

The complaint

Ms D complains that Morses Club PLC (Morses) didn't carry out sufficient affordability checks before it granted her loans which she couldn't afford to repay.

What happened

Ms D was advanced four home collected loans between August 2019 and January 2021. 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	number of weekly instalments	highest repayment
1	£100.00	14/08/2019	28/11/2019	20	£7.50
2	£300.00	06/12/2019	02/07/2020	34	£15.00
3	£500.00	02/07/2020	29/01/2021	34	£25.00
4	£500.00	29/01/2021	23/09/2021	34	£25.00

Following Ms D's complaint, Morses wrote to her to explain that it wasn't going to uphold it because it carried out proportionate checks which showed the loans were affordable. Ms D, 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 D's complaint about these loans. But she thought loan 4 should be upheld because the lending had now become harmful for her.

Morses disagreed with the outcome the adjudicator had reached, and I've read and considered everything it has provided. In summary, it said while the lending was at times consecutive, there was no indication that the lending was now harmful for Ms D – the loans were affordable and proportionate checks were carried out.

Ms D didn't respond to the assessment.

The case was then passed to me, and I issued a provisional decision explaining the reasons why, based on the information that I had to hand, I wasn't able to uphold Ms D's complaint.

Both Ms D and Morses were asked to provide anything further for consideration as soon as possible, but no later than 2 February 2023.

Morses emailed the Financial Ombudsman Service agreeing with the provisional findings.

Ms D also confirmed she had received the provisional decision, but she still thought loan 4 was unaffordable for her.

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 D 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 D'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 D. These factors include:

- *Ms D 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 D 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 D 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 D.

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

Neither Morses nor Ms D 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 D.

I accept, that Ms D had been indebted with Morses for around 19 months by the time this loan was advanced – and she was further committing to be indebted for an additional 33 weeks and this was the third time a loan had been taken in a consecutive manner. This, in some situations could be a sign that she was now reliant on the borrowing or at the very least was 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 loans 1 - 3. I accept this was Ms D's second loan of £500 which was larger than the earlier ones, but her commitments were no greater than when loan 3 was advanced.

So, taking everything together, I don't think Moses would've or ought to have realised this loan was unsustainable for Ms D 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, and that doesn't mean that Moses carried out a proportionate check. I do think the time in debt, the consecutive nature of the borrowing and increased weekly commitments compared to loan 1 and 2 ought to have alerted Moses to the possibility that Ms D may have been having money management problems.

Overall, I don't think it was reasonable for Moses to have relied on what Ms D declared to it about her income (£510 per week) and expenditure (£232 per week) even though this information suggested Ms D could afford the loan repayments of £25 a week. Instead, I think it needed to gain a full understanding of Ms D's actual financial position to ensure the loan was affordable and sustainable. This could've been done in several ways, such as asking for evidence of her outgoings, or looking at bank statements and/or Ms D'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 D'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 D couldn't afford it or was unsustainable in some other way.

Ms D hasn't provided a copy of her credit file, bank statements covering this period and neither has any other documentation been provided to show what her financial position was at the time. 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 advanced. So, I'm intending to not uphold Ms D's complaint about the loans.

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 no new information has been received, I see no reason to depart from the findings that I reached in the provisional decision.

I still don't think Moses carried out a proportionate check before loan 4 was advanced, but I don't know what it may have seen as no new documentation has been provided by Ms D. Which means I can't conclude it made an incorrect lending decision.

I therefore don't uphold her complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 3 March 2023.

Robert Walker
Ombudsman