

The complaint

Ms P complains Morses Club PLC (Morses) gave her loans that she couldn't afford to repay.

Ms P also says that she told Morses about her health problems and it agreed not to collect payment on the final two loans. But she says that Morses didn't tell her how her credit file would be affected, she says Morses has marked these accounts as being in 'default'.

What happened

Ms P took four home collected loans between May 2019 and January 2020, I've included some of the information we've received about these loans in the table below.

loan number	loan amount	agreement date	loan repayment date	term (weeks)	weekly repayment
1	£200.00	24/05/2019	24/10/2019	33	£10.00
2	£300.00	15/08/2019	28/01/2020	33	£10.00
3	£300.00	25/10/2019	written off	34	£15.00
4	£300.00	28/01/2020	written off	34	£15.00

The 'weekly repayment' column is the cost per loan, per week. So, where loans overlapped, for example loans one and two, the cost per week will be more - £20.

Morses has also provided a copy of a letter it sent to Ms P in June 2020 which explained that due to her current situation it wouldn't collect any further money due for loans 3 and 4. It also agreed, that it wouldn't pass the balances to a third party collection agency.

Morses considered Ms P's complaint and issued its final response letter in June 2021.

Morses explained it had carried out affordability checks and based on the results of those checks it wasn't inappropriate to lend to Ms P.

Ms P didn't agree with the outcome reached by Morses and she referred the complaint to the Financial Ombudsman in July 2021.

The complaint was then considered by an adjudicator who thought Ms P's complaint should be upheld in full. In his view, Ms P's repayment for loan one represented a too high proportion of Ms P's declared income.

The adjudicator also thought that the low weekly income ought to have led Morses to have carried out further checks, and had it done so, it would've likely discovered she was having problems managing her money, because she had other loans outstanding with another high cost credit provider.

The adjudicator also considered Ms P's complaint points about the default on the credit file and the outstanding debt. He could see that Morses had sent a letter to Ms P in June 2020 which explained it wouldn't chase her for the outstanding debt, but the debts would remain

on her credit file. So, he didn't think Morses had acted unreasonably with this element of the complaint.

Morses partly agreed with the adjudicator's assessment. It agreed to uphold Ms P's complaint about loan one only. It explained the refund for this loan (including 8% interest and less tax) would be £135.31. Morses would then use this refund to reduce the balance that had been written off. After the refund the new outstanding balance was £494.63. But Morses wouldn't collect this amount given it had agreed not to. It also agreed to remove the loan from Ms P's credit file.

Morses didn't agree with the adjudicator's conclusions about loans 2 – 4. In response it said:

- By the time of loan two, Ms P's declared income had increased by 107% and by loan 3 it had increased by a further 73%.
- The income was verified using information provided by the credit reference agencies and the information Morses received showed the income given Ms P was correct.
- Ms P signed a document to say the information she provided was correct.
- The costs Ms P provided for each loan were realistic given her living arrangement.
- Ms P had as much as 22% of her uncommitted income in order to meet her loan repayments.
- Ms P didn't make Morses aware she was having financial difficulties.
- No arrears letters were sent until the end of March 2020 which is after the final loan was granted.
- Ms P was in a position to confirm with Morses at the end of November 2019 that she didn't wish to be given any further loans – and Morses provide a screen shot of the notes that were made off the back of this contact.
- Morses believes it is appropriate to lend if the payments were affordable and sustainable.

The adjudicator put Morses' offer to Ms P but this was rejected.

I issued my provisional decision explaining the reasons why I was also upholding Ms P's complaint, but I provide some further details. A copy of the background to the complaint and my provisional findings follow this in smaller font and italics and form part of this final decision.

What I said in my provisional decision

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 P 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 P'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 P. These factors include:

- *Ms P 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 P 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 P 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 P.

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

I won't make a finding about loan one, because Morses has already agreed that something went wrong when this loan was advanced. For completeness, I've included what Morses needs to do to put things right for Ms P in relation to loan one at the end of this decision. Instead this decision will focus on what happened when loans 2 – 4 were granted.

Loan 2

When loan two was advanced, Morses took details of her income and expenditure. Based on what Ms P declared she had a weekly income of £179.65 and expenditure of £112 (this expenditure figure included the repayment that Ms P had to make to Morses for loan one).

So Morses was aware that Ms P had around £67 a week to afford the repayment towards this loan of £10. Morses also says that for this loan Ms P's income was verified with the credit reference agencies.

Morses could've believed, that based on the information it gathered Ms P would've been in a position to afford the loan. But the adjudicator thought that further checks needed to have been concluded before this loan was approved, and had Morses done so it wouldn't have lent. I've thought carefully about this and I agree with the adjudicator and I've explained why below.

However, I do have some concerns with the information Morses gathered and what it suggested about Ms P's situation. Ms P's income had more than doubled, (but from a very low base) since loan one (just over two months prior) and her expenditure had almost doubled. This to me indicates Ms P had a significant change of circumstances.

The adjudicator asked Morses for copies of the application forms for these loans. The

applications forms were requested in order to see whether there was an explanation for this increase for example, had Ms P obtained a new or different role. However, Morses told the Financial Ombudsman that the application data was contained within a spreadsheet it had already provided.

The spreadsheet information Mores has provided doesn't show or indicate what the significant change may or may not have been. It just shows the figures that Ms P gave to Morses and which it relied upon.

Morses also says that Ms P's income was verified with the credit reference agencies. It later went on to explain that it would only ask for evidence such as a wage slip if the credit reference check flagged that the amount being declared wasn't likely to be accurate. In this case, Morses said the amount Ms P declared was likely correct as there is nothing to suggest any further verification was sought.

Morses said based on the information it gathered from Ms P it could see that the loan repayments were affordable.

However, as a percentage of income, Ms P was actually repaying more to Morses for this loan than she was for loan one. But, while this is the case, it could be argued that this is offset by the fact Ms P had a larger weekly income, although it could still be argued that her new income was still modest.

Morses says that a credit search wasn't carried out before this loan was approved, but one was carried out before loan one was advanced, and given the close proximity I think it's reasonable to see what sort of information was visible to Morses at the time.

Having looked at the credit file, I can see the following;

- Ms P had 26 active credit accounts but 9 had a zero balance.
- With one of record in 'default'.
- Ms P's total value of active accounts was more than £51,000 made up loans, instalment credit, revolving credit and budget accounts.
- Ms P seems to have been utilising all of her available credit.

So, given the results of the credit search for loan one, the large, explained increased in Ms P's income and outgoings ought to have led Morses to have carried out further checks before this loan was approved.

Indeed, given the amount of debt that Ms P had there is an argument to say that this ought to have led Morses to conclude the loan wasn't sustainable.

Had it carried out further checks, I think Morses would've concluded that the loan repayments were unsustainable for Ms P. At the time, of loan two, Ms P was still repaying loan one, and she had two other outstanding home collected loans with other home credit providers. Her weekly commitment to cover all of these loans (including loan one and two) was nearly £50 per week, which wasn't an insignificant amount to be solely repaying other only home credit loans.

Morses seems to have been aware of this as figures have been reported in its spreadsheet but I disagree with it that it shows the loans were sustainable. I think it shows the opposite, especially in light of the credit report that was carried out for loan one, which I don't think it could ignore.

In addition, as part of the application process, for loan two, Morses recorded that Ms P had some repayments towards a credit card but no other credit was being repaid. Which doesn't seem to fit with the results of the credit search which indicate Ms P had a significant amount of outstanding debt.

This coupled with the results of the credit search should've alerted Morses that while the loan may have looked affordable, it clearly wasn't going to be sustainable for Ms P given what Morse recorded as a fairly modest income.

I'm upholding Ms P's complaint about loan two.

Loans 3 and 4

Ms P's income increased before loan three was approved, and then slightly decreased when loan four was given. Again, I don't have the application forms so I can't say with any certainty what was leading to Ms P's change in income.

Between loan one and loan three Ms P's income had increased by around 200% and no further enquires appear to have been undertaken to find out what was happening.

In terms of expenditure, this had increased by over 150% during the same period, again no explanation as to what was happening or why. Although, what I would add is that a lot of this increase expenditure appears to be driven by Ms P having to repay other home credit providers more money each week – which isn't sustainable.

I still think, for the reasons that I've outlined above that further checks needed to have been carried out by Morses when these loans were approved, and had it carried out further checks I think it would've likely concluded that these loan repayments weren't sustainable either.

No new credit searches were carried out before these loans, but I've not been presented with any evidence that suggests that Ms P's overall financial position had improved. For example, Morses hasn't reported significant weekly repayments to other creditors as part of the income and expenditure assessment which may have indicated that Ms P was reducing her overall indebtedness.

As I've said above, there was still large increase in Ms P's declared income and expenditure information which Morses, as far as I can see, didn't seek to clarify.

In addition, further checks would've highlighted that she had four other home credit loans outstanding with weekly repayments for the loans with the other home credit providers totalling £75 per week. In addition, she had commitments to Morses at loan 3 of £25 and £30 when loan 4 was approved. This meant, by the final loan Ms P was spending more than £100 per week solely making payments to various home credit providers. In my view, this isn't sustainable.

She also would've likely had significant amounts of other credit (from the report that was carried out at loan one) and these accounts needed to be serviced. So, like loan two, I think Morses was wrong to have approved these loans as well.

Credit file

Morses hasn't provided the Financial Ombudsman with any contact notes so I don't know what it was or wasn't told about Ms P's health problems in 2020. But I do know, because a copy of a letter has been provided what it told Ms P about what it would do about collecting

the outstanding balance. In its letter of 26 June 2020 Morses explained;

“I can advise that the balance on the account will not be written off, however we have flagged the account and noted your account in relation to your circumstances and health issues. I can also confirm the account will not sell on to any external Debt Collection Agency.

We will no longer pursue the outstanding debt, but the debt will still show on your credit file for credit reporting purposes. No further charges are being added.”

I think this letter is reasonably clear in letting Ms P know that while there was an outstanding balance due it will not chase or collect the balance, and neither will it pass the account to a third party.

It also says that the debt will continue to show on the credit file. I don't have a copy of Ms P's credit file so I don't know exactly what information Morses is reporting to the credit reference agencies. Ms P says a default was applied but I don't know the date of the default. But given, Ms P had a balance, that wasn't being actively collected, chased or repaid, I don't think it was unreasonable for Morses to say that it would continue to report this to the credit reference agencies.

If a default has been reported then this would normally remain on a consumer's credit file for six years after the date it was reported. However, as I'm intending to uphold these loans, Morses have been given a direction below as to what it needs to do in relation to the adverse information.

In response to the provisional decision either Ms P or Morses may wish to supply information to show what is currently being recorded in relation to Ms P's credit file.

Response to the provisional decision

Both Ms P and Morses were asked to provide any further comments, information or evidence for consideration no later than 20 April 2022.

Morses didn't respond to the provisional decision or provide any further information.

Ms P acknowledged receipt of the provisional decision and asked for a copy to be emailed to another address. But she hasn't provided anything further for consideration.

The deadline for responses to the provisional decision has now lapsed, and I see no reason to delay the issuing of 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.

As neither party has supplied anything further for my consideration, I see no reasons to depart from the findings that were reached in the provisional decision.

I didn't consider loan one because Morses had already made an offer to resolve it and for loans 2 – 4 I'm satisfied that Morses had sufficient information available to it to show that the loan repayments were unlikely to be sustainable to Ms P.

As I don't think any of the loans should've been granted, I've outlined below what Moses needs to do in order to put things right.

Putting things right

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it not lent to Ms P. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Ms P may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them and this particular 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 Ms P 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 Ms P 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 has already accepted that loan 1 shouldn't have been provided and I've included what it needed to do (and what it has agreed to do to put things right) in the section below. If Moses has sold the outstanding debts it should buy these back if it is able to do so and then take the following steps. If Moses is not able to buy the debts back then it should liaise with the new debt owner to achieve the results outlined below.

- A. Moses should add together the total of the repayments made by Ms P towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Moses has already refunded
- B. Moses should calculate 8% simple interest* on the individual payments made by Ms P which were considered as part of "A", calculated from the date Ms P originally made the payments, to the date the complaint is settled.
- C. Moses should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Ms P as though they had been repayments of the principal on all outstanding loans. If this results in Ms P having made overpayments then Moses 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. Moses 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 Moses already written-off or agreed not to collect. If this results in a surplus then the surplus should be paid to Ms P. However, if there is still an outstanding balance then, in line with what Moses agreed in June 2020, it shouldn't pursue Ms P any further.
- E. Moses, as agreed will remove loan one from Ms P's credit file and it should remove the adverse information recorded on Ms P's credit file in relation to loans 2 – 4.

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

My final decision

For the reasons I've explained above and in the provisional decision, I'm upholding Ms P's complaint in part.

Morses Club PLC should put things right for Ms P as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms P to accept or reject my decision before 25 May 2022.

Robert Walker
Ombudsman