

## The complaint

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

## What happened

Mrs D was advanced six home collected loans between March 2018 and November 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	weekly term	weekly repayment per loan
1	£300.00	06/03/2018	25/09/2018	33	£15.00
2	£500.00	14/08/2018	06/02/2019	33	£25.00
3	£300.00	25/09/2018	14/05/2019	33	£15.00
4	£700.00	06/02/2019	13/11/2019	52	£24.50
5	£300.00	05/06/2019	05/11/2019	33	£15.00
6	£700.00	13/11/2019	06/12/2019	53	£24.50

Following Mrs D's complaint Morses wrote to her representative to explain that it wasn't going to uphold it. Mrs D's representative didn't accept the outcome and 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 – 4 and so she didn't uphold Mrs D's complaint about these loans.

However, she did think further checks ought to have been carried out before loan 5 was granted but she couldn't say what further checks may have shown Morses because she didn't have any information about Mrs D's financial position at the time. But she thought the lending was now harmful for Mrs D by the time loan 6 was granted and so the complaint was upheld about this loan.

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

- All loans were repaid without undue hardship.
- Mrs D didn't notify Morses of any financial difficulties she may have had.
- Mrs D had a good repayment history.
- Her income was verified through the credit reference agencies.
- Only 12.2% of Mrs D's income was needed to meet her repayments for loan 6.
- Mrs D withdrew from the final loan agreement within 14 days of the loan starting and so there isn't any interest to refund on this loan. The loan ought to not have been recorded with the credit reference agencies, however, Morses requested the loan be removed anyway, just in case it was being reported.

Mrs D's representative acknowledged the outcome reached by the adjudicator, but no further comments were provided.

The case was then passed to an ombudsman to make a decision about the complaint.

Before issuing the final decision, I asked the adjudicator to let Mrs D's representative know that even if the complaint is upheld, the statement of account received from Morses suggests that for loan 6 – no interest was paid.

However, while acknowledging the request and saying it had contacted Mrs D, no further response has been received. Therefore, in order to bring this matter to a close, a final decision has been issued.

### **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 Mrs 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 Mrs 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 Mrs D. These factors include:

- Mrs 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);
- Mrs 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);
- Mrs 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 Mrs D.

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

Neither Morses nor Mrs D (or her representative) appear to disagree with the outcome the adjudicator reached about loans 1 - 5. 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 even if further checks ought to have been carried out before loan 5 was approved. I therefore say no more about these loans.

## **Loan 6**

For loan 6 Morses would've asked for details of Mrs D's income and expenditure. For this loan, Mrs D declared a weekly income of £200 per week. Mrs D also declared weekly expenditure of £133.50 – this included the repayment to Morses. This gave, Mrs D £66.50 per week in disposable income.

Based solely on Mrs D's income and expenditure information Morses could've been confident she would be able to comfortably afford the repayments she was committed to making.

However, I do have some concerns, because apart from £50 a week on groceries, the rest of Mrs D's weekly outgoings were payments to either Morses, or other credit providers. Given this, is arguable whether these checks went far enough considering how long Mrs D had been indebted to Morses, her future weekly commitment and what Morses already knew about Mrs D's finances.

In my view, by now, it would've been reasonable for Morses to have at the very least, started to have verified the information it was being given by Mrs R. I've not seen anything to suggest it carried out further checks in this case.

However, I don't think I need to try and establish, in this case, whether a proportionate check would've led Morses to conclude the loan was unaffordable for Mrs D.

So, in addition to looking at the checks that Morses did I've also looked at the overall pattern of Morses' lending history with Mrs D, with a view to seeing if there was a point at which Morses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Morses should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mrs D's case, I think that this point was reached by loan 6. I say this because:

- At this point Morses ought to have realised Mrs D was not managing to repay her loans sustainably. Mrs D was taking out her sixth loan in 20 months. So Morses ought to have realised it was more likely than not Mrs D was having to borrow further to cover a long-term short fall in her living costs.
- From her first loan, Mrs D was provided with a new loan on the same day a previous loan was repaid. To me, this is a sign that Mrs D was using these loans to fill a long-term gap in her income rather than as a short-term need.
- The expenditure information Mrs D provided to Morses indicated that she already had a significant amount of other credit that needed servicing – nearly £60 per week before this Morses loan was taken into account. Mrs D was committed to spending over 40% of her declared income solely on credit commitments could be a sign that she had an ongoing need for credit.

- Mrs D wasn't making any real inroads to the amount she owed Moses. Loan 6 was taken out 20 months after Mrs D's first loan and was to be repaid over another year. Her final loan was her joint largest capital loan to date and was more than twice the size of her first loan. Mrs D had paid large amounts of interest to, in effect, service a debt to Moses over an extended period.

I think that Mrs D lost out when Moses provided loan 6 because:

- these loans had the effect of unfairly prolonging Mrs D's indebtedness by allowing her to take expensive credit intended for short-term use over an extended period of time
- the number of loans and the length of time over which Mrs D borrowed was likely to have had negative implications on Mrs D's ability to access mainstream credit and so kept her in the market for these high-cost loans.

So, I'm upholding Mrs D's complaint about loan 6.

### **Putting things right**

Before, addressing this, I do say that it does seem from the statement of account that the loan was cancelled within the 14-day cooling off period, and the statement does suggest Mrs D only repaid the capital she borrowed. Therefore, it is entirely possible, and indeed likely, that there will be no compensation to pay to Mrs D.

In addition, while Moses has already said that it has requested adjustment to the credit file, I've not seen anything to suggest the loan was being reported to Mrs D's credit file in the first place. In saying that, I've included that Moses should make the adjustment below.

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it hadn't lent loan 6, as I'm satisfied it ought to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mrs D may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, she may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, she may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if she had done that, the information that would have been available to such a lender and how she would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct. From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mrs D in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mrs D would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Moses's liability in this case for what I'm satisfied it has done wrong and should put right.

Moses shouldn't have provided Mrs D with loan 6.

- A. Moses should add together the total of the repayments made by Mrs D towards interest, fees and charges on this loan, including payments made to a third party where applicable, but not including anything Moses may have already refunded.

- B. Morses should calculate 8% simple interest\* on the individual payments made by Mrs D which were considered as part of "A", calculated from the date Mrs D originally made the payments, to the date the complaint is settled.
- C. Morses should pay Mrs D the total of "A" plus "B".
- D. The overall pattern of Mrs D's borrowing for loan 6 means any information recorded about it is adverse, so Morses should remove this loan entirely from Mrs D's credit file, if not already done.

\*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Mrs D a certificate showing how much tax it has deducted, if she asks for one.

### **My final decision**

For the reasons I've explained above, I'm upholding Mrs D's complaint in part.

Morses Club PLC should put things right for Mrs D as directed above.

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

Robert Walker  
**Ombudsman**