

The complaint

Miss R complains (through a representative) that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted a loan to her.

What happened

Miss R took one loan from Morses on 18 February 2022. She borrowed £400 to be repaid over 35 weeks at the rate of £20 per week. The statement of account provided by Morses shows that as of 25 June 2022 a balance remains due of £595.

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

The complaint was considered by an adjudicator. She thought, perhaps Morses ought to have done further checks before the loan was granted. But as no new or further information had been provided by Miss R's representatives, she couldn't uphold this loan. Morses didn't respond to or acknowledge the adjudicator's assessment.

Miss R'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 R could afford to pay back the amount 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 R'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 R. These factors include:

- Miss R 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 R 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 R 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 R.

Morses was required to establish whether Miss R could *sustainably* repay the loan – 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 R was able to repay her loan 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 R's complaint and having done so, I'm not upholding the complaint and I've explained why below.

Before the loan was approved, Morses took details of Miss R's income and expenditure. She declared a weekly income of £250 with declared weekly outgoings of £166. Leaving around £84 per week in which to make her repayment of £20. This loan looked affordable to Morses based on the information Miss R 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.

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 information Miss R may be able to see in her own credit report. There could be for several 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 was some adverse information which needed considering. Morses knew that six months before this loan was approved Miss R had a County Court Judgement (CCJ) recorded on her credit file for £1,128 – this was unsatisfied at the time.

Morses knew there were a total of 4 defaults recorded on Miss R's credit file. The most recent of which had been recorded within the last year. In total the value of her defaulted accounts came to £2,149 and none of these defaults had yet been satisfied.

Finally, Morses was aware of outstanding total debt of £3,413 across 10 active accounts. In addition, the credit results explained to Morses that the likely monthly repayment due to other creditors was around £335. There were also some indicators that Miss R had fallen behind with other credit commitments within the last six months.

Overall, I do think there was enough in the credit check results to have prompted Morses to have carried out further checks. I therefore think it would've been reasonable for Morses to have verified the information Miss R provided about her income and expenditure. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at bank statements and/or Miss R's full credit file.

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 Morse carried out what I consider to be a proportionate check it would've likely discovered that Miss R couldn't afford it.

Miss R's representative hasn't provided a copy of her credit file or her bank statements (and has been given time to provide them) covering the period leading up to loan being advanced. Without anything further, I can't be sure what Morse may have seen had it carried out better checks. So, I can't fairly uphold the complaint about this loan.

An outstanding balance does remain due, and I'd remind Morse of its obligation to treat Miss R fairly and with forbearance – if necessary when discussing repayment of the debt.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 14 December 2022.

Robert Walker
Ombudsman