

## The complaint

Mr R, through a representative complains that Morses Club PLC (Morses) provided him with loans that he couldn't afford to repay.

## What happened

Mr R was advanced seven home collected loans between November 2015 and May 2017. 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	£100.00	14/11/2015	14/11/2015	20	£7.50
2	£100.00	18/11/2015	03/03/2016	20	£7.50
3	£300.00	09/02/2016	21/10/2016	33	£15.00
4	£300.00	03/03/2016	11/01/2017	33	£15.00
5	£300.00	21/10/2016	18/05/2017	33	£15.00
6	£300.00	11/01/2017	sold	33	£15.00
7	£300.00	18/05/2017	sold	33	£15.00

Morses has also confirmed that loan one in the table was repaid within the cancellation period and therefore Mr R wasn't charged any interest.

Mr R had some problems repaying loans 6 and 7. Morses told us that it had sold the balances of these loans to a third-party collection agency in March 2021.

The 'weekly repayment' column in the table above is the cost per week per loan. Where loans overlapped the cost per week was increased, for example when loans 2 and 3 were running at the same time Mr R's weekly commitment to Morses was £22.50.

Following Mr R's complaint Morses wrote to his representative to explain that it wasn't going to uphold the complaint. Mr R's representative didn't accept the outcome and referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint. He didn't uphold Mr R's complaint about loans 1 – 5 because he said based on what Morses was aware of it made a reasonable decision to provide these loans. The adjudicator then went on to say that Morses had, following our involvement agreed to uphold the complaint about loans 6 and 7.

Mr R explained that the offer received from Morses would be to repay the outstanding balance due on loans 6 and 7 and then it would pay Mr R the remaining balance of £16.16.

This offer was put to Mr R's representative who didn't accept it and its comments are below:

*We spoke to our client, and he has basically said he will not accept the decision he has received and wants it referred as soon as possible.*

No further information has been received and *because* no agreement has been reached, the case has been passed to me to resolve.

### **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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses had to assess the lending to check if Mr R could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Morses' checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr R'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 Mr R. These factors include:

- Mr R 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);
- Mr R 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);
- Mr R 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 Mr R.

Morses was required to establish whether Mr R could *sustainably* repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr R was able to repay his 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 Mr R's complaint.

Morses has already accepted that loans 6 and 7 shouldn't have been advanced and it has outlined the compensation that it will pay. As Morses has already accepted something went wrong with these loans I no longer think they are in dispute, so I've not made a finding about them.

But given that I also don't think these loans ought to have been provided, Morses' offer to settle these loans is therefore fair and reasonable. So, I have included them in the putting things right section at the end of the decision.

Instead this decision will focus on whether Morses made reasonable decisions to lend in relation to loans 1 – 5.

### **Loans 1 – 5**

For all of these loans, it is likely Morses asked Mr R to declare his weekly income and his expenditure.

However, due to the passage of time, Morses hasn't been able to provide and locate any evidence of the information Mr R declared for loans 1 – 4. Equally, I haven't seen anything from Mr R to suggest what his income and expenditure may have been at the time.

But I've also not seen anything to suggest that Mr R's financial position was materially different when loan 5 was granted and I do have the information declared for loan 5, which I go into detail about below. Had Mr R declared similar figures for the first four loans, I think it is likely Morses would've thought the lending was affordable.

Morses has been able to provide information relating to loan 5. For this loan Mr R declared he had a weekly income of £317. Mr R declared his weekly expenditure to be £77. This left Mr R £238 per week in disposable income to be able to afford the largest contractual repayments of £30 per week.

Based on the information Mr R declared, Morses could've been confident he was in a position to afford the contractual repayments he was due to make for these loans. Given this was still quite early on the lending relationship which means, in my view, Morses could rely on the information Mr R had provided.

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 the fact that some of these loans overlapped but even taking into account 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.

I'm therefore not upholding Mr R's complaint about these loans.

### **Putting things right**

Morses has already accepted that loans 6 and 7 shouldn't have been provided to Mr R. But for completeness, I've outlined below what it has agreed to do.

If Morses have sold the outstanding debts Morses should buy these back if Morses is able to do so and then take the following steps. If Morses isn't able to buy the debts back then Morses 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 Mr R towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Morses have already refunded.
- B. Morses should calculate 8% simple interest\* on the individual payments made by Mr R which were considered as part of "A", calculated from the date Mr R 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 Mr R as though they had been repayments of the principal on all outstanding loans. If this results in Mr R 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 any outstanding loans. If this results in a surplus, then the surplus should be paid to Mr R. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Mr R.
- E. The overall pattern of Mr R’s borrowing for loans 6 and 7 means any information recorded about them is adverse, so Morses should remove these loans entirely from Mr R’s credit file. Morses do not have to remove loans 6 and 7 from Mr R’s credit file until they have been repaid, but Morses should still remove any adverse information recorded about these loans.

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

### **My final decision**

For the reasons I’ve explained above, I’m not upholding Mr R’s complaint about loans 1 – 5.

But Morses Club PLC should put things right for Mr R as it has already agreed to do and as directed above for loans 6 and 7.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr R to accept or reject my decision before 21 October 2022.

Robert Walker  
**Ombudsman**