

The complaint

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

What happened

Ms J was advanced five home collected loans between July 2016 and November 2018. 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	15/07/2016	02/11/2016	20	£15.00
2	£300.00	02/11/2016	24/06/2017	33	£15.00
3	£500.00	28/07/2017	28/03/2018	33	£25.00
4	£500.00	28/03/2018	23/11/2018	33	£25.00
5	£600.00	23/11/2018	22/07/2019	33	£30.00

Following Ms J's complaint Morses wrote to her representative to explain that it wasn't going to uphold the complaint. Ms J's representative, unhappy with the outcome, referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint. She thought Morses had made a reasonable decision to provide loans 1 - 3 and so he didn't uphold Ms J's complaint about these loans. But she thought loans 4 and 5 should be upheld because these loans had become harmful for her.

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

- Ms J could've ended the relationship with Morses at any point.
- There is no evidence that Ms J was using Morses' loans to repay other lending.
- The time over which Ms J borrowed from Morses, is in its view not excessive.
- Loan 4 was the same capital value of loan 3.
- While loan 6, was the largest loan, her weekly repayment only increased by £5.
- Ms J had a good repayment history.
- Ms J's income for loan 4, was confirmed through a wage slip she had provided and her income for loan 5 was verified through the credit reference agency.

Ms J's representative confirmed it had received the adjudicator's assessment, but no further comments have been provided. The case was then passed to me for a decision about the complaint.

I then issued a provisional decision explaining the reasons why I was intending to not uphold Ms J's complaint, based on the evidence available at the time. A copy of the provisional findings follows this in italics and a 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 J 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 J'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 J. These factors include:

- *Ms J 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 J 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 J 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 J.

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

Neither Morses nor Ms J (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.

Loans 4 and 5

The adjudicator upheld these loans because in her view the lending was now harmful for Ms J.

I accept, that Ms J had been indebted with Morses continuously for around 20 months (before loan 4 was advanced) – and she was further committing to be indebted for an additional 33 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 Ms J had a continued need for credit.

But I also have to keep in mind that Ms J's borrowing hadn't always increased – indeed loan 4 was the same value as loan 3. So, I can't fairly conclude Ms J's commitments were increasing in an unsustainable manner. In addition, there were no obvious repayment problems in the way Ms J repaid her previous loans.

So, taking everything together, I don't think Morses would've or ought to have realised the loan was unsustainable for Ms J and 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.

Morses has provided us with the income information it collected from Ms J for these loans. She declared a weekly income of £300 for loan 4 and £320 for loan 5, with weekly outgoings of £180 for loan 4 and £210 for loan 5. This left disposable income of £120 for loan 4 and £110 for loan 5. Based, on these figures it was reasonable for Morses to believe that Ms J could afford her repayments.

But that doesn't mean that Morses carried out proportionate checks. I do think the time in debt ought to have alerted Morses to the possibility that Ms J may have been reliant on this type of credit.

Overall, I don't think it was reasonable for Morses to have relied on what Ms J declared to it about her income and expenditure even though this information suggested Ms J could afford these loan repayments.

Instead, I think it needed to gain a full understanding of Ms J'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 Ms J'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 Ms J's financial position.

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 J couldn't afford them.

Ms J's representative hasn't provided a copy of her credit file or her bank statements covering the period leading up to loans 4 and 5 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.

Although Morses didn't carry out proportionate checks, I'm not able to conclude that further checks would've led it to conclude that loans 4 and 5 shouldn't have been granted. So, I'm intending to not uphold Ms J's complaint about these loans.

Response to the Provisional Decision

Both Ms J and Morses were asked to provide anything further for consideration as soon as possible, but in any event no later than 17 November 2022.

Ms J's representative said it had forwarded the provisional decision to her and would let the Financial Ombudsman Service know if any further information is received. Nothing further has been received.

Morses didn't acknowledge or respond 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.

The deadline for responses to the provisional decision has now ended and no further comments or information have been provided. Therefore, I see no reason to depart from the findings that I reached in the provisional decision.

I still don't think Morses carried out proportionate checks before loans 4 and 5 were approved. But as I've received nothing from Ms J's representative about her financial position at the time these loans were approved, I'm not in a position to uphold her complaint about these loans because I don't know what Morses may have seen, had it carried out better checks.

I do not uphold Ms J's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 16 December 2022.

Robert Walker
Ombudsman