DRN-3728496

Financial Ombudsman Service

The complaint

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

What happened

Mr G took two home collected loans from Morses between August 2021 and December 2021. A summary of his borrowing can be found below;

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£300.00	09/08/2021	10/12/2021	35	£15.00
2	£600.00	13/12/2021	outstanding	35	£30.00

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

The complaint was considered by an adjudicator. He concluded Morses made a reasonable decision to lend these loans and there wasn't anything in the information that Mr G provided which would've prompted Morses to have carried out further checks. He, therefore, didn't uphold the complaint.

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

Mr G didn't agree with the outcome and provided copies of his bank statements between April 2020 and April 2021. But no further comments were provided.

Mr G's representative then explained (verbatim):

> *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 G 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' 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 G'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 G. These factors include:

- Mr G 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 G 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 G 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 G.

Morses was required to establish whether Mr G 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 G 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 G's complaint.

Before loan one was approved, Morses took details of Mr G's income and expenditure. Morses recorded Mr G's income as being £315 per week with weekly outgoings of £182. Morses was therefore aware that he had around £133 per week in which to make the weekly loan payment of £15.

Similar income and expenditure details were collected before loan two was granted. Mr G declared a weekly income of £356, outgoings of £185.25 leaving £170.75 per week in disposable income to afford the loan repayment of £30.

Based solely on the declared income and expenditure information Morses could've reasonably concluded Mr G would be in a position to afford the weekly repayments he had committed to.

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

Having reviewed the results, there is some adverse information such as Morses being aware of two defaults – both of which had been settled. However, the most recent default was recorded 60 months before loan one was approved. Which in my view, is too far away from his loan application to make Morses think Mr G was likely having current financial difficulties. So, I don't think the credit checks would've prompted Morses to either have declined the loan application or to have made further enquiries with Mr G.

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 Mr G had provided. This means, while I thank Mr G for providing his bank statements, for the reasons I've outlined above, I don't think it had yet reached the point where Morses needed to have verified the information. It therefore wouldn't have been reasonable for Morses wouldn't have looked at his statements.

Given it was early on in the lending relationship, I think it was reasonable for Morses to have relied on the information Mr G provided such as his income and expenditure figures. Which showed it, Mr G had sufficient disposable income to afford the repayments he was committed to making. I'm therefore not upholding Mr G's complaint.

An outstanding balance remains due for loan two, and I would remind Morses of its obligation to treat Mr G fairly and with forbearance if he requires assistance in repaying what is owed.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 18 November 2022.

Robert Walker
Ombudsman