

## The complaint

Miss M, through her representative, complains that Morses Club PLC lent to her without carrying out suitable checks to ensure she could afford the loans.

## What happened

Morses has sent to us information about the four loans approved for her. A brief table is here:

Loan	Date Taken	Date Repaid	Instalments (weekly)	Amount	Highest Combined Repayment*
1	10/03/2017	14/09/2017	33	£300.00	£15.00
2	31/05/2017	14/09/2017	20	£200.00	£30.00
3	23/11/2017	07/06/2018	33	£800.00	£40.00
4	14/06/2018	31/01/2019	33	£600.00	£30.00

Miss M's representative submitted a copy of her credit file with its letter of complaint to Morses and it covered several points with evidence from that credit file to substantiate its complaint on her behalf.

In its final response letter (FRL) to Miss M, Morses referred to having reviewed that detailed letter of complaint and the credit file sent to it. Morses had outlined its affordability assessment steps and had determined that Miss M's repayments to it '*used between 4.75 and 23.6%*' of her disposable income.

Morses also noted that Miss M had no loans with it for about two months after paying off loans 1 and 2 in September 2017. So, it said that Miss M was not reliant on the credit, but also made the point that her previous repayment history had given it no cause for concern before loan 4. Morses did not uphold Miss M's complaint. The complaint was referred to this Service.

One of our adjudicators looked at the complaint and thought that Morses should not have lent to Miss M at loan 4. He felt that Miss M's income had reduced over the months, that Morses knew this and the combination of that reduced income together with the repayments at £30 a week for loan 4 meant that Miss M was repaying too high a percentage of her income for her to be able to meet the loan 4 repayments without undue difficulty.

And our adjudicator thought that there had been a large difference between the percentage of income used to repay loan 1 when her income was higher and her repayment figure was £15 (half the repayment amount for loan 4) compared with her situation at loan 4 – smaller income and double the repayment sum of £30.

Morses disagreed and our adjudicator held his opinion in a second view. He said

*'I can't agree that the repayment seemingly being affordable based on the information provided was sufficient to conclude the repayments could be made in a sustainable manner.'*

The complaint remained unresolved and was passed to me to decide.

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

Morses needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss M could repay the loans in a sustainable manner. These checks could include several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

In the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But certain factors might point to the fact that Morses should fairly and reasonably have done more to establish that any lending was sustainable for the consumer.

These factors include:

- 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 level of income);
- having many 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);
- 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.

Morses was required to establish whether Miss M could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

The loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines 'sustainable' as being the ability to repay without undue difficulties.

The customer should be able to make repayments on time, while meeting other reasonable commitments, and without having to borrow to meet the repayments.

And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a not be able to make their repayments sustainably if they need to borrow further in order to do that.

I have carefully considered all the arguments, evidence and information provided by both parties and what all this means for Miss M's complaint.

Neither Miss M nor her representative have responded to the adjudicator's view or sent in anything in advance of the complaint being passed to me. From that it seems Miss M has no issue with the outcome for loans 1 to 3. So, I have not reviewed them.

#### Loan 4

It does appear that Miss M's repayment history included early repayments and a two month period where she had no debt with Moses and then having repaid loan 3 early she re-applied for a lesser sum a week later. So, I can understand why Moses may have thought that she gave the impression of being a customer able to afford her loans.

But still Miss M came back for more credit and so she must have needed it. Considering the length of the lending relationship I think that by loan 4 Moses ought to have checked that her income was what Miss M had said it was. Moses has said to us that in November 2017 it had verified her income with a wage slip and benefits letters. And for loan 4 it used a credit reference agency (CRA) to verify her income. I have not seen any documents or records to show this is what Moses had carried out, but as its asserting to us that this income was verified then I have proceeded on the basis that is correct. Miss M has not disputed that.

Using Moses records, Miss M's income had reduced from around £450 a week for loan 1 to around £239 a week for loan 4, and Moses was aware of this. I consider that to be quite a large reduction – approaching 50%.

For her expenditure, Miss M appears to have told Moses that it was £112. So Moses calculated her affordability on her having £127 disposable income meaning income left over with which to pay her loan 4 instalments. This expenditure figure, according to Moses records, was rent, utilities, media, council tax, groceries and credit card payments. She had not declared that she had other loans or any other home credit.

So, I think, as a starting point, I agree that the loan repayments, were a high proportion of her income. And Moses should have been aware that loan repayments were likely not affordable for her.

In addition to this, for a fourth loan and after a 15 month lending relationship, I would have expected Moses to have verified what her expenditure was, rather than rely on what Miss M had told it - especially with a reducing income about which Moses was aware. And although it is correct that Miss M's loan 4 application was for less than loan 3, it was twice as much as her first loan taken 15 months earlier. And the expenditure ought to have included her regular loan commitments or certainly by loan 4, I would have expected Moses to have checked whether she had any other loan commitments.

Having said that, Moses has told us it had verified Miss M's income with a CRA and so I think it may have carried out a credit search. I appreciate that it was not a requirement to carry out a credit search before lending but in light of Miss M's income reduction and the fact twice it verified her income and had done that for loan 4, I think it would have been a logical extension to check her actual commitments were what she had told them they were.

I have a copy of Miss M's credit file and I reviewed it to see what her financial situation was around the time she applied for loan 4 – May/June 2018.

Miss M looks to have been in the middle of repaying a large unsecured loan (opening balance £8,961) at £191 a month. And she was in the middle of paying for some household

items taken on three hire purchase agreements (opening balances £1,180, £937 and £1,958) at weekly rates of £33 and £26 and £84.

In addition to this, Miss M was in the middle of paying off a high-cost short term loan of £850 and the records suggest it was around £132 a month. But even if it had not discovered the high-cost loan I do think that by loan 4, Morses ought to have checked about her regular loan expenditure. And the figures in the list of hire purchase repayments, plus the unsecured loan above show that she was committed to additional weekly cost over an above the £112 she had told Morses.

Morses says that £30 a week with £127 a week left as disposable income meant that this was less than a quarter of her disposable income and so the loan was affordable. But I think that Miss M had many other outgoings as well which by loan 4 I would have expected it to know about. And either it did know through the CRA it said it had approached to verify Miss M's income in which case it would have realised Miss M had more outgoings in credit commitments than she had informed it about. Or Morses had not checked this aspect of her expenditure and I think it ought to have done.

Either way I have concluded that Miss M was likely not able to afford loan 4 and so I uphold her complaint about loan 4.

### **Putting things right**

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it stopped lending to Miss M at loan 4, 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 Miss M may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between her and this lender which they may not have had with others. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they 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 they had done that, the information that would have been available to such a lender and how they 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 Miss M in a compliant way at this time.

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

Morses shouldn't have given Miss M loan 4.

A) Morses should add together the total of the repayments made by Miss M towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything it has already refunded.

B) Morses should calculate 8% simple interest\* on the individual payments made by Miss M which were considered as part of "A", calculated from the date Miss M originally made the payments, to the date the complaint is settled.

C) Morses should pay Miss M the total of “A” plus “B”.

D) Morses should remove any adverse payment information about loan 4 from Miss M's credit file.

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

**My final decision**

My final decision is that I uphold Miss M's complaint in part and I direct that Morses Club PLC does as I have outline above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 17 November 2021.

Rachael Williams  
**Ombudsman**