

The complaint

Ms R, through a representative complains that Morses Club PLC (Morses) didn't carry out sufficient affordability checks before it granted her loans. Had it done so, Morses would've realised Ms R couldn't afford them.

What happened

Ms R was advanced four home collected loans between December 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	£200.00	21/12/2018	11/06/2019	33	£10.00
gap in lending					
2	£500.00	13/11/2019	15/06/2020	34	£25.00
3	£100.00	09/09/2020	13/11/2020	22	£7.00
4	£700.00	18/11/2020	15/10/2021	53	£24.50

Following Ms R's complaint, Morses wrote to her representative to explain that it wasn't going to uphold it. Ms R's representative, then 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 she didn't uphold Ms R's complaint about these loans. But she thought loan 4 should be upheld because the lending had become harmful for her.

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

- There were breaks in borrowing between most of the lending.
- All of the loans were settled early.
- There is no evidence Ms R was struggling to make her repayments.
- While loan 4 was Ms R's largest loan, it was over the longest term meaning her weekly commitments hadn't increased.
- Adequate checks were completed before each loan was approved.

Ms R's representative confirmed Ms R was happy with the proposed outcome.

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 Ms R's complaint based on the evidence I had at the time. A copy of the provisional findings follows this in 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 R 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 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 Ms R. These factors include:

- *Ms 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);*
- *Ms 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);*
- *Ms 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 Ms R.

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

Neither Morses nor Ms R (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 the loan because in her view the lending was now harmful for Ms R.

I accept, that Ms R had been indebted with Morses for around 23 months (before loan 4 was advanced) – and she was further committing to be indebted for an additional 53 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.

However, the lending wasn't consecutive, and she didn't ever have more than one loan

running at any one time. There was also no evidence of repayment problems, indeed, as Moses has pointed out the previous three loans had all been repaid early.

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

But that doesn't mean that Moses carried out a proportionate check. I do think the time in debt, the increasing capital value of the loan and increased term ought to have alerted Moses to the possibility that Ms R may have been reliant on this type of credit.

Overall, I don't think it was reasonable for Moses to have relied on what Ms R declared to it about her income and expenditure even though this information suggested Ms R could afford these loan repayments. Instead, I think it needed to gain a full understanding of Ms R's actual financial position to ensure the loan 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 R's full credit file.

This might've helped verify information provided and revealed whether there was any other information that Moses might've needed to consider about Ms R'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 Moses carried out what I consider to be a proportionate check it would've likely discovered that Ms R couldn't afford it.

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

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 Ms R's complaint about the loan.

Response to the provisional decision

Both Ms R and Moses were asked to provide anything further for consideration as soon as possible, but no later than 21 November 2022.

Moses emailed the Financial Ombudsman confirming that it agreed with the outcome that was reached in the provisional decision.

Ms R's representative explained it had updated its records and informed Ms R of the outcome. But no further comments or information have been provided.

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 I reached in the provisional decision.

I still don't think Moses carried out proportionate checks before it granted loan 4, but as I have no further information from Ms R, I'm not able to say what Moses may have seen had it carried out better checks.

Therefore, I'm not upholding her complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 21 December 2022.

Robert Walker
Ombudsman