

## The complaint

Miss N complains (through a representative) that Morses Club PLC (Morses) didn't carry out appropriate affordability checks. Had it done so, then Miss N wouldn't have been provided for her loans because she was in a cycle of borrowing.

## What happened

Our adjudicator partly upheld Miss N's complaint. Morses didn't agree with the adjudicator's opinion. The complaint was then passed to me.

I issued my provisional decision explaining the reasons why I was intending not to uphold Miss N's complaint. A copy of the background to the complaint and my provisional findings follow this in italics and form part of this final decision.

## What I said in my provisional decision:

*Miss N took five loans between October 2018 and February 2021 I've included some of the information we've received about these loans in the table below.*

<b>loan number</b>	<b>loan amount</b>	<b>agreement date</b>	<b>repayment date</b>	<b>term (weeks)</b>	<b>weekly repayment</b>
1	£300.00	26/10/2018	30/05/2019	33	£15.00
2	£400.00	30/05/2019	27/11/2019	33	£20.00
3	£500.00	27/11/2019	29/06/2020	34	£25.00
4	£500.00	29/06/2020	05/02/2021	34	£25.00
5	£500.00	05/02/2021	outstanding	34	£25.00

*Based on the statement of account provided by Morses an outstanding balance remains for loan 5.*

*Our adjudicator didn't think it was wrong for Morses to have granted loans 1 - 3. But the adjudicator thought that loans 4 and 5 shouldn't have been lent. He said the pattern of lending indicated Miss N had become persistently reliant on the loans and therefore shouldn't have been provided.*

*Miss N's representative acknowledged receipt of the view but didn't provide any further comments.*

*Morses disagreed with the adjudicator's assessment. In summary, it said:*

- *Morses hasn't seen any evidence Miss N was using other funds to meet her repayments.*
- *The loans were repaid early and she confirmed she was happy with the service she received.*
- *Morses was never told about any financial difficulties Miss N may have been having.*
- *Miss N's income was verified through her credit file.*

- Miss N disposable income (income minus expenditure) of £171 for loan 4 and £176 for loan 5 and so these loans were affordable for Miss N.

*As no agreement has been reached, the case has been passed to me for a decision.*

### ***What I've provisionally 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.*

*We've set out our general approach to complaints about short-term lending - including all the relevant rules, guidance and good industry practice - on our website.*

*Miss N doesn't appear to disagree with our adjudicator's findings that Moses wasn't wrong to lend loans 1 - 3. So, it seems this lending isn't in dispute and so I no longer think that I need to make a finding about it. But I have kept these loans in mind when thinking about the overall lending relationship between Moses and Miss N.*

*Instead, this decision will focus on whether Moses did anything wrong when it granted loans 4 and 5.*

*Moses had to assess the lending to check if Miss N 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. Moses's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Miss N'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 Moses should have done more to establish that any lending was sustainable for Miss N. These factors include:*

- *Miss N 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);*
- *Miss N 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);*
- *Miss N 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 Miss N.*

*Moses was required to establish whether Miss N 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 Miss N 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 Miss N's complaint.*

#### Loans 4 and 5

*As the adjudicator has pointed out, by loan 4 Miss N had taken four loans in around 20 months and she was regularly taking a new loan on the day the previous one was repaid. Which is why the adjudicator thought these loans should be upheld.*

*Overall, I don't think the loan activity was quite enough to suggest Miss N had become reliant on the loan. The loan amounts had gone up but there weren't any obvious repayment difficulties, indeed, Morses says loans 1 – 3 had been repaid early. So, the number of loans and time in debt, is in my view, not particularly concerning, at this point in time. So, I don't agree with the adjudicator that Morses ought to have reasonably concluded that these loans were unsustainable for Miss N.*

*But that doesn't mean that Morses carried out a proportionate check. Miss N had been almost continuously indebted to Morses for 20 months (but loan 4), and she was returning for further credit, extending her indebtedness for at least another 34 weeks. Loan 5 was taken on the same day loan 4 was repaid, and she'd now been indebted for 27 months and was, like loan 4, committing to a further 34 weekly of repayment of £25.*

*Overall, I don't think it was reasonable for Morses to have relied on what Miss N declared to it about her income and expenditure. Even though this information suggested Miss N had disposable income of at least £159 per week for loan 4 and £135 for loan 5, Morses, in my view still needed to do more.*

*Instead, I think it needed to gain a full understanding of Miss N's actual financial position to ensure loan 4 was affordable. This could've been done in several ways, such as asking for evidence of outgoings, or looking at bank statements and/or a full review of Miss N's credit report. This might've helped verify information provided and revealed whether there was any other information that Morses might've needed to consider about Miss N's general financial position.*

*Morse has provided credit search data from the start of July 2020, so around a week after loan 4 was approved. It was aware she had 8 active credit accounts, with two of these accounts having a zero balance.*

*But there was some concerning information about defaults, but I think Morses ought to have gained a better understanding of Miss N's financial circumstances. I say this because the default data suggested that Miss N was regularly defaulting on credit accounts.*

*Any by loan 5, the credit file, showed a similar number of active credit accounts. But it looked like Miss N was keeping up to date with her payments, as there was no recent adverse credit file data being reported and she hadn't opened any new credit accounts within the last six months. So, there wasn't any indication at loan 5, based on the credit checks that the loan was unsustainable for her.*

*I would add though, that by loan 5, Miss N was committed to extending her indebtedness by a further 34 weeks, but she was borrowing the same amount as she'd done for loans 3 and 4. So, her overall indebtedness wasn't increasing but neither was it decreasing. Which is why, I think, that for these loans further checks needed to have been carried out by Morses.*

*However, that isn't the end of the matter. For me to be able to uphold these loans, I have to*

*be satisfied that Moses didn't carry out proportionate checks but by carrying out a proportionate check it would've likely discovered that Miss N couldn't afford this loan.*

*Miss N hasn't provided this Service with a copy of her bank statements or her full credit report. So, I don't know what further checks may have highlighted about her financial situation at the time. So, without any further information from Miss N about her living costs, it's difficult for me to conclude what Moses would've seen if it had made better checks. Although Moses didn't carry out proportionate checks, I'm not able to conclude that further checks would've led it to conclude that these loans were unaffordable for Miss N.*

*Looking at everything together though, I've not seen quite enough evidence to suggest Moses shouldn't have lent loans 4 and 5. Even considering what Miss N declared to Moses for her income and expenditure, these loans appeared affordable. I'm not minded therefore to think Moses was wrong to have provided these loans.*

*As this is the case, I'm not intending to uphold Miss N's complaint about loans 4 and 5.*

### **Response to the provisional decision**

This Service asked, both Miss N and Moses to provide any further comments, information or evidence as soon as possible, but by no later than 12 January 2021.

Moses responded to the provisional decision explaining that it didn't have anything further to add.

Miss N's representatives acknowledged receipt of the provisional decision. It explained it would be in touch with Miss N and then get back in contact with this Service as soon as possible.

To date, no further response has been received but the deadline for a response has now expired, so I'm now in a position to issue a final 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.

As neither Moses nor Miss N has provided this Service with any further information for me to consider, I see no reason to depart from the findings I reached in the provisional decision.

While, I don't think Moses' carried out proportionate checks before it advanced loans 4 and 5 to Miss N, I've not seen enough to say that had it made better checks it would've reached a different lending decision.

I'm therefore not upholding Miss N's complaint.

### **My final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss N to accept or reject my decision before 15 February 2022.

Robert Walker  
**Ombudsman**