

The complaint

Mrs H, through a representative complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it lent to her.

What happened

Mrs H was advanced five 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	£200.00	08/06/2018	11/01/2019	33	£10.00
2	£300.00	17/01/2019	27/08/2019	33	£15.00
3	£200.00	04/12/2019	10/04/2020	22	£14.00
4	£300.00	10/04/2020	17/11/2020	34	£15.00
5	£210.00	17/11/2020	25/06/2021	34	£10.50

Following Mrs H's complaint Morses wrote to her representative to explain that it wasn't going to uphold the complaint. Mrs H's then 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 – 4 so these loans weren't upheld. But he thought the lending was now harmful for Mrs H by the time loan 5 was granted and so this loan was upheld.

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

- There was a three-month break between loans 2 and 3. And upon Mrs H returning for further loans, Morses treated Mrs H as if she were a new customer and carried out a new credit search.
- Loan 5 was for a smaller sum than loan 4 and due to a change in term, the weekly commitment for loan 5, was the smallest in what Morses says is the second chain of loan.
- Adequate checks were completed before loan 5 was approved, which showed Mrs H could afford the repayments she was committed to making.

Mrs H's representative confirmed receipt of the outcome reached by the adjudicator but no further comments were provided.

The case was then passed to an ombudsman. I proceeded to issue a provisional decision explaining the reasons why I was intending to not uphold Mrs H's complaint. A copy of the provisional findings follows this in a smaller font, and it 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 H 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 H'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 H. These factors include:

- Mrs H 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 H 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 H 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 H.

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

Neither Morses nor Mrs H (or her representative) appear to disagree with the outcome the adjudicator reached about loans 1 – 4. I therefore no longer think these loans are in dispute. I would add, that like the adjudicator, I do agree Morses made a reasonable decision to provide these loans. So, I say no more about these loans.

Loan 5

The adjudicator upheld this loan because in his view the lending was now harmful for Mrs H.

Morses thought, that loan 3 should've have been the start of a new chain of lending because there was around a three-month gap between loan 2 being repaid and when loan 3 was granted. I don't agree that the three-month gap was sufficient, in this case, for Morses to have been treated Mrs H as if she were a new customer. But whether I can consider the gap big enough, or not, has no bearing on the outcome that I'm intending to reach. I would add that I have considered the gap, in the context of the overall lending relationship.

I accept that a new credit search was carried out, when loan 3 was granted, I have reviewed

this and there isn't anything in there that would've given Moses cause for concern. For example, there are no defaulted accounts or another adverse information.

I also accept, that Mrs H had been indebted with Moses for around 2 years (this is the time in debt and excludes the three-month gap) by the time this loan was advanced – 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.

However, the lending wasn't always increasing in value and there didn't appear to have been any previous repayment problems in servicing her previous loans. Indeed, due to the term of the loan, Mrs H's weekly commitment was the smallest amount since loan 1.

Taking everything together, I don't think Moses would've or ought to have realised this loan was unsustainable for Mrs H 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.

I do think the overall time in debt and Mrs H returned for another loan on the same day a previous loan had been repaid, ought to have alerted Moses to the possibility that Mrs H may have been having some financial problems which was leading her to have a continued need for credit.

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

Instead, I think it needed to gain a full understanding of Mrs H'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 Mrs H'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 Mrs H'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 Mrs H couldn't afford it.

Mrs H's representative hasn't provided a copy of her credit file or her bank statements covering the period leading up to loan 5 being advanced. Without anything further, I can't be sure, what Moses may have seen had it carried out better checks. This means, I can't fairly uphold the complaint about this loan.

Although Moses didn't, in my view carry out proportionate checks, I'm not able to conclude that further checks would've led it to conclude that loan 5 shouldn't have been granted.

Response to the provisional decision

Both Mrs H 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 15 December 2022.

Moses told the Financial Ombudsman Service that it accepted the findings of the provisional decision.

Mrs H's representative let us know it had received the provisional decision and it had arranged to forward it on to Mrs H. But to date, no further comments or evidence has 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 anything further for consideration, I see no reason to depart from the findings I made in the provisional decision.

I still don't think Moses carried out what I consider to be a proportionate check before it advanced loan five. But I don't know what Moses may have seen had it carried out better checks. Therefore, I'm not in a position to be able to uphold Mrs H's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 13 January 2023.

Robert Walker
Ombudsman