

The complaint

Miss W complains that Morses Club PLC (Morses) provided her a loan during a time that she was having financial difficulties and having to take out other payday loans to settle existing loans. Miss W says she couldn't afford the repayments she was committed to making.

What happened

Miss W was advanced one home collected loan on 9 May 2022. Miss W borrowed £400 to be repaid over 35 weeks at the rate of £20 per week. Miss W has had some problems repaying her loan and as of 2 September 2022, £600 still remains due.

Following Miss W's complaint, Morses wrote to her to explain why it wasn't going to uphold the complaint. Miss W then referred the complaint to the Financial Ombudsman.

An adjudicator reviewed the complaint and he thought Morses had carried out a proportionate check before granting the loan and these checks showed it that Miss W could afford the repayments. He did say, that if further loans had been granted then Morses may have needed to have done more, but as only one loan was advanced, he was satisfied Miss W's complaint couldn't be upheld.

Miss W didn't agree with the adjudicator's assessment, and I've summarised her responses below;

- Miss W didn't think the complaint had been fairly assessed because at the time she had multiple outstanding payday loans.
- Morses has continued to add interest, fees and charges even though it was aware of her difficult financial situation.
- Miss W can't afford the repayment towards this loan.
- Miss W says she is being punished for the poor practices of Morses.
- Miss W says that Morses has recorded this account as a catalogue account on her credit file – which isn't correct.

As no agreement has been reached, the case has been passed to me to resolve.

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.

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 Miss W 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 Miss W'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 W. These factors include:

- Miss W 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 W 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 W 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 W.

Moses was required to establish whether Miss W could *sustainably* repay the loan – 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 W 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 W's complaint.

For her loan, Moses asked Miss W to declare her weekly income and her weekly expenditure. Miss W declared her weekly income was £539 and she declared weekly expenditure of £280. This expenditure has been recorded for rent, council tax, utilities, travel, credit commitments (which includes, credit card(s), loan(s) and 'other') as well as food.

Based solely on the information Miss W declared to Moses, it was reasonable for Moses to have concluded Miss W would be able to afford her weekly repayment of £20.

Moses has also said for this loan, it carried out a credit search and it has provided the Financial Ombudsman Service with the results. It is worth saying here that although Moses carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard.

Therefore, it's entirely possible that the information Moses received may not have entirely reflected the information Miss W may be able to view on the credit report that she can obtain and has sent to us. There could be for several reasons for this, such as Moses only asking for certain pieces of information such as the number of active credit accounts. But what Moses can't do is carry out a credit search and then not react to the to the information it received – if necessary.

This means I haven't considered the credit report which Miss W has provided. This is because, Morses carried out its own credit search and received the results. In that situation I think it's entirely reasonable to see what Morses was told and saw before approving the loan, rather than what Miss W is now able to provide. Therefore, I'm only considered in this case, the results of the credit search which we know Morses saw.

Looking at the credit file data provided by Morses, I'm satisfied it was aware of some adverse information. It knew that Miss W had four defaults recorded on her credit file of which three had been settled. But the most recent of these defaults had been recorded almost three years before this loan was approved. In my view, this isn't enough, on its own to uphold the complaint. I say because the defaults shows that in the past Miss W had experienced some financial difficulties but there wasn't any obvious signs that she was experiencing difficulties in the lead up to the loan being approved.

Miss W also says that she had a number of outstanding payday loans at the time. I've thought about this while looking at the credit check results provided by Morses. At the time Morses knew she had £5,717 of outstanding debt spread across 12 active credit accounts. The credit results also indicated that Miss W's monthly repayments towards that debt was around £121, this does seem on the low side, but Miss W declared to Morses her monthly credit commitments were around £300 per month – which seems more reasonable.

Morses was also told that Miss W hadn't used any form of home credit before and had only ever used three short term loan accounts - with one of those accounts being outstanding. So, Morses was on notice that Miss W had one short term loan account that needed repaying (which was opened two months prior to the loan). One payday loan account visible on a credit file, isn't enough to make me think Morses needed to do further checks.

Morses also knew Miss W had opened one new account in the last six months and that new debt was only £148, so it doesn't seem, based on what Morses was told that Miss W was opening lots of new credit accounts, which could be a sign of someone struggling to repay existing loans or was reliant on payday loans.

While there are negative indicators in Miss W's credit check such as the defaults overall there doesn't seem to me, enough to show Miss W was reliant on other forms of credit and / or payday loans. Of course, the number of outstanding loans Morses was told about may not be correct but it was entitled to rely on the information it was given at the time the credit check was carried out.

Given it was still quite early on in the lending relationship and there was also nothing else in the information I've seen that would've led Morses to believe that it needed to go further with its checks – such as verifying the information Miss W had provided. In addition, there wasn't anything else to suggest the loan was unsustainable for her.

This means that while Miss W has provided the Financial Ombudsman Service with copies of her bank statements, I don't think given what Morses knew at the time that it would've been proportionate for it to check or reviewed her statements because there was nothing to prompt it to do so in the information it gathered.

I appreciate Miss W's concerns about the interest on the loan, and the fact that interest is still being added. But it is my understanding that loans issued by Morses don't quite work in the same way as compared to a 'traditional' loan.

My understanding is that on the day the loan is advanced the full interest is also added to the balance as well. This means, for example Morses doesn't charge late fees, or additional interest for late payments. The cost of the credit is set at the start – and the statement of

account provided by Morses shows no additional fees and interest being added to the balance. Miss W doesn't owe any more beyond what she was contracted to pay. So, there isn't any interest to freeze as such because no additional fees / charges are being added.

Given what Miss W has told the Financial Ombudsman Service it is likely some sort of repayment plan may be needed to help her repay the balance, but she won't be charged extra interest (or late fees) as a result of needing one.

I've also reviewed the contact notes provided by Morses and the text messages that have been sent in by Miss W. Initially, while payments were late, when Morses contacted Miss W a reason was provided – such as an unexpected bill or not having access to a debit card. However, Morses ought to now be aware of Miss W's financial position, and I think it would be fair for both parties to discuss a way forward – now a decision has been made on the affordability of the loan.

Finally, I've looked at the credit file Miss W but only to see what Morses' has record. I've done this because Miss W has said this Morses loan is being recorded as a 'catalogue' account on her credit file. I've located the entry for Morses, and I can see this loan record is being recorded as 'Home Lender'. Which I consider to be an accurate description of the type of product that Morses provides.

An outstanding balance does remain due to Morses and I would remind Morses of its obligation to treat Miss W fairly and with forbearance.

Miss W has provided evidence of recent health problems and has said that due to other loans and the cost of living she can't afford to repay what she owes Morses. These are circumstances which Morses will need to take into account while working with Miss W. But I leave it to Miss W and Morses to discuss a fair way forward.

So, taking everything into account I'm not upholding Miss W's complaint about her loan.

My final decision

For the reasons I've explained above, I'm not upholding Miss W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 18 November 2022.

Robert Walker
Ombudsman