

The complaint

Mrs W, through a representative complains that Morses Club PLC (Morses) didn't carry out sufficient proportionate affordability checks before it granted her loans.

What happened

Mrs W was advanced four home collected loans between June 2018 and November 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	£400.00	20/06/2018	21/01/2019	33	£20.00
2	£400.00	21/01/2019	01/11/2019	33	£20.00
3	£400.00	05/12/2019	13/11/2020	34	£20.00
4	£250.00	18/11/2020	03/07/2021	34	£12.50

Following Mrs W's complaint, Morses wrote to her representative to explain that it wasn't going to uphold her complaint. Mrs W's representative didn't accept the outcome and referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint. He thought Morses had made a reasonable decision to provide loans 1 - 3 and so he didn't uphold Mrs W's complaint about those loans. But he thought loan 4 should be upheld because firstly, Mrs W had problems repaying loans 2 and 3 and he also thought the lending was now harmful for her.

Morses disagreed with the outcome the adjudicator had reached about loan four. I've summarised its comments below;

- Morses pointed out there was a one-month break in lending between loans 2 and 3.
- Morses said loan 2 was repaid late but this was due to a couple of reasons outside of Mrs W's control. Morses provided screen shots of its system notes that show for loan 2, Mrs W was away on holiday for some missed payments and she also had a problem with her washing machine.
- For loan 3, Mrs W's income was impacted by the COVID-19 pandemic, so while payments were made, they were less than the contractual payment.
- Loan 4 was Mrs W's smallest loan – and she had a smaller weekly commitment.
- The income and expenditure information showed loan 4 to be affordable.

Mrs W's representative didn't comment on the proposed outcome by the adjudicator.

The case was then passed to an ombudsman to make a decision about the complaint. I then issued my provisional decision explaining the reasons why I was intending to not uphold Mrs W's complaint based on the evidence I had at the time. A copy of the provisional findings follows 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 Mrs W 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 Mrs W'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 W. These factors include:

- *Mrs W 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 W 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 W 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 W.

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

Neither Morses nor Mrs W (or her representative) appear to disagree with the outcome the adjudicator reached about loans 1 - 3. I therefore no longer think these loans are in dispute and so I say no more about them. But I have kept them in mind when thinking about the overall lending relationship.

Loan 4

The adjudicator upheld this loan for two reasons. Firstly, because in his view the lending was now harmful for Mrs W and secondly because he considered she'd had previous repayment problems.

I accept, that Mrs W had been indebted with Morses continuously for around 29 months – and she was further committing to be indebted for an additional 34 weeks. This, in some situations could be a sign that she was now reliant on the borrowing or at the very least having longer term money management problems. Neither can I ignore that at times the lending was consecutive, which could show that Mrs W had a continued need for credit.

But I also have to keep in mind that Mrs W's borrowing was now decreasing. Loan 4 was her smallest loan to date and so she had the smallest weekly repayment. So, I can't fairly conclude Mrs W's commitments were increasing in an unsustainable manner.

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

In addition, I've also considered what the adjudicator said about the repayment problems. Loan 2 was only marginally late and it seems that some of that time was due to Mrs W being away on holiday. So, while payments were missed – these were missed due to her not being around rather than superficially not having the ability to repay.

For loan 3, Mrs W's repayments were up to date up until the point the COVID-19 pandemic began, and I can see from the system note provided by Morses that she told it about her change in circumstances in April 2020. Moving forward, after the pandemic started Mrs W tended to still make weekly repayments albeit smaller than the contracted amount, but in this case, there was as far as I can see a legitimate reason for this. Again, this isn't an indicator that Mrs W was having wider financial problems, rather a temporary cash flow problem caused by events outside of her and Morses' control.

Morses has provided us with the income information it collected from Mrs W for this loan. She declared a weekly income of £279.65 with declared weekly outgoings of around £91. This left, a weekly disposable income of around £189 in which to afford her repayment of £12.50. Based, on these figures it was reasonable for Morses to believe that Mrs W could afford her repayments.

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 Mrs W may have been reliant on this credit and her indebtedness were potentially extending for another 34 weeks. And, while there had been some reasons the previous loans had taken longer to repay these factors ought to have prompted it to consider whether it knew enough about Mrs W's financial position.

Overall, I don't think it was reasonable for Morses to have relied on what Mrs W declared to it about her income and expenditure especially as this was the first loan taken out while the pandemic was still ongoing. Even though this information suggested Mrs W could afford these loan repayments.

Instead, I think it needed to gain a full understanding of Mrs W's actual financial position to ensure the lending 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 W'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 Mrs W'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 Mrs W couldn't afford it.

Mrs W's representative hasn't provided a copy of her credit file or her bank statements covering the period leading up to loan 4 being advanced. Without anything further, I can't be sure what Morses may have seen had it carried out better checks. So, I can't fairly uphold the complaint.

Taking account of the income and expenditure information Morses relied upon, it would've concluded that Mrs W couldn't afford the loan repayments because she didn't have any disposable income in which to pay her outstanding creditors as well as paying her Morses loans.

Although Moses didn't carry out proportionate checks, I'm not able to conclude that further checks would've led it to conclude that loan 4 shouldn't have been granted. So, I'm intending to not uphold Mrs W's complaint about this loan.

Response to the provisional decision

Both Mrs W and Moses were asked to provide anything further for consideration in response to the provisional decision as soon as possible but in any event no later than 11 November 2022.

Moses has responded to say it accepts the findings that were outlined in the provisional decision.

No response has been received from either Mrs W or her representative.

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 provided anything new for my consideration, I see no reason to depart from the findings I made in the provisional decision.

I still think Moses ought to have carried out further checks before it approved loan 4, but I don't know what Moses may have discovered by carrying out the further checks. Therefore, I'm not upholding Mrs W's complaint about this loan.

My final decision

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

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

Robert Walker
Ombudsman