

The complaint

Ms W complains (through a representative) Morses Club PLC (Morses) didn't properly carry out affordability checks before it granted Ms W with her loans. Had it done so, Ms W says it would've discovered she was in a 'debt spiral'.

What happened

Ms W took five loans between April 2018 and May 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	27/04/2018	11/12/2018	33	£15.00
2	£300.00	10/09/2018	26/02/2019	33	£15.00
3	£300.00	11/12/2018	24/05/2019	33	£15.00
4	£600.00	26/02/2019	13/08/2019	33	£30.00
5	£400.00	23/05/2019	10/04/2020	33	£20.00

The statement of account provided to this Service from Morses shows that Ms W had problems repaying her final loan and it passed the outstanding balance to a debt collection agency in April 2020.

The 'weekly repayment' column is the cost per week per loan, so where loans overlapped the cost per week will be more. For example, when loans 1 and 2 were running Ms W's weekly commitment was £30.

Morses considered Ms W's complaint and issued its final response letter on this matter. Morses investigated the complaint and concluded it hadn't made an error when it approved these loans for Ms W.

Ms W didn't agree with the outcome reached by Morses and her representative referred the complaint to our Service in June 2021.

The complaint was considered by an adjudicator who didn't think it was wrong for Morses to have granted loans 1 - 4. But the adjudicator thought that by loan 5 Ms W had showed signs that she had struggled to pay previous loans. This was now the third time that Ms W had repaid a previous loan by taking out new lending.

Morses agreed with the adjudicator's assessment. It explained that the debt collector had written off the balance of £260. Morses said this was the interest balance and so there wasn't any refund due to be paid to Ms W.

The adjudicator contacted Ms W's representative to let them know Morses had agreed with his recommendation.

Ms W's representative told us Ms W "... *is disputing the assessment and offer.*" But, no further reasons as to why Ms W was unhappy with the proposed settlement have been provided.

As no agreement has been reached, the case has been passed to me for a 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'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.

Morses had to assess the lending to check if Ms 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 have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Ms 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 Morses should have done more to establish that any lending was sustainable for Ms W. These factors include:

- Ms 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);
- Ms 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);
- Ms 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 Ms W.

Morses was required to establish whether Ms W 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 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 Ms W's complaint.

I won't make a finding about loan 5, because Morses has already agreed that something went wrong when this loan was approved. I appreciate Ms W says she's not happy with the settlement but she hasn't provided any further details as to why.

For completeness, I've included what Morses needs to do to put things right for Ms W in relation to loan 5 at the end of this decision.

Ms W also says she was disputing the assessment, so from this I've inferred that she's unhappy the adjudicator didn't uphold further loans. So instead, I've focussed below on what happens when loans 1 – 4 were granted.

Loans 1 - 4

Ms W says she was disputing the assessment. But she hasn't told this Service exactly what she was unhappy about and why.

The adjudicator didn't uphold Ms W's complaint about these loans, and I agree with him, based on the evidence that I've seen from both Morses and Ms W.

For these loans Ms W declared she had a weekly income of between £380 and £500. And her declared weekly expenditure was between £120 and £156.

Based on the information Ms W declared Morses could've been confident she was in a position to afford the contractual repayments she was due to make for these loans. Given this was in the early part of the lending relationship, I think the checks that Morses did were proportionate and it didn't need to do any further checks before agreeing to these loans.

I've also thought about that some of these loans overlapped but even considering the higher weekly repayments as a result of this, the loans still looked affordable. So, this doesn't change my mind about the checks that Morses carried out.

As this is the case, I'm not upholding Ms W's complaint about loans 1 - 4.

Loan 5

As I said at the start of the decision, I won't comment further on whether Morses was right or wrong to approve this loan because it has already accepted that something did go wrong when it was advanced. So, there is nothing further for me to decide in relation to this loan.

Ms W says that she was disputing the settlement but didn't say what part of the settlement she was unhappy with or why she disagreed with the adjudicator's assessment. What I would say, is that Morses has agreed to settle this loan in line with the well-established approach this Service takes when resolving cases about unaffordable lending.

Morses has said, that the balance was written off – because what was owed was only interest, that it now accepts shouldn't need to be repaid. This means Ms W won't owe any more money towards this loan, but it also means she won't receive a refund either. In my view, this is entirely fair and reasonable.

The approach to compensation is well established, and I don't see any reason in this case to depart from this approach. And as Morses has agreed to settle the case in line with the adjudicator's assessment I don't think it needs to do any more.

I acknowledge that Ms W is likely to be disappointed by this outcome, but I hope my explanation has provided useful as to why I've reached the conclusions that I have.

Putting things right

Morses has already accepted that loan 5 shouldn't have been provided and I've outlined below what it has already agreed to do to put things right for Ms W.

If Morses have sold the outstanding debts it should buy these back if it is able to do so and then take the following steps. If Morses is not able to buy the debts back then it should liaise with the new debt owner to achieve the results outlined below.

- A. Morses should add together the total of the repayments made by Ms W towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Morses has already refunded.
- B. Morses should calculate 8% simple interest* on the individual payments made by Ms W which were considered as part of "A", calculated from the date Ms W originally made the payments, to the date the complaint is settled.
- C. Morses should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Ms W as though they had been repayments of the principal on all outstanding loans. If this results in Ms W having made overpayments then Morses should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Morses should then refund the amounts calculated in "A" and "B" and move to step "E".
- D. If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loans and any principal Morses may have already written-off. If this results in a surplus then the surplus should be paid to Ms W. However, if there is still an outstanding balance then you should try to agree an affordable repayment plan with Ms W. Morses shouldn't pursue outstanding balances made up of principal it has already written-off.
- E. Morses should remove any adverse information recorded on Ms W's credit file in relation to loan 5.

*HM Revenue & Customs requires you to deduct tax from this interest. Morses should give Ms W a certificate showing how much tax it deducted if she asks for one.

My final decision

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

Morses Club PLC should put things right for Ms W as I've directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 10 March 2022.

Robert Walker
Ombudsman