

The complaint

Mr C complains through a representative that Morses Club PLC (Morses) provided loans which he couldn't afford to repay.

What happened

Mr C took three loans from Morses between November 2017 and February 2020. 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	£200.00	02/11/2017	13/04/2018	20	£15.00
break in lending					
2	£200.00	19/07/2019	15/02/2020	33	£10.00
3	£500.00	15/02/2020	09/10/2020	34	£25.00

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

The complaint was considered by an adjudicator. He concluded Morses made a reasonable decision to lend these loans because it carried out a proportionate which showed Mr C was able to afford the repayments. So, he didn't uphold the complaint.

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

Mr C's representative didn't agree and explained:

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.

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 C 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 C'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 Morse should have done more to establish that any lending was sustainable for Mr C. These factors include:

- Mr C 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 C 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 C 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 C.

Morse was required to establish whether Mr C 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 C 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 C's complaint.

Loan 1

Before the loan was approved, Morse took details of Mr C's income and expenditure. Morse recorded Mr C's income as being around £270 per week with weekly outgoings of £208. Morse was therefore aware that he had around £68 per week in which to make the weekly loan payment of £15.

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

There wasn't anything else in the checks that Morse carried out before this loan which indicated the loan was likely to be unaffordable or that Mr C was having wider financial difficulties. It also hadn't yet reached the stage where I think that Morse needed to have verified the information Mr C had provided it.

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

Loans 2 and 3

There was a significant gap in lending of around 15 months after Mr C repaid loan 1 and took loan 2. This break, in my view is sufficiently large for Morses to have in effect treated Mr C as a new customer and the start of the new lending relationship. This means, loan 2 could be treated as if it was loan 1 in a new chain of borrowing and this has implications for what Morses needed to do in order to carry out a proportionate check.

Similar checks were carried out before these loans were approved for Mr C as they were for loan 1.

For these loans, Mr C had declared a weekly income of between £550 and £747. With declared outgoings of between £389 and £473 per week. Which gave Mr C a minimum weekly disposable income of £163. This may have then led Morses to believe that Mr C had sufficient disposable income to afford the largest weekly loan repayment of £25.

In addition, before loan 2, Morses also carried out a credit search and it has provided a copy of the results to the Financial Ombudsman Service.

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 C may be able to view in his own credit report. 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 a total of seven defaults but most of these had been reported on his credit file more than three years before these loans. Which would indicate that in the past, Mr C had some repayment problems, but these defaults on its own wouldn't have led, in my view to Morses carrying out further checks.

There wasn't anything else in my view from the results that would've led Morses to conclude that he was either having longer term financial difficulties or was have problems repaying other credit. There also wasn't any evidence that Mr C was reliant on this type of credit, for example Mr C had only opened one new credit account within the last six months – I don't consider this to be excessive.

The results, in my view, wouldn't have led Morses to have either carried out further checks or have declined these loan applications.

Morses could reasonably believe, based on what Mr C declared to it in the income and expenditure information, the credit checks and the weekly repayment would've led it to believe these loans were affordable. I also don't think it was unreasonable to have relied on the information Mr C declared and it hadn't yet reached the stage where it needed to verify the information provided by Mr C.

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

My final decision

For the reasons I've explained above, I'm not upholding Mr C's complaint.

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

reject my decision before 2 November 2022.

Robert Walker
Ombudsman