

## The complaint

Mrs R, through a representative complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted her loans.

## What happened

Mrs R was advanced five home collected loans between March 2014 and December 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	£500.00	13/03/2014	10/04/2015	50	£17.50
2	£500.00	10/04/2015	22/12/2015	50	£17.50
3	£500.00	22/12/2015	09/12/2016	52	£17.50
4	£500.00	15/12/2016	01/12/2017	52	£17.50
5	£500.00	01/12/2017	28/12/2018	52	£17.50

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

As part of the final response letter, Morses made clear that there had been 53 previous loans before loan one. Neither party has been able to provide any details of the earlier loans, so this decision will only concern the five loans outlined in the table above.

An adjudicator reviewed the complaint. He thought Morses had made a reasonable decision to provide loans 1 and 2 so he didn't uphold Mrs R's complaint about these loans. But he thought the lending was now harmful for Mrs R by the time loans 3 - 5 were granted and this led him to uphold Mrs R's complaint about those loans.

Morses disagreed with the outcome and I've summarised its comments below;

- All of Mrs R's loans were for the same value.
- Although Mrs R obtained her loans over nearly a four-year period, given the term of each loan – Morses doesn't consider this to be excessive.
- Only one loan was being repaid at a time.
- Mrs R had a good repayment history and she didn't tell Morses of any financial difficulties she may have been having.
- While loan 5 did exceed the term, Morses provided a screen shot of a note which suggested this may have been as a result of Mrs R being on holiday.

Mrs R's representative acknowledged the outcome reached by the adjudicator.

The case was then passed to an ombudsman to make a decision about the complaint.

## 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 Mrs R 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've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mrs 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 Mrs R. These factors include:

- Mrs 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);
- Mrs 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);
- Mrs 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 Mrs R.

Morses was required to establish whether Mrs R 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 Mrs R 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 Mrs R's complaint.

Neither Morses nor Mrs R (or her representative) appear to disagree with the outcome the adjudicator reached about loans 1 and 2. I therefore no longer think these loans are in dispute. I would add though that like the adjudicator, I do agree Morses made a reasonable decision to provide these loans. So, I say no more about these loans.

## Loans 3 – 5

For these loans, it is likely Morses would've asked for each one details of Mrs R income and expenditure. However, this information isn't available for loan three, which is likely due to

how long-ago loan the loan was approved. However, the information is available for loans four and five.

For loan four, Mrs R declared a weekly income of £600 per week. Morses' information suggests that this was made up of £200 salary and £400 which has been noted as 'other' – but no further information has been provided about what this 'other' maybe.

Mrs R also declared weekly expenditure of £242 which covered costs for rent, utilities, childcare and food. This gave, Mrs R £358 per week in disposable income in which to meet her loan repayment of £17.50.

For loan five, Mrs R's income had dropped, significantly to £231 per week. This was made up of £155 of wages and £76 of benefits. Her weekly expenditure was recorded as £50 leaving £80 per week of disposable income. This was again, more than enough to make her payments of £17.50.

Based solely on Mrs R's income and expenditure information Morses could've been confident she would be able to comfortably afford the repayments she was committed to making.

But its arguable whether these checks went far enough considering how long Mrs R had been indebted to Morses for, her future weekly commitment and what Morses already knew about Mrs R's finances.

I say this because it would appear, based on the information Morses' has supplied that there must have been a significant change in circumstances between loans four and five. Given that her income reduced by around 60% and her outgoings decreased by a similar amount. I can't comment on what happened between loans three and four as the details of Mrs R's income and expenditure isn't available.

However, I don't think I need to try and establish, in this case, whether a proportionate check would've led Morses to conclude these loans were unaffordable for Mrs R.

So in addition to looking at the checks that Morses did I've also looked at the overall pattern of Morses' lending history with Mrs R, with a view to seeing if there was a point at which Morses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Morses should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mrs R's case, I think that this point was reached by loan 3. I say this because:

- At this point Morses ought to have realised Mrs R was not managing to repay her loans sustainably. Mrs R had taken out three loans in 21 months. So Morses ought to have realised it was more likely than not Mrs R was having to borrow further to cover a long-term short fall in her living costs.
- In addition, Morses was aware that there were 53 previous loans, although I don't have the detail of that lending that is a significant number of loans and so likely pushed Mrs R's borrowing back a number of years.
- From her first loan, Mrs R was provided with a new loan on the same day a previous loan was repaid. To me, this is a sign that Mrs R was using these loans to fill a long-term gap in her income rather than as a short-term need.
- Over the course of the lending relationship, Mrs R's weekly commitments remained the same for the loans information has been provided for. There was no time when

her commitment decreased throughout the course of nearly four years of confirmed borrowing. Morses may well have thought this wasn't excessive and entirely reasonable – however, the fact that these loans were lent in a consecutive manner, ought to have led it to realise these loans weren't sustainable anymore.

- Mrs R wasn't making any real inroads to the amount she owed Morses. Loan 5 was taken out 45 months after Mrs R's first loan and was to be repaid over another year. Her final loan was for the same capital amount as loan one. Mrs R had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I think that Mrs R lost out when Morses provided loans 3 - 5 because:

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

So, I'm upholding Mrs R's complaint about loans 3 - 5.

### **Putting things right**

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it hadn't lent loans 3 - 5, 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 Mrs R may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, she may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, she 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 she had done that, the information that would have been available to such a lender and how she 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 Mrs R 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 Mrs R would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Morses's liability in this case for what I'm satisfied it has done wrong and should put right.

Morses shouldn't have provided Mrs R with loans 3 - 5.

- A. Morses should add together the total of the repayments made by Mrs R towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything Morses may have already refunded.
- B. Morses should calculate 8% simple interest\* on the individual payments made by Mrs R which were considered as part of "A", calculated from the date Mrs R originally made the payments, to the date the complaint is settled.
- C. Morses should pay Mrs R the total of "A" plus "B".
- D. The overall pattern of Mrs R's borrowing for loans 3 - 5 means any information recorded about them is adverse, so Morses should remove these loans entirely from Mrs R's credit file.

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

**My final decision**

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

Morses Club PLC should put things right for Mrs R as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 11 November 2022.

Robert Walker  
**Ombudsman**