The complaint

Mrs M 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

Mrs M took five loans from Morses between November 2019 and May 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 per loan
1	£300.00	29/11/2019	11/06/2020	34	£15.00
2	£500.00	11/06/2020	28/01/2021	34	£25.00
3	£300.00	11/09/2020	06/04/2021	34	£15.00
4	£400.00	19/02/2021	06/04/2021	34	£20.00
5	£1,000.00	28/05/2021	sold	35	£50.00

Mrs M had some problems repaying her final loan, and Morses has shown that it sold the outstanding debt to a third-party collection agency in February 2022.

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

The complaint was considered by an adjudicator. She concluded Morses ought to have done more before the first loan was granted because of the information it was made aware of from the credit search results. The adjudicator considered Mrs M's bank statements, but she didn't see anything that would've led Morses to decline the loan.

She also thought, for the other loans a more detailed picture needed to have been built by Morses, but she didn't have either a credit file or bank statements from Mrs M which covered the right period of time. She, therefore, didn't uphold her complaint.

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

Mrs M's representative didn't agree. 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 Mrs M 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 Mrs M'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 Mrs M. These factors include:

- Mrs M 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);
- Mrs M 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);
- Mrs M 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 Mrs M.

Morses was required to establish whether Mrs M 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 Mrs M 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 Mrs M's complaint.

Loan 1

Before the loan was approved, Morses likely took details of Mrs M's income and expenditure. She declared a weekly income of £360 with declared weekly outgoings of £148. Leaving around £212 per week in which to make her repayment of £15. This loan looked affordable to Morses based on the information Mrs M declared.

In addition, before this loan was granted 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 Mrs M may be able to view in her own credit report or in her bank statement at the time. There could be for a number of reasons for this, such as Morses only asking 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.

Having looked at the credit check results, there is some concerning adverse information such as Morses was aware of 2 County Court Judgements (CCJs) for £3,186 and both hadn't been settled.

However, Morses also knew the most recent of the CCJs had been recorded 32 months before this loan was granted. The CCJs on their own wouldn't be enough, in my view to uphold the complaint. I say this because these CCJs showed a number of years ago Mrs M had some quite significant repayment problems but aren't a current reflection of her financial position at the time the check was carried out.

But, Morses was aware of 13 active credit accounts with Mrs M having just over £2,500 of outstanding debt. It was also aware of 8 accounts which Mrs M had defaulted on – two of these had been settled. But five of these accounts had defaulted within the previous year and the most recent default was applied only four months prior to this loan being granted.

In my view, given the number of defaulted accounts and how close they potentially were to the granting of this loan I do think Morses needed to have done more before the loan was granted. I think it needed to gain a full understanding of Mrs M'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 Mrs M'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 Mrs M couldn't afford it.

Mrs M's representative has provided copy bank statements for the period around the time this loan was approved. Looking at Mrs M's bank statements I can't see anything that would've led Morses to have declined the application for credit. The loan still looked affordable.

So, although, Morses didn't carry out a proportionate check had it done so, I'm satisfied it would've thought Mrs M could afford her repayments.

Loans 2 - 5

For these loans, Morses carried out the same sort of checks as it did for loan 1. It asked Mrs M for her income and expenditure details. Based on the results of these checks, Morses could've been confident that Mrs M would be able to afford the repayments. I would add, that after making the payment due for Loan 4, Mrs M would've been left with very little each week. This appears to have happened as a result of a significant drop in her declared income.

There were also times when loans were taken in a consecutive manner or there were loans running currently. Loan 5 was also Mrs M's largest loan to date and was significantly larger than any of her previous loans and as I've said above, Mrs M's income had started to fluctuate.

Thinking about everything above, I do think Morses needed to have done further checks before these loans were approved. It needed to have verified the information Mrs M had provided. As before, Morses could've done this a number of 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.

The adjudicator couldn't uphold these loans because the copy bank statements provided by Mrs M don't cover the relevant period of time when these loans were approved. The adjudicator also invited Mrs M's representative to provide the bank statements for the relevant period of time. However, the Financial Ombudsman hasn't received anything further.

There also wasn't anything else in the information Mrs M provided that would've led Morses to have upheld the complaint because the loans were in some way unsustainable for her. Nor were there any signs that Mrs M was having, or likely having financial difficulties.

As no further statements were provided in response to the adjudicator's assessment, I've not been able to review what Morses may have seen at the time each of these loans were approved had it carried out a proportionate check. I therefore, can't uphold Mrs M's complaint.

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

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 1 December 2022.

Robert Walker
Ombudsman