

## The complaint

Miss C complains (through a representative) that Morses Club PLC (Morses) didn't carry out proportionate 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 C took five loans from Morses between March 2017 and April 2018. A summary of her borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment per loan
1	£400.00	24/03/2017	12/10/2017	33	£20.00
2	£400.00	07/07/2017	04/12/2017	33	£20.00
3	£400.00	12/10/2017	24/04/2018	33	£20.00
4	£200.00	03/03/2018	sold	33	£10.00
5	£400.00	24/04/2018	sold	33	£20.00

Miss C had some problems repaying her final two loans, and Morses has shown that it sold the outstanding debts to a third-party collection agency in December 2018.

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

The complaint was considered by an adjudicator. She thought given the results of the credit check Morses carried out along with the income and expenditure information it was reasonable of Morses to have provided loans 1 – 4.

However, she thought by loan 5, Morses ought to have carried further checks. But as a copy of Miss C's bank statements hadn't been provided the adjudicator wasn't able to say what Morses may have seen had further checks been carried out.

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

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

- Miss 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);
- Miss 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);
- Miss 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 Miss C.

Morses was required to establish whether Miss C 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 C 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 C's complaint.

## **Loan 1**

Before the loan was approved, Morses took details of Miss C's income and expenditure. She declared a weekly income of £319 with declared weekly outgoings of £150. Leaving around £168 per week in which to make her repayments of £20. This loan looked affordable to Morses based on the information Miss C declared.

In addition, before this loan was granted (and only this loan) Morses 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 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 Miss C may be able to view in her own credit report. There could be for a number of reasons for this, such as Morses only asking for certain pieces of information. But what Morses 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 is some adverse information. Morses was aware of a County Court Judgement (CCJ) for £4,610 but this had been reported some 27 months before this loan was approved. The CCJ on its own wouldn't be enough, in my view to uphold the complaint because this CCJs showed some time ago that Miss C had some quite significant repayment problems.

Morses also saw that Miss C had defaulted on two credit accounts, but again the most recent of those accounts was defaulted 55 months before the loan was approved, which is too long ago for Morses to have been concerned about Miss C's current financial position.

Finally, Morses was aware of six active credit accounts with Miss C owing just over £5,000. The information Morses was told about Miss C following its credit check wasn't sufficient to either have prompted it to carry out further checks or to have declined Miss C's credit application.

Given it was early in the lending relationship I think it was reasonable for Morses to have relied on the information Miss C 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.

#### **Loans 2 – 4**

Some of these loans ran concurrently – for example loans 2 and 3 were running at the same time, increasing Miss C's weekly commitment to Morses to £40 per week. There were also times when loans were taken in a consecutive manner, for example, loan 3 was taken on the same day that loan 1 was repaid.

But in saying that, Morses carried out the same types of checks for these loans as it did for loan 1. It asked Miss C for details of her income and expenditure and based on what Miss C provided, Morses would've seen that she had enough disposable income each week to be able to afford the loan repayments.

There also wasn't anything else that I can see that would've led Morses to have concluded that either the loans weren't affordable for Miss C or there was some other reason that may have led it to conclude the lending was no longer sustainable – such as previous repayment problems.

Considering a number of factors such as the time in debt, how these loans were repaid as well as the income and expenditure information I've concluded Morses carried out propionate checks which showed it these loans were affordable.

#### **Loan 5**

When Miss C returned for her fifth loan, she had been indebted to Morses for just over a year and was further extending her indebtedness for another 33 weeks. Her borrowing had also increased for this loan compared to loan 4 and was now back up to the level it was when her previous loans were granted.

So while, the income and expenditure information suggested that Miss C had £75 per week in disposable income to afford the repayment due for this loan of £20 I do think, given the factors that I've highlighted above that Morses' checks needed to go further.

Thinking about everything above, I do think Morses needed to have done further checks before the loan was approved. By now, it ought to have been verifying the information Miss

C had provided. Moses could've done this several ways such as asking for a copy of her full credit report, copies of bills to show outgoings or to have reviewed her bank statements.

However, that is not the end of the matter, for me to be able to uphold this loan, I'd have to be able to conclude that had Moses carried out further checks it would've likely discovered the loan was unaffordable.

Neither Miss C or her representative have provided copies of her bank statements for the relevant period (or any other documentation that could've been used to build a picture of her financial position). Without these documents or copy bank statements I'm not able to conclude that had Moses carried out the types of check I think are appropriate at this point in time, it would've concluded the loan shouldn't have been granted.

There also wasn't anything else in the information Miss C provided that would've led Moses to have upheld the complaint because the loans were in some way unsustainable for her. Nor were there any signs that Miss C was having, or likely having financial difficulties – for example, all the loans appear to have been paid on time at the point loan 5 was granted.

I accept it look longer for loan 4 to be repaid, but these repayment problems only became apparent after loan 5 was granted, so they aren't something Moses could've considered at the time.

Overall, at the time loan 5 was granted, Moses ought to have done further checks but I can't say what it would've seen so I'm not upholding this loan or her complaint.

### **My final decision**

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

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

Robert Walker  
**Ombudsman**