DRN-3790545

The complaint

Ms G, through a representative complains that Morses Club PLC (Morses) didn’t carry out proportionate affordability checks before it granted her loans.

What happened

Ms G was advanced two home collected loans between August 2021 and January 2022. 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	£250.00	27/08/2021	03/02/2022	35	£12.50
2	£300.00	19/01/2022	outstanding	35	£15.00

An outstanding balance remains due for loan 2 of £485 as of April 2022.

The ‘weekly repayment’ column in the table above is the cost per week per loan. Where loans overlapped the cost per week was increased, for example when loans 1 and 2 were running at the same time Ms G’s weekly commitment to Morses was £27.50.

Following Ms G’s complaint Morses wrote to her representative to explain that it wasn’t going to uphold the complaint. Ms G’s representative then referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint and he thought it should be fully upheld. He explained before the first loan was approved a credit, check was carried out and the results of the check showed Morses there was a recently applied default. Which was enough to have made Morses realise Ms G was likely having financial difficulties and so shouldn’t have been provided with either loan.

Morses didn’t agree with the adjudicator’s assessment. In summary it explained that proportionate affordability checks were carried out before each loan was approved. Morses also didn’t agree the credit file, alone was enough to uphold the complaint given what else it was aware of.

As no agreement could be reached, the case was assed to an ombudsman to decide about the complaint.

I then issued my provisional decision explaining the reasons why I was intending to not uphold Ms G’s complaint. A copy of the provisional findings follows this in italics and smaller font and 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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

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

- *Ms G 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);*
- *Ms G 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);*
- *Ms G 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 Ms G.

Morses was required to establish whether Ms G 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 Ms G 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 Ms G's complaint.

For these loans, Morses has shown that it asked Ms G for details of her income and expenditure. Her declared weekly income for loan one has been noted as £345.91 and for loan two £415.70. Morses says that these income amounts were checked with a credit reference agency for accuracy, but a result of that check hasn't been provided.

In terms of expenditure, for loan one, Ms G declared these came to £179 per week and for loan two £284.50. Which left a minimum amount of disposable income of around £131 per week.

Based solely on her income and expenditure information Morses could've been confident Ms G would be able to comfortably afford the repayments she was committed to making of no more than £27.50 per week.

Morses also carried out a credit check when loan one was approved, and a copy of those results have been supplied to the Financial Ombudsman Service. Having reviewed the results, there is some adverse information Morse needed to take into account. A summary of what I've seen can be found below.

- *£1,039 of existing debt spread across 10 active credit accounts.*
- *A total of three defaults with the most recent one being reported around three months before loan one was approved. With a defaulted balance of around £621.*

The results are concerning because it shows to me a picture of someone who may have been having current repayment problems with other credit given how recently the last credit account had been marked as being in default.

However, in saying the above, there are some other indications within the credit report which suggested that Ms W wasn't showing signs that she was using credit in an unsustainable way. For example, she'd only opened two new credit accounts within the last six months – this isn't a particular high number and doesn't suggest she was reliant on high cost loans.

Indeed, the credit checks showed Morses she hadn't had a payday loan and had only taken one other home credit loan within the last six months. But, the proximity of the default does raise questions about Ms G's most recent payment history.

Therefore, given what the credit results show, I'm intending to conclude that the checks Morses carried out before these loans were approved wasn't sufficient. Instead, I think it needed to gain a full understanding of Ms G's actual financial position to ensure these loans were affordable and sustainable for Ms G. This could've been done in several ways, such as asking for evidence of her outgoings or looking at her bank statements.

The further checks might've helped verify what Ms G had declared and provided and revealed whether there was any other information that Morses might've needed to consider about Ms G's general financial position given the results of the credit check.

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

However, neither Ms G nor her representative has provided any details of her actual living costs at the time such as providing copy bank statements. I therefore, can't fairly conclude what further checks may have shown Morses about Ms G's finances. As this is the case, I can't uphold Ms G's complaint about these loans.

Therefore, based on the information that I currently have to hand, I'm intending to conclude that while proportionate checks may not have been carried out, the evidence suggests that Morses made a reasonable decision to lend. I therefore am intending to not uphold Ms G's complaint.

Response to the provisional decision

Both Ms G and Morses were asked to provide anything further for consideration as soon as possible but in any event no later than 4 November 2022.

Ms G's representative acknowledged receipt of the provisional decision and explained should Ms G have any further comments these will be provided. To date, nothing further has been provided to the Financial Ombudsman Service.

Morses emailed to confirm it accepted the outcome as outlined in 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 provided anything new for consideration, I see no reason to depart from the findings that I made in the provisional decision.

I still think, given the results of the credit check Morses carried out, it ought to have prompted it to make further enquiries into Ms G's finances. However, as I've not received anything new from Ms G about her finances at the time. I've had to conclude Morses made a reasonable decision to provide these loans.

Therefore, I'm not upholding Ms G's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 5 December 2022.

Robert Walker
Ombudsman