn't required to carry out a credit search before each loan was approved and as one wasn't carried out before loan 3 was approved then I can't say it would've been aware of any other adverse credit file data that may have been reported by other lenders.

Equally, I appreciate that Mrs A has provided copies of her bank statements, but I don't yet think it had reached the stage where Morses was required to start verifying the information she had provided and so Morses wouldn't have been aware of any of the information visible in her statements.

I'm therefore not upholding Mrs A's complaint about these loans.

### **Loans 4 and 5**

There was a gap in lending of around 29 months between loan 3 being repaid and loan 4 being advanced. In my view, this gap was long enough for Morses to have treated Mrs M's application afresh, meaning as if Mrs A were a new customer. This has implications for the level of checks Morses may have been expected to carry out. In short, loan 4, becomes loan 1, in a new chain of lending.

For all of these Morses carried out the same sorts of checks as it had done so for loans 1 – 3. Mrs A declared she had an income of at least £375 and £400 per week. She also declared her weekly expenditure was between £299 and £348. Mrs A's disposable income was sufficient to be able to afford the largest weekly repayment due to Morses of £40.

Now, this is quite close, in my mind to making at least loan 5 unaffordable given Mrs A wouldn't have been left that much each week. But, given it was still early on in the lending relationship and what the credit check results showed – which I'll discuss below I think it was just about reasonable for Morses to have believed these loans were affordable for Mrs A.

Before loan 4 Morses once again carried out a credit search and I've considered the results. It was aware of the CCJ – which remained outstanding but had been recorded 54 months before loan 4.

Morses also knew that Mrs A's most recent default had been recorded 64 months prior to loan 4. In my view, the CCJ and the default were historic debts and too far removed from the start date to suggest that Mrs A was having financial difficulties.

Morses also knew that Mrs A had four active credit accounts with a balance and that none of these were high cost credit loans. It was also aware that Mrs A's current monthly commitment to these lenders was around £200.

I've thought about this amount and how it impacts Morses affordability assessment. However, as part of the assessment Mrs A declared she had other credit commitments that she was servicing at a rate of around £200 per month. So, I think it's likely, in this case, Morses was aware of the other credit commitments and factored these into the affordability check – and even doing so the loans still looked affordable.

There wasn't in my view, anything else in the credit search results that may have led Moses to have either carried out further checks or to have declined the lending.

Given it was still quite early on in this lending relationship and there didn't appear to have been any repayment problems when Mrs A was repaying loan 4 at the point loan 5 was approved, I think it was reasonable for Moses to have relied on the information Mrs A provided which showed the loan repayments were affordable.

I've also thought about the fact these loans overlapped but even taking into account the higher weekly repayments as a result of this the loans still looked affordable. So, this doesn't change my mind about the checks that Moses carried out.

Finally, there wasn't anything else that was apparent to Moses which may have made it realise these loans were unsustainable. As this is the case, I'm not upholding Mrs A's complaint about loans 4 and 5 and therefore, I'm also not upholding Mrs A's complaint.

As far as I am aware, an outstanding balance remains due and so Mrs A may wish to contact the third-party collection agency to discuss a way forward.

### **My final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 1 November 2022.

Robert Walker  
**Ombudsman**