

The complaint

Miss W complains (through a representative) that Morses Club PLC (Morses) didn't carry out affordability checks before it granted loans to her. Had it done so, Morses would've discovered she couldn't afford to repay these loans.

What happened

Miss W took two loans from Morses between July and October 2021. A summary of her borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£300.00	13/07/2021	outstanding	35	£15.00
2	£500.00	28/10/2021	outstanding	52	£18.75

Miss W has had some problems repaying her two loans, and Morses has shown that as of July 2022, a total outstanding remains due of £844.

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

The complaint was considered by an adjudicator. She thought, given the results of the credit search, the income and expenditure information and the way that Miss W had paid loan 1 at the point loan 2 was granted, was in her view to say that Morses had made a reasonable decision to provide these loans.

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

Miss W's representative didn't agree and asked for the case to be passed to 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 Miss W 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 have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Miss W'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 Moses should have done more to establish that any lending was sustainable for Miss W. These factors include:

- Miss W 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);
- Miss W 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);
- Miss W 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 Miss W.

Moses was required to establish whether Miss W 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 Miss W 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 Miss W's complaint.

Loan 1

Before the loan was approved, Moses took details of Miss W's income and expenditure. She declared a weekly income of £520 with declared weekly outgoings of £414. Leaving around £106 per week in which to make her repayment of £15. This loan looked affordable to Moses based on the information Miss W had declared.

In addition, before this loan was granted (and only this loan) Moses carried out a credit search and it has provided a copy of the results to the Financial Ombudsman.

It is worth saying here that although Moses 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 Moses received may not entirely reflect information Miss W may be able to see in her own credit report. There could be for a number of reasons for this, such as Moses only asking for certain pieces of information.

But what Moses can't do is carry out a credit search and then not react to the information it received – if necessary.

Having looked at the credit check results, there was some adverse information such as a default recorded on Miss W's credit file six months prior to loan 1 being approved. It also knew, that between 3 and 4 years before this loan was approved 4 further accounts had been defaulted.

I don't think the defaults on their own would've been enough for Moses to have carried out further checks because most of the defaults were historic and so weren't an indicator of Miss W's likely ability to repay this loan. The one default recorded six months before could be a concern but there wasn't anything else, like recent missed payments which may have suggested in Moses' view that Miss W was having current financial difficulties.

Finally, Moses was aware of outstanding total debt of £5,062 with no history, according to the credit checks of Miss W using high cost short term credit. In addition, the credit results explained to Moses that the likely monthly repayment due to other creditors was around £145.

Overall, I don't think there was enough in the credit check results to have either prompted Moses to have carried out further checks or to have led it to decline the loan application.

Given it was early in the lending relationship I think it was reasonable for Moses to have relied on the information Miss W gave it and what it discovered from the credit check. These checks showed the loan was affordable, so I think a reasonable decision was made to provide it. I do not uphold Miss W's complaint about this loan.

Loan 2

This loan was taken out while loan 1 was being repaid, which led Miss W's weekly commitment to Moses being £33.75. However, as part of the application process Moses included the commitment to loan 1 within Miss W's outgoings.

For this loan, the same sort of information was taken from Miss W. She again declared a weekly income of £520 with declared outgoings of £418. This left £102 per week in which to pay this loan commitment of £18.75 for loan 2. Based on the information Miss W provided, Moses would've seen that she had enough disposable income each week to be able to afford the loan repayments.

I have thought about the repayment problems that Miss W experienced in paying these loans, but up to when loan 2 was provided Miss W had made her payments towards loan 1 on time. So, there wasn't anything as far as I can see that would've led Moses to carry out further checks based solely on the repayment history.

There also wasn't anything else that I can see that would've led Moses to have concluded that either of the loans weren't affordable for Miss W or there was some other reason that may have led it to conclude the lending was no longer than sustainable.

Considering a number of factors such as the time in debt, how loan 1 was being repaid as well as the income and expenditure information I've concluded Moses carried out a proportionate check which showed it the loan was affordable.

I acknowledge Miss W has had problems repaying her final two loans, and it does seem from the statement of account that at the very least an informal plan has been put in place to allow Miss W to make reduced payments. But I'd remind Moses of its obligation to treat Miss W fairly and with forbearance – if necessary - while working towards repaying what is owed.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 8 December 2022.

Robert Walker
Ombudsman