

## The complaint

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

As a result of these loans, Ms B says she was forced into a long-term cycle of debt.

## What happened

Ms B was advanced 21 home collected loans between September 2014 and November 2020. 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 per loan
1	£100.00	03/09/2014	06/03/2015	34	£5.00
2	£100.00	28/11/2014	08/05/2015	34	£5.00
3	£200.00	17/12/2014	26/06/2015	34	£10.00
4	£100.00	20/01/2015	29/05/2015	34	£5.00
5	£300.00	03/09/2015	26/02/2016	34	£15.00
6	£200.00	18/09/2015	22/01/2016	34	£10.00
7	£300.00	07/01/2016	10/06/2016	33	£15.00
8	£400.00	31/03/2016	02/12/2016	52	£14.00
9	£200.00	31/03/2016	15/09/2016	33	£10.00
10	£300.00	15/09/2016	20/04/2017	33	£15.00
11	£200.00	15/09/2016	20/04/2017	33	£10.00
12	£500.00	17/11/2016	29/08/2017	52	£17.50
13	£500.00	20/04/2017	14/09/2017	33	£25.00
14	£400.00	01/06/2017	01/06/2017	52	£14.00
15	£400.00	01/06/2017	08/12/2017	52	£14.00
16	£500.00	29/08/2017	11/05/2018	52	£17.50
17	£1,000.00	27/04/2018	22/02/2019	52	£35.00
18	£1,000.00	17/10/2019	23/07/2020	53	£35.00
19	£400.00	15/05/2020	12/11/2020	53	£14.00
20	£1,200	23/07/2020	11/11/2020	53	£42.00
21	£300.00	12/11/2020	28/03/2021	34	£15.00

Following a complaint by Ms B to Morses it issued its final response letter in October 2021. In it, Morses explained that loans 10, 12, 13, 16 and 17 shouldn't have been provided and it offered compensation to settle these loans.

Ms B didn't accept this offer and instead referred the complaint to the Financial Ombudsman.

The case was then reviewed by an adjudicator. He didn't think it was wrong for Morses to have granted loans 1 and 3. But the adjudicator thought loans 4 and 5 shouldn't have been provided because of the number of other outstanding loans at the time. And from loan 6, he

thought the pattern of lending was now harmful for Ms B, so all future loans should be upheld as well.

Ms B's appears to have accepted the adjudicator's findings.

Morses partially agreed with the adjudicator's assessment and it agreed to uphold and pay compensation for loans 6 - 18. Morses offered to settle the complaint in line with the adjudicator's assessment which would result in a refund of £4,913.29.

But it disagreed with the adjudicator's assessment in relation to loans 4, 5 and loans 19 - 21. In summary, Morses said;

- There is a gap in lending of three months between Ms B repaying loan 3 and when loan 5 was advanced, which Morses feels this is sufficient to show there is a break in the lending chain.
- There is also a gap of around 8 months between loan 17 being repaid and when 18 loan was advanced.
- Although, Morses says that at loan 18, Ms B had 'poor disposable income' it feels there are separate lending chains.
- None of Ms B's loans were settled late and the loans Morses has defended all show disposable income which indicates the loans were affordable.
- Morses didn't issue any arrears letters and it wasn't aware of any financial difficulties Ms B may have been having.

Morses' offer for loans 6 – 18 was put to Ms B but she didn't accept it because she said loans 19 – 21 should also be included within the redress.

The complaint was then passed to me when no agreement could be reached and I then issued a provisional decision explaining why I was still intending to uphold Ms B's complaint but I was just not upholding as many loans as the adjudicator.

A copy of the background to the complaint and my provisional findings follow this in smaller font and in italics and this forms part of this final decision.

## **What I said in my provisional decision**

### ***What I've provisionally 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.*

*Ms B agrees with our adjudicator's findings that Morses wasn't wrong to lend loans 1 – 3. So, it seems this lending isn't in dispute and so I no longer think that I need to make a finding about it. But I have kept these loans in mind when thinking about the overall lending relationship between Morses and Ms B.*

*Morses has also accepted that something went wrong when loans 6 – 18 were granted, and it offered to put things right for Ms B in line with the adjudicator's recommendations. So, like loans 1 - 3, these loans are no longer in dispute, but for completeness I've included what Morses need to do to put things right in the 'putting things right' section at the end of the decision.*

*Instead, this decision will focus on whether Morses did anything wrong when it granted loans 4, 5 and loans 19 - 21.*

Morses had to assess the lending to check if Ms B 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's checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Ms B'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 B. These factors include:

- Ms B 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 B 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 B 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 B.

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

#### **Loan 4**

When this loan was advanced Ms B declared that she had a weekly income of £331.15 with weekly outgoings of £64. Leaving disposable weekly income of £267.15. So, Morses may have felt that this was sufficient disposable income to afford the repayment for loan 4 of £5.

However, when loan 4 was approved, loans 1 – 3 were still running so Ms B's declared weekly commitments to Morses was actually £25 per week. This was a significant increase on the initial weekly commitment for loan 1 that Ms B had of £5.

As the adjudicator has pointed out, he thought this loan ought to not have been granted because at the time that loan 4 was granted Ms B had three other loans running with Morses at the same time.

I've thought about this and I do agree with the adjudicator. Part of what Morses was required to do was to see whether the loan was actually affordable, and I think for this loan it was reasonable, based on what Ms B had declared to show the loan was affordable.

But, by the time that loan 4 had been approved, loans 1 – 3 were still running and she'd taken on average a new loan each month. In my view, the number of loans running concurrently, the fact that none of Ms B's loans to date had run to term and yet she still needed to return for further borrowing. In my view ought to have led Morses to be

concerned about the possibility that Ms B was likely having problems managing her money given the need to continuing need for further credit.

*In the circumstances of this case, I think Morses ought to have realised that this loan wasn't sustainable for Ms B and therefore it shouldn't have been granted.*

## **Loan 5**

*The adjudicator upheld this loan for similar reasons as loan 4, but given the lending history it looks like to me there may have been a change in Ms B's circumstances.*

*Loans 1 – 4 had now all been fully repaid and as Morses has pointed out there was a break of around 3 months from when loan 3 had been settled to when Morses granted loan 5. This is important, in the context of the lending to date.*

*This to me shows, that Ms B wasn't needing further funds during this period so I don't think I can fairly uphold loan 5 for the same reasons as the adjudicator when the lending pattern had changed, and there was a gap where no loans were advanced.*

*Ms B had been indebted to Morses for 8 months and then hadn't returned for any further loans for another three. However, loan 5 was the largest capital loan to date with the highest weekly repayment – and Morses needed to think about that when deciding what it needed to do in order to make sure it carried out a proportionate check before the loan was advanced.*

*Ms B had declared similar income and a slight increase in her outgoings to now £150 per week. When this loan was approved Morses may have believed that Ms B had sufficient disposable income.*

*And I can't fairly uphold this loan due to Ms B having outstanding loans with Morses when we know this not to be the case so I've re-considered this loan afresh.*

*But that doesn't mean that Morses carried out a proportionate check. I've already explained some of those factors that Morses was aware of at the time this loan was approved, for example it was Ms B's largest loan to date. Thinking about these factors, I can't fairly say a proportionate check has been carried out.*

*Overall, I don't think it was reasonable for Morses to have relied on what Ms B declared to it about her income and expenditure. Even though this information suggested Ms B could afford the loan repayments.*

*Instead, I think it needed to gain a full understanding of Ms B's actual financial position to ensure this loan was affordable. This could've been done in several ways, such as asking for evidence of outgoings, or looking at bank statements and/or Ms B's credit report. This might've helped verify information provided and revealed whether there was any other information that Morses might've needed to consider about Ms B's general financial position.*

*However, that isn't the end of the matter. For me to be able to uphold this loan, I have to be satisfied that had Morses carried out a proportionate check it would've likely discovered that Ms B couldn't afford the loan.*

*Ms B hasn't provided the Financial Ombudsman with a copy of her bank statements or her credit report. So, I don't know what further checks may have highlighted about her financial situation at the time these loans were approved.*

*What I do know, after Ms B told us about it and after receiving a letter from the official receiver is that Ms B had been discharged from bankruptcy in March 2014. This is some 18 months before this loan was approved, and I don't think, this on its own is sufficient to uphold the complaint given that Ms B was for example no longer under the terms of the bankruptcy order.*

*So, without any further information from Ms B about her living costs at the time, it's difficult for me to conclude what Morses would've seen had it made better checks. Although Morses didn't carry out*

*proportionate checks, I'm not able to conclude that further checks would've led it to conclude that these loans were unaffordable for Ms B.*

*Looking at everything together though, I've not seen quite enough evidence to suggest Morses shouldn't have lent loan 5. Even considering what Ms B declared to Morses for her income and expenditure. I'm not minded therefore to think Morses was wrong to have provided these loans.*

*As this is the case, I'm intending to not uphold Ms B's complaint about this loan.*

### **Loans 6 – 18**

*As I said above, Morses has already agreed with the adjudicator's assessment as well as making the offer that it did in the final response letter. Therefore, these loans are no longer in dispute, and as I said above, I no longer need to make a finding on them.*

### **Loans 19 – 21**

*In response to the adjudicator's assessment Morses said these loans should be treated as part of a new lending chain, this is because there is a 'gap' between Ms B repaying loan 17 and taking loan 18 of around eight months.*

*Morses conclusions where that because of this gap, and the creation of a new lending chain, it wouldn't be fair to conclude that these loans were inherently unsustainable for Ms B because of the time she spent in debt, the number of loans in this chain and the fact that there were no signs of financial difficulties.*

*It is of course possible, that in some cases as Morses points out that 8 months is a significant amount of time to show that firstly, a new lending chain had started and secondly would show the loans were unsustainable. However, in the circumstances of this case, I don't think I can fairly conclude that there is a new lending chain.*

*While I can see that there is a gap, I can't ignore what went on before that break. Ms B had taken 17 loans in a three- and half-year period – a not insignificant period of time. With the loans steadily increasing in capital value as well as length of time that they were due to be repaid over.*

*Immediately, after the break Ms B returned for another large loan of £1,000 to be repaid over a year. And when loan 19 was granted, this loan remained outstanding meaning Ms B's commitment to Morses was £49 per week. In these circumstances, given what went on before I don't think the gap in this case isn't enough to have re-set the chain of borrowing.*

*There is of course a question as to whether this means the loans are no longer sustainable for Ms B. But, given the fact that this loan overlapped with loan 18 and Morses has already accepted loan 18 shouldn't have been granted due to the poor disposable income Ms B declared at the time. I don't think that I can ignore or not consider whether loans 19 – 21 were advanced in a sustainable manner to Ms B.*

*The loan being pounds and pence affordable is only part of the consideration. So, I haven't felt the need to recreate individual, proportionate affordability checks for this loan because I didn't consider it necessary to do so. Although, I accept, based on what Morses provided the Financial Ombudsman Service, that this loan would've looked affordable to it. Even though Ms B's declared expenditure was significantly less compared to what she declared for loan 18.*

*So, in addition to assessing the circumstances behind each individual loan provided to Ms B, Morses also needed to consider the overall pattern of lending and what unfolded during the course of its lending relationship with Ms B.*

*Having looked at the overall pattern of Morses's lending history with Ms B, I agree with our adjudicator that at this point in time, Morses should reasonably have seen that further lending was unsustainable, or otherwise harmful, at the time it provided these loans. I say this because;*

- *At this point Moses ought to have realised Ms B was not managing to repay her loans sustainably. Ms B had taken out 19 loans in almost six years and she had been indebted to Moses for almost for the entire time. So Moses ought to have realised it was more likely than not Ms B was having to borrow further to cover an ongoing need and that Ms B's indebtedness was increasing unsustainably and her underlying financial situation didn't seem to be improving.*
- *By loan 19, Ms B's weekly repayments were £49 per week compared to £5 a week for loan one. So, Ms B's weekly repayments had and were increasing which suggests that the loans weren't sustainable for her and her borrowing didn't significantly decrease – indeed by loan 20 Ms B was paying Moses £56 per week.*
- *While loan 19 was slightly smaller than loan 18, this loan was running at the same time, so as I said above, her weekly commitment to Moses had actually increased.*
- *Ms B had a history of taking new on the same day as previous loans were repaid for example loans 13, 20 and 21. Moses ought to have realised it was more likely than not Ms B, on these occasions, was having to borrow further to effectively cover a long-term financial need. To me, this is indicative of her indebtedness not being sustainable.*

*I think that Ms B has lost out because Moses continued to provide borrowing because:*

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

*So, I'm intending to uphold the complaint about loans 19 – 21 as well.*

*Moses has already accepted that it needs to put things right for Ms B in relation to loans 6 - 18 and I've included what it has already agreed to do to put things right in the section below.*

## **Response to the provisional decision**

Both Moses and Ms B were asked to provide anything further for my consideration as soon as possible, but no later than 6 May 2022.

Ms B responded to say that she had received the provisional decision and didn't have anything further to add.

Moses hasn't responded to the provisional 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 Ms B nor Moses has provided any further information or additional comments for me to consider I see no reason to depart from the findings that I reached in the provisional decision and for the same reasons.

So, I still think Moses shouldn't have advanced loan 4 and loans 6 – 21 for the reasons given in the provisional decision.

I've outlined below what Moses should 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 provided loan 4 and stopped lending to Ms B from 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 Ms B 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 B 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 B 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 Ms B loan 4 and loans 6 to 21.

- A. Morses should add together the total of the repayments made by Ms B towards interest, fees and charges on these loans.
- B. Morses should calculate 8% simple interest\* on the individual payments made by Ms B which were considered as part of "A", calculated from the date Ms B originally made the payments, to the date the complaint is settled.
- C. Morses should pay Ms B the total of "A" plus "B".
- D. Morses should remove any adverse information reported about loan 4 Ms B's credit file. The overall pattern of Ms B's borrowing for loans 6 - 21 means any information recorded about them is adverse, so it should remove these loans entirely from Ms B's credit file.

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

### **My final decision**

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

Morses Club PLC should put thing right for Ms B as directed above.

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

Robert Walker  
**Ombudsman**