

The complaint

Ms J complains (through a representative) that Morses Club PLC (Morses) didn't carry out appropriate affordability checks.

What happened

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

I then issued my provisional decision explaining the reasons why I was intending to not uphold Ms J'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:

Ms J took four loans between June 2017 and April 2019 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	£300.00	27/06/2017	23/03/2018	33	£15.00
2	£600.00	19/07/2018	29/03/2019	33	£30.00
3	£800.00	04/04/2019	30/04/2020	52	£28.00
4	£200.00	04/04/2019	25/04/2019	33	£10.00

The weekly repayment amount is the cost per week per loan. But as loans 3 and 4 ran concurrently Ms J's commitment to Morses was actually £38 per week.

Our adjudicator didn't think it was wrong for Morses to have granted loans 1 and 2. But the adjudicator thought that loans 3 and 4 shouldn't have been lent. He said the pattern of lending indicated Ms J had become persistently reliant on the loans and therefore shouldn't have been provided.

Ms J's representative acknowledged receipt of the view but didn't provide any further comments.

Morses disagreed with the adjudicator's assessment about loans 3 and 4. In summary, it said:

- *Loan 4 was withdrawn and so she paid no interest on it.*
- *There was a gap between loans 1 and 2 as well as loans 2 and 3.*
- *Loans 1 and 2 were only repaid slightly late and no late fees were charged.*
- *Ms J's disposable income for loan 3 was £210 per week and the repayment was only 13% of her uncommitted income.*
- *Morses wasn't made aware of any financial difficulties Ms J was having until April 2020 – which is after the loans were issued.*

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.

Ms J doesn't appear to disagree with our adjudicator's findings that Moses wasn't wrong to lend loans 1 - 2. 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 for the avoidance of doubt I don't think Moses made an error when these loans were approved. But I have kept these loans in mind when thinking about the overall lending relationship between Moses and Ms J.

Instead, this decision will focus on whether Moses did anything wrong when it granted loans 3 and 4.

Moses 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. 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 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 Moses 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.

Moses 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.

Loans 3 and 4

As the adjudicator has pointed out, by loan 3 Ms J had taken three loans in around 17 months (excluding the gap between loans 1 and 2) and loan 3 was now Ms J's largest loan to date. Which is why the adjudicator thought this loan (and future loans) should be upheld.

Overall, I don't think the loan activity was quite enough to suggest Ms J had become reliant on the loan. The loan amounts had gone up by loans 3. I accept there had been some missed payments during loan 1, and for loan 2, Ms J appeared to have been paying the loan monthly, rather than weekly, which then led to some missed payments.

There was also a small gap between loans 1 and 2, which I think further reinforces the fact that Ms J wasn't always returning for a new loan either on the day the previous loan was repaid or soon afterwards. So, I don't think these factors, on their own are sufficient to conclude the loans were now unsustainable for Ms J.

But that doesn't mean that Morses carried out a proportionate check. Ms J had been indebted to Morses for 17 of the last 20 months and she was returning for further credit, extending her indebtedness for at least another 52 weeks.

Loan 4 was taken on the same day as loan 3, so she'd need to service two loans for at least 33 weeks. I appreciate this loan was repaid early and so didn't incur any interest but Morses wasn't to know that at the point the loan was granted. As far as it was aware, Ms J was now committed to spending £38 per week, for at least 33 of the next 52 weeks.

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 had disposable income of around £187 per week for loans 3 and 4.

Instead, I think it needed to gain a full understanding of Ms J's actual financial position to ensure loans 3 and 4 were affordable. This could've been done in several ways, such as asking for evidence of outgoings, or looking at bank statements. 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 general financial position.

Morse has provided credit search data from March 2019, so the month before these loans were approved. At this time, it knew she already had 14 active credit accounts, which is not an insignificant number. But it also was aware that of these accounts 5 of them had a zero balance – indicating that they weren't currently being used.

The report also didn't indicate that Ms J was having to borrow money to repay her loans – after all, according to the credit report Morses had provided she'd only opened 1 account in the previous six months.

But there was some information to potentially suggest that in the months leading up to this loan Ms J had some problems repaying another loan. So, I think this may have prompted it to make further enquiries into Ms J's circumstances.

However, that isn't the end of the matter. For me to be able to uphold these loans, I have to be satisfied that Morses didn't carry out proportionate checks but by carrying out a proportionate check it would've likely discovered that Ms J couldn't afford these loans.

Ms J hasn't provided this Service with a copy of her bank statements, her full credit report or any other similar information. So, I don't know what further checks may have highlighted about her financial situation at the time. Without any further information from Ms J about her living costs, it's difficult for me to conclude what Morses would've seen if it had made better checks.

Although Morses 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 Ms J.

Looking at everything together, I've not seen quite enough evidence to suggest Morses shouldn't have lent loans 3 and 4. Even considering what Ms J declared to Morses for her income and expenditure, these loans appeared affordable. I'm therefore not minded to think Morses was wrong to have provided these loans.

As this is the case, I'm not intending to uphold Ms J's complaint about loans 3 and 4.

Response to the provisional decision

Both Ms J and Morses were asked to provide this Service with any further evidence or comments no later than 14 January 2022.

Morses hasn't responded to the provisional decision.

Ms J's representative acknowledged receipt of the provisional decision and said it would be back in contact with this Service as soon as possible. To date, no further response has been received and as the deadline for responses has now passed, I see no reason to delay the issuing of the 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 Ms J nor Morses have provided any new information, comment or evidence for me to consider, I see no reason to depart from the findings I reached in the provisional decision.

I still don't think Morses carried out proportionate checks before it advanced loans 3 and 4. But I don't have any evidence to show what Morses may have seen about Ms J's financial position had it carried out more in-depth checks. So, I can't say that Morses was wrong to provide these loans.

Therefore, I don't 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 15 February 2022.

Robert Walker
Ombudsman