

The complaint

Miss S complains (through a representative) that Morses Club PLC (Morses) didn't carry out proper 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 S took four loans from Morses between March 2016 and September 2017. 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	£200.00	02/03/2016	29/06/2016	20	£15.00
2	£300.00	29/06/2016	06/02/2017	33	£15.00
3	£300.00	06/02/2017	27/09/2017	33	£15.00
4	£300.00	27/09/2017	written off	33	£15.00

Miss S had some problems repaying her final loan, and Morses has shown that it wrote off the outstanding balance in January 2018.

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

The complaint was considered by an adjudicator. She concluded Morses made a reasonable decision to lend loans 1 – 3 because proportionate checks were carried out before these loans were approved which showed Miss S was able to afford the repayments. For loan 4, she thought, perhaps Morses ought to have carried out further checks but she couldn't uphold the loan because Miss S's representative hadn't provided bank statements which covered the right period.

Finally, the adjudicator pointed out, that due to the write off Morses carried out, even if she were to uphold loan 4, there wouldn't be a refund due because Miss S hadn't paid enough to Morses to cover the capital borrowed.

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

Miss S'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 Miss S 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 S'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 S. These factors include:

- Miss S 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 S 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 S 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 S.

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

Loan 1

Before the loan was approved, Morses likely took details of Miss S's income and expenditure. However, the information can't be provided by Morses, there could be a number of reasons for this. But the most likely, is that the information is no longer available due to the passage of time. I don't consider this to be unreasonable.

I can see Miss S has supplied copies of her bank statements for around the time this loan was approved. But given this was a first loan it would've been disproportionate for Morses to have reviewed these statements.

In addition, before this loan was granted Moses 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 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 the information Miss S may be able to view in her own credit report or on her bank statement at the time. There could be for a number of reasons for this, such as Moses only asking the number of active credit accounts.

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

Having reviewed the credit check results, there is some adverse information such as Moses was aware of 2 County Court Judgements (CCJs). One of the CCJs was recorded in January 2015 and the other had been recorded more than four years before loan one was advanced.

Moses was also aware Miss S had four defaults recorded on her credit file, with one of these defaults marked as settled. The most recent of the defaults was recorded 15 months prior to loan one being advanced.

The defaults and the CCJs do indicate that in the past, Miss S had some repayment problems, but these defaults and the CCJs on their own wouldn't have led, in my view to Moses carrying out further checks. Finally, it knew there were five active credit accounts with Miss S owing other credit providers a total of £1,375.

There also wasn't anything else from the results that would've led Moses to conclude Miss S was either having longer term financial difficulties or was having problems repaying other credit. There also wasn't any evidence that Miss S was reliant on these types of loans.

Given it was early on in the lending relationship I consider Moses made a fair decision to provide this loan and so I don't uphold Miss S's complaint about it.

Loans 2 and 3

When these loans were approved, similar checks were likely carried out as they were before loan 1. There isn't any information available about what Miss S likely declared to Moses about loan 2 but given loan one was repaid without any problems; I'm inclined to conclude that Moses made a reasonable decision to provide this loan.

For loan 3, Moses has the information it gathered about Miss S. She declared a weekly income of £251. Her outgoings were £186 which left a disposable weekly income of £65. The loan repayments looked affordable, given a weekly repayment of £15.

Loan 3 was taken on the same day that loan 2 was repaid and was for the same amount. There also, wasn't anything else in the way Miss S repaid her earlier loans that would've indicated further checks needed to have been carried out, at this time.

There wasn't anything else in the checks that Moses carried out before this loan which indicated these loans were unlikely to be affordable or that Miss S was having wider financial difficulties. It also hadn't yet reached the stage where I think that Moses needed to have verified the information Miss S had provided it.

I'm therefore not upholding the complaint about these loans.

Loan 4

Like the adjudicator, I do think by this loan further checks ought to have been carried out. This was now the third time a loan had been taken out on the same day that a previous loan had been repaid.

For this loan, Morses was also aware Miss S's income had dropped significantly. She declared a weekly income of £103 with £40 per week outgoings. This left £63 per week in disposable income to afford her repayment of £15.

Given how long Miss S had already been indebted to Morses, the fact these loans appeared to be taken out consecutively and her income was now significantly reduced, compared to loan 3. These factors ought to have prompted it to consider whether it knew enough about Miss S's actual financial position.

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

Instead, I think it needed to gain a full understanding of Miss S's actual financial position to ensure the loan was affordable. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at bank statements and/or Miss S's full credit file.

However, that isn't the end of the matter. For me to be able to uphold this loan, I have to be satisfied that had Morses carried out a proportionate check it would've likely discovered that Miss S couldn't afford it.

While, Miss S's representative has provided some copy bank statements, these statements don't cover the period of time when loan 4 was approved. Without this information from Miss S about her other living costs, it isn't possible for me to conclude what Morses would've likely seen had it made better checks.

So, Morses didn't carry out proportionate checks, but I'm not able to conclude that further checks would've led it to conclude that this loan was unaffordable for Miss S. As this is the case, I'm intending to not uphold Miss S's complaint about loan 4.

Overall, I'm not upholding any of Miss S's loans.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 24 November 2022.

Robert Walker
Ombudsman