DRN-3781795

The complaint

Mr M complains (through a representative) that Morses Club PLC (Morses) didn't carry out proper affordability checks before it provided him with loans.

What happened

Mr M was advanced four home collected loans between December 2018 and October 2020. I've included some of the information we've received about these loans in the table below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£200.00	18/12/2018	19/07/2019	33	£10.00
2	£200.00	19/07/2019	28/02/2020	33	£10.00
3	£200.00	28/02/2020	23/10/2020	34	£10.00
4	£200.00	23/10/2020	09/07/2021	34	£10.00

Following Mr M's complaint Morses explained in its final response letter that it had carried out affordability checks before these loans were advanced and based on the information it received, it was reasonable to lend.

Mr M's representative didn't agree and instead referred the complaint to the Financial Ombudsman Service.

The case was then reviewed by an adjudicator. He concluded it was reasonable for loans 1 – 3 to have been advanced. So, he didn't uphold the complaint about these loans. However, he thought loan 4 shouldn't have been granted because the lending pattern was now harmful for Mr M.

Mr M's representative didn't acknowledge receipt of the adjudicator's assessment.

Morses disagreed with the adjudicator's assessment in summary, Morses said:

- Morses loan values remained stable – borrowing £200 each time.
- Mr M was only repaying one loan at a time.
- Adequate checks were completed before loan 4 was advanced and these checks showed the loan was affordable.
- Up to loan 4 Mr M had a good repayment history.

As no agreement had been reached, the case was passed to me to resolve. I then issued my provisional decision explaining the reasons why I was intending to not uphold Mr M's complaint. A copy of the provisional findings follows this in italics and a smaller font and which forms part of this final decision.

What I said in my provisional decision

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.

Neither Mr M (or his representative) appear to have disagreed with the adjudicator's findings in relation to loans 1 – 3. So, it seems this lending isn't in dispute and so I no longer think that I need to make a finding about it. But for completeness I don't disagree with the adjudicator's assessment that it wasn't unfair of Morses to have provided these loans. But I have kept these loans in mind when thinking about the overall lending relationship between Morses and Mr M.

Instead, this decision will focus on whether Morses did anything wrong when it granted loan 4.

Morses had to assess the lending to check if Mr M 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've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr 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 Mr M. These factors include:

- *Mr 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);*
- *Mr 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);*
- *Mr 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 Mr M.

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

Loans 4

The adjudicator upheld this loan because in his view the loan was harmful for Mr M because it was now unsustainable for Morses to continue to lend to him.

Given the time Mr M had been spent indebted to Morses, I can understand why the adjudicator may have felt the lending was now unsustainable for Mr M. However, I don't think, Morses would've concluded these loans was now harmful to Mr M.

I accept, that Mr M had been indebted with Morses continuously for around 22 months – and he was further committing to be indebted for an additional 34 weeks. This, in some situations could be a sign that he was now reliant on the borrowing or at the very least having longer term money management problems. Neither can I ignore that the lending was consecutive, which could show that Mr M had a continued need for credit.

But I also have to keep in mind that Mr M's borrowing wasn't increasing – all the loans were for the same capital amount and the repayment term stayed the same. There also hadn't been any obvious repayment problems when Mr M had settled previous loans.

So, taking everything together, I don't think Morse would've or ought to have realised the loan was unsustainable for him and so I am intending to conclude the loan wasn't likely to be so harmful to the extent that it would've prompted Morses to have stopped lending to Mr M. But that doesn't mean Morse did all it should've done before advancing the loan.

Morses has provided us with the income information it collected from Mr M, his income was declared at £168 per week. His weekly expenditure was declared as £87.60 which resulted in a disposable income of £80.40 per week. This may have then led Morses to believe that Mr M had sufficient disposable income and could afford the loan repayment.

But that doesn't mean that Morses carried out a proportionate check. I do think the time in debt ought to have altered Morses to the possibility that Mr M may have been reliant on this credit and his indebtedness was potentially extending for another 34 weeks. These factors ought to have prompted it to consider whether it knew enough about Mr M's financial position.

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

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

This might've helped verify information provided and revealed whether there was any other information that Morses might've needed to consider about Mr M's financial position.

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

However, Mr M's representative hasn't provided the Financial Ombudsman with either his credit file or his bank statement. So, without any further information from Mr M about his other living costs, it's difficult for me to conclude what Morses would've likely seen had it made better checks.

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

Response to provisional decision

Both Morses and Mr M (and / or his representative) were asked to provide anything further for consideration as soon as possible, but no later than 28 October 2022.

Neither Morses nor Mr M (or his representative) has acknowledged or responded to the provisional 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.

As neither party has supplied anything further or new for consideration. I see no reason to depart from the findings I reached in the provisional decision. In relation to loan 4, I don't think Morses' checks went far enough before it advanced this loan.

However, as I've not been provided with any details of Mr M's financial position at the time (such as a credit file or bank statements) I don't know what Morses may have seen had it carried out a proportionate check.

I'm therefore not upholding Mr M's complaint.

My final decision

For the reasons I've explained above and in the provisional decision, I'm not upholding Mr M's complaint.

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

Robert Walker
Ombudsman