The complaint

Mr B (through a representative) complains that Morses Club PLC (Morses) didn't carry out checks before it granted a loan which he couldn't afford to repay.

What happened

Mr B took four loans from Morses between July 2018 and May 2019. A summary of his borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£500.00	25/07/2018	05/12/2018	33	£25.00
2	£800.00	27/11/2018	01/11/2019	52	£28.00
3	£300.00	28/02/2019	18/10/2019	33	£15.00
4	£300.00	17/05/2019	06/11/2019	33	£15.00

The cost per week column is the weekly repayment for each loan, where loans overlapped the cost per week will increase. For example, while loans 2, 3 and 4 were outstanding Mr B's commitment to Morses was £58.

Following Mr B's complaint, Morses considered it and didn't uphold it. Unhappy with this response, Mr B's representative referred the complaint to the Financial Ombudsman Service.

The complaint was considered by an adjudicator. She concluded Morses made a reasonable decision to lend the first loan. However, she thought, given the increase in borrowing and term for loan 2 that this loan and all future loans Morses needed to have carried out further checks perhaps by reviewing his bank statements. But these weren't available, so the adjudicator couldn't say what Morses may have seen if it had carried out a proportionate check.

Mr B's representative didn't agree and explained it thought all the loans should be upheld because the credit report Morses carried out before loan 1 showed that Mr B had defaults and a number of recent missed payment markers.

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 Mr B could afford to pay back the amounts he'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 Mr B'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 Mr B. These factors include:

- Mr B 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);
- Mr B 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);
- Mr B 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 Mr B.

Morses was required to establish whether Mr B could *sustainably* repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr B was able to repay his 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 Mr B's complaint.

Loan 1

Before the loan was approved, Morses took details of Mr B's income and expenditure. Morses recorded Mr B's income as being around £340 per week with weekly outgoings of £170. Morses was therefore aware that he had around £170 per week in which to make the weekly loan payment of £25.

Morses may well have reasonably concluded that based solely on the income and expenditure information that Mr B would be in a position to afford this loan.

Before this loan was approved Morses also carried out a credit search and it has provided a copy of the results.

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 Mr B may be able to view in a 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 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 four defaults – but the most recent of which was recorded some 9 months before this loan. Which would indicate that in the past, Mr B had some repayment problems, but these defaults on its own wouldn't have led, in my view to Morses carrying out further checks.

Morses was also aware that Mr B had around £4,200 of existing debt across at least 10 credit accounts, I don't think this was an excessive amount of outstanding debt or something that would've triggered Morses to have carried out further checks.

However, Morses was aware, that there may have been some recent repayment problems, for example, the credit search results provided by Morses show that two months before this loan was approved, a home credit account had entered delinquency – which would likely be Mr B had problems repaying this loan.

So, I do think, given there was some evidence of some recent payment problems, within the credit search Morses carried out, its arguable that at this point further checks ought to have been carried out to find out what was happening in Mr B's finances. These further checks could've included asking to review Mr B's bank statements.

However, further information hasn't been provided by Mr B's representative, so while further checks may have been needed to have been carried out before this loan was approved, I don't know what else Morses may have discovered.

Given it was early on in the lending relationship, I think it was reasonable for Morses to have relied on the information Mr B provided along with the income and expenditure figures to show he had sufficient disposable income to afford the repayments he was committed to making. So, like the adjudicator I'm not upholding Mr B's complaint about the loan.

Loans 2 – 4

Similar checks were carried out before these loans were approved form Mr B.

For these loans, Mr B had declared a weekly income of between £250 and £280. With declared outgoings of between £105 and £164 per week. This may have then led Morses to believe that Mr B had sufficient disposable income to afford the largest combined weekly loan repayment of £58.

But that doesn't mean that Morses carried out a proportionate check before it approved these loans. I do think, by the time these loans were approved that Morses' checks needed to go further. Not just because further checks were, in my view arguable when loan 1 was approved, but by loan 2 Mr B's borrowing had increased significantly and he was committed to repaying over a longer term. Mr B was also advanced further loans while he had other loans outstanding and this is a further reason which ought to have prompted Morses to have carried out further checks.

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

Instead, I think it needed to gain a full understanding of Mr B's actual financial position to ensure these loans were affordable. This could've been done in several ways, such as asking for evidence of his outgoings, or looking at his bank statements.

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 Mr B couldn't afford these loans.

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

This information was requested in August 2022 but hasn't been provided and so without it, I can't conclude what Morses may have discovered had it carried out a proportionate check.

Looking at everything together, I've not seen quite enough evidence to suggest Morses shouldn't have lent loans 2 - 4. Even considering what Mr B declared to Morses for his income and expenditure.

As this is the case, I'm not upholding any of Mr B's loans.

My final decision

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

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

Robert Walker
Ombudsman