

The complaint

Miss R complains that Morses Club PLC lent to her irresponsibly.

What happened

Three loans were approved for Miss R in February, April and June 2020. Some repayments have been made. Here is a brief summary taken from Morses' records.

Loan	Start Date	End Date	Capital Amount	Interest amount	Term in weeks	Repayment amount in weeks	Weeks Live	Still Live
1	14/02/2020	11/06/2020	£150	£81	22	£10.50	17	No
2	30/04/2020	-	£200	£140	34	£10.00	61	Yes
3	11/06/2020	-	£150	£81	22	£10.50	55	Yes

Loan 2 was approved for Miss R while loan 1 remained unpaid. Loan 3 appears to have been taken to repay Loan 1. Loans 2 and 3 remain outstanding.

Miss R complained and Morses has told us it was 24 September 2020. Using Morses' final response letter (FRL) dated 19 November 2020, which summarised Miss R's complaint, I set out here her complaint points:

- *'You state your only income was child benefits when the loans were issued*
- *You state the agreement was signed before you could discuss with your partner*
- *You state we completed affordability on some scrap paper and uploaded this later*
- *You are unhappy as the Agent has attempted to contact you whilst you have had your complaint outstanding for irresponsible lending*
- *You state insufficient affordability checks were undertaken when the loan applications were made'*

Morses did not accept, or was able to offer an explanation, in relation to the first four points. Morses upheld her complaint on the last point in full. It explained:

'An affordability assessment was completed before each loan was issued but we should have completed further checks before issuing the loans

I have not detailed the income and expenditure assessments completed for the loans as I do not believe these were affordable and further checks should have been completed.'

Morses set out what it proposed to do. I summarise that here.

'I have therefore upheld your complaint in relation to all of the loans.

The total refund for the interest you have paid towards the upheld accounts is £82.60 after tax is deducted; however there is still an outstanding balance of £476.76.

After we have removed the interest charge of £221.00 from the outstanding balance there is still £255.76 capital outstanding.

This means no cash refund is due; however, we offer to reduce your overall balance to £173.16.

The balance on [loan 2] would reduce from £269.22 to £46.62 and the balance on [loan 3] would reduce from £207.54 to £126.54.'

Morses' FRL went on to say that the balance would be collected and if Miss R was in financial difficulties she was to contact her agent and then repayment options could be considered for her.

Morses has confirmed that all the loans would be removed from her credit file but only when the outstanding ones had been repaid. It also said that the outcome resolution remained available for Miss R.

Miss R appears not to have accepted that outcome and brought her complaint to this Service in January 2021. She explained her situation and her story behind the loan approvals. She said (I have kept this paragraph as Miss R's own words):

'I have mentally been affected i can't sleep im taking sleeping tablets to try and help me. I am so behind on everything i am struggling to even feed myself. I can not take any more stress from this company even now still messaging me wont leave me alone.'

One of our adjudicators looked at the complaint and endorsed the offer from Morses as, he pointed out, it was more than he would likely have recommended. So, he thought that this offer was fair and invited Miss R to accept it.

Miss R did not. She wanted the balance written off and for Morses to recognise the upset it has caused her. She says that the loans have put her in more financial hardship than she was in before.

The complaint remained unresolved and was passed to me to decide. I issued a provisional decision on 15 September 2021 which was that I endorsed Morses Club PLC's outcome on the complaint and further added that the balance should be written off and Miss R's credit file amended in the way I outlined.

I invited both parties to respond by 29 September 2021. They have and so the complaint is ready for its final determination.

For completeness I have set out my provisional decision findings in the next section. Its in smaller print to differentiate it from this 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.

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 R 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 R 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 borrower will not be able to make their repayments sustainably if they need to borrow further in order to do that.

My provisional decision dated 15 September 2021

I have carefully considered the arguments, evidence and information provided in this context and what this all means for Miss R's complaint.

Morses has accepted that, Miss R could not afford the loans and it did not do enough checks for each loan and has accepted it must put things right for Miss R. And so, I do not need to decide whether there was any irresponsible lending, as Morses has accepted that.

Miss R's underlying concerns relate to how these loans were ever approved in the first place and the effect they have had on her. She's unhappy about having to pay the remaining, albeit reduced, balance.

I set out below the figures gathered from Miss R at the time of each loan approval and, in my view, these demonstrate why it is that Morses' upheld her complaint so completely. Miss R's outgoings exceeded her very modest benefits 'income', or took up so much of her 'income' that she was left with very little each week. She had a dependent and was herself totally dependent on her partner to pay most, if not all, the bills.

Loan	Miss R's Declared income (rounded)	Verification?	Outgoings (rounded)	Partner contribution	Morses net weekly disposable income (NDI) figure for Miss R
1	£163	Child benefit and HMRC	Other home credit loan £40 Other – rent and bills etc £238 to which Miss R contributed £35	Council tax, food and media	NDI - £88 Customer affordability £26
2	£98	Child benefit and working tax credit letter	Morses loan £10.50 Other home credit loan £40 Total outgoings £61 Other – rent and bills etc £310 to which Miss R contributed £7	Rent, council tax, gas & electricity bill	NDI - £40 Customer affordability £15
3	£98	HMRC letter and child benefit	Morses loans £20.50 Other home credit loan £40 Total outgoings £61 Other – rent and bills etc £210	'customer pays nothing as partner pays everything'	NDI - £38 Customer affordability £10

An additional point on Loan 2, the Morses agent's figures seem to include a mistake. It had summarised Miss R's net weekly income as just under £98 a week. And it had her net weekly outgoings as just under £58 (nearly all of which was loan repayments) and had calculated that her net disposable weekly income (NDI) was £40. In fact, on basic mathematics, that should have been £30. So, the customer affordability figure was likely even lower than the £15 it had inputted onto the form for her.

And these figures show that there had been a big decrease in Miss R's weekly 'income' which was made up of tax credits and child benefit only. And loan 1 remained unpaid when loan 2 was approved. Despite all this the agent seems to have recommended her for a new loan, larger than the first loan. Loan 3 seems to have been approved to repay loan 1 and extended her indebtedness further.

Morses' complaints department representative has said '*I do not believe these were affordable*', and I agree. I'd go further and say that it was rather unusual that these figures would have led to an agent recommending Miss R for any loan, and certainly not when her income had reduced and the first loan remained unpaid – so creating the loan 1 and 2 overlap.

Morses was aware she had other outstanding debt as Miss R told it she was paying £40 a week to another home credit provider from her low benefits income already. Further debt was inappropriate and irresponsible lending by Morses.

I have considered the timing of these loans as well. Loan 1 was in February 2020, but loans 2 and 3 were approved during the national Covid-19 pandemic when a great deal of pressure was imposed on individuals and families across the nation for a variety of reasons. I do not know Miss R's individual situation and the Covid impact on her, but I do have some details from Morses. When asked, Morses explained that it was July 2020 when she called it to explain that she was suffering from depression.

And she mentioned that her partner was *'back at work soon'* which suggests to me he had been out of work. As her partner paid for everything then I anticipate that the joint financial situation deteriorated in 2020. Morses has informed me that Miss R was flagged on its files as *'vulnerable'* on 27 July 2020. So, the rest of my provisional decision focuses on what ought to happen going forward.

Miss R wants the balance written off and for Morses to recognise her mental illness and the impact the loans have had on her. She outlines this in her complaint form sent to us (and forwarded to Morses) earlier this year.

Morses received her complaint on 24 September 2020 and Morses considered the complaint 'closed' in November 2020. Morses has explained: *'After complaint closed on 19 Nov Regulatory letters have continued to be sent to [Miss R] by email, but no other contact was attempted.'*

I asked Morses to tell me what its procedures would have been for customers identified as 'vulnerable' and its reply was *'Our process for vulnerable customers is that we request they provide supporting medical documentation via a Debt and Mental Health Evidence Form.'*

I do not know whether Miss R was asked to complete such a form – or whether if asked she did complete it. As this is a provisional decision then Morses has time to send further information and/or documents to me.

Morses has said that on 19 December 2020, Miss R told it that she was unable to pay the loans.

I have considered the Standards of Lending Practice code for consumers. *'The Standards of Lending Practice for personal customers set out standards of good practice in relation to overdraft, credit card, chargecard and unsecured loan products and services provided to consumers.'*

I have reviewed those parts of the code where a person is in financial difficulties and there's some evidence of customer vulnerability. In Miss R's case I think that both have been made apparent, either through Morses gathering of data for the loan applications, and from telephone calls it has had with her since then.

And taking all the points I have gleaned from this complaint, including the fact that Morses has recognised it ought never to have approved these loans for her, that Miss R has mental health and financial issues, then I don't think it's appropriate for Morses to pursue her for the outstanding sum of around £173.

Morses accepts that Miss R was not able to afford these loans from the outset, and I do not think, from the information I have so far, that this position has altered. In fact, Miss R's mental health state appears to have deteriorated. So, I think it's clear that Miss R is not going to be able to pay the outstanding balance off for a long time, if at all.

If Morses were to continue to pursue Miss R for the balance, that extends her concern into the future, she remains in debt, and she will be at risk of debt collectors and/or potential defaults which could be added to her already heavy burden. And I do not consider that fair when Morses has accepted that these loans should never have been given to her.

So, my provisional decision is that the balances outstanding on two loans are written off and Miss R is not asked for anything further. Morses has said it will remove these three loans from her credit file once repaid and I think that this ought to be done immediately.

I have considered additional compensation, but for Miss R to have the £173 balance written off, and for the debt burden to be removed I think that is satisfactory and fair to both parties. Any further compensation is not necessarily due. I say this because Miss R has had the benefit of the money lent to her.

Miss R's other points (the first four listed in the *'what happened'* part of this provisional decision) are ones I am aware of and they have been part of the overall picture I have gathered when considering this complaint in the round and coming to the provisional decision I have. So, Miss R needs to be aware that I have considered those elements too.

How both parties responded to my provisional decision

Morses

Morses has said that it did not believe I had been provided with enough information regarding its vulnerable customer procedure and what happened with Miss R's account and so it sent me additional information.

Morses has sent me screenshots to show that on 27 July 2020 Miss R had informed it she was suffering from depression and was flagged as 'vulnerable'.

Morses has outlined some of the procedures and training its staff receive. I have noted these.

Morses has said that no further collections activity took place until September 2020 to give Miss R some '*breathing space*'. An agent visited Miss R in September 2020 and Miss R paid some instalments using its on-line portal.

From information Morses has given me earlier in the complaint process, it has said that Morses received her complaint on 24 September 2020 and it considered the complaint 'closed' in November 2020. Morses has explained: '*After complaint closed on 19 Nov Regulatory letters have continued to be sent to [Miss R] by email, but no other contact was attempted.*'

Recently Morses has said that Miss R was moved to its internal customer support team on the 5 February 2021 and that meant that her account would not be sold to an external debt agency and it would not add any default to the account.

Morses has said that very recently it has sent to Miss R a '*sensitive letter*' in which it would have asked her for '*...an income and expenditure assessment and ask for any supporting documentation which supports their current circumstance...*' Morses says it has not received anything from Miss R in response to this recent request.

Morses concludes that it is sympathetic with Miss R's situation but still says that the outstanding capital should be repaid.

Miss R

One of our adjudicators asked Miss R if she had received this recent request from Morses or anything like that and she replied not.

Miss R has sent to us information about her medical condition. She has told us she has a sick note and is in line to have a disability benefit assessment. She describes her financial situation as '*worse*'.

Miss R understood my provisional decision but wished me to know that the funds from Morses was used to pay off another loan. She describes having to get loans to pay off other loans. She wondered if she was entitled to anything more.

My decision

I said in my provisional decision that I was looking at the whole picture to decide whether I thought it was fair and reasonable for Morses to continue to pursue Miss R for the

remaining balance. Having noted all that has been said since issuing my provisional decision, and having reviewed the complaint as a whole, then my view has not changed.

What Miss R has sent me and explained to us on the telephone since my provisional decision has reinforced my view that Miss R is not able (easily or at all) to repay the balance remaining on the loans.

To answer Miss R's point about her use of the Morses loan funds to repay another loan and whether she may be entitled to anything further, the short answer is that I do not think anything further by way of compensation is fair or reasonable. Before this complaint started, Miss R was faced with repaying both loans and according to Morses' FRL the outstanding balance when it wrote to her in November 2020 was around £477 even after it had deducted her refunded interest.

After that Morses explained in its FRL it planned to remove the unpaid interest leaving around £256 still to pay. Morses then said it would reduce the capital due to it further to around £173 across both loans. The combination of Morses' resolution set out in the FRL, which I endorse, plus my decision, means that Miss R need not repay anything. And so, she will have had the benefit of some capital funds without having to pay that back. I've given reasons why I think that is fair and reasonable in Miss R's circumstances

Putting things right

Morses should write off the balance, close the accounts and amend Miss R's credit file immediately to remove all three loans.

My final decision

My final decision is that I endorse Morses Club PLC's outcome on the complaint and it should do as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 28 October 2021.

Rachael Williams
Ombudsman