

## The complaint

Ms B complains (through a representative) that Morses Club PLC (Morses) didn't carry out proper affordability checks before it advanced her loans. Had it carried out proper checks it would've discovered Ms B couldn't afford her loans.

## What happened

Ms B took six loans between June 2015 and April 2018. 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	23/06/2015	12/02/2016	34	£15.00
2	£400.00	01/12/2015	22/07/2016	33	£20.00
3	£400.00	22/07/2016	24/02/2017	33	£20.00
4	£400.00	24/02/2017	08/09/2017	33	£20.00
5	£400.00	08/09/2017	20/04/2018	33	£20.00
6	£400.00	20/04/2018	10/12/2018	33	£20.00

The 'weekly repayment' column above is the cost per week per loan. So, where loans overlapped the cost will be greater. For example, when loans 1 and 2 were running at the same time Ms B's weekly commitment was £35.

Morses considered Ms B's complaint and issued its final response letter. Morses concluded it had made a reasonable decision to provide these loans and so it didn't uphold her complaint.

Ms B's representatives didn't agree and her representative referred the complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator who thought a reasonable decision to lend had been made for loan 1. But in the adjudicator's view, loans 2 (and all future loans) shouldn't have been granted as Ms B was committed to using a significant portion of her income in order to meet the repayments for the loans. The adjudicator also thought by and from loan 4, the loans were now harmful for Ms B.

Ms B's representative acknowledged receipt of the adjudicator's assessment.

Morses partly agreed with the adjudicator's recommendation and I've summarised its response below;

- Although the loans were taken in a consecutive manner Ms B could've closed the lending relationship at any point.
- Morses wasn't aware of any financial difficulties Ms B was having.
- Morses doesn't consider six loans in just under 3 years to be excessive.
- It accepts loan 2 shouldn't have been provided.

- Ms B had sufficient amount of disposable income to be able to afford the payments she was committed to making.
- The checks for loans 3 – 6 were proportionate.

However, Morses did accept that loan 2 shouldn't have been granted and it offered compensation in line with the adjudicator's recommendation – this led to a refund of £368.56 due to be paid to Ms B.

Ms B's representative confirmed receipt of the offer, but Ms B didn't accept it because she thought the outcome reached by the adjudicator was fair.

As no agreement has been reached, the case has been passed to me. I then issued my provisional decision explaining the reasons why I was intending to partially uphold Ms B's complaint about loans 2 and 6 only. A copy of my provisional findings follows this in italics and a smaller font and forms part of this final 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.*

*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' 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 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.*

*Ms B appears to have agreed with the outcome that the adjudicator reached and Morse hasn't disagreed with the adjudicator's assessment about loans 1 and 2. Therefore, these loans are no longer in dispute so I know longer think I have to make a finding about them.*

*But I have kept these loans in mind when thinking about the overall lending relationship, and I've included what Morse needs to do in to put things right for loan 2, and what it has already agreed to do in the redress section at the end of this decision.*

*Instead, this decision will focus on whether Morse was right (or wrong) to have advanced loans 3 - 6.*

### **Loan 3**

*The adjudicator upheld this loan, because in his view the repayment for loan was too high a portion of Ms B's income, and therefore loan 2 and future loans should be upheld. In effect, the adjudicator has concluded, that because of loan 2 being unsustainable then the rest of the lending was as well.*

*Morse has accepted that loan 2 shouldn't have been advanced, so as I said above, I don't need to make a finding about that loan. However, looking at the circumstances of this loan, I don't think that Morse would've likely concluded that the lending was unsustainable.*

*Loan 3, was taken on the same day as loan 2, being repaid, but this was the first time a loan had started in consecutive manner. Loans 1 and 2 appear to have been repaid without undue difficulty and the information Ms B gave for her outgoings was broadly similar for loan 3 as they were for loan 2.*

*When loan 3 was advanced there was no other outstanding loans with Morse which reduced her weekly commitment to £20 per week – which could potentially have been helpful in terms of affordability.*

*The difference between loans 2 and 3 is the significant increase in Ms B's declared income. For loan 2 she declared this to be £150 per week, whereas for loan 3 her weekly income (still recorded as being from benefits) had increased to £285.*

*As a result, of this increase in her declared income, I can't fairly conclude that Morse would've automatically thought this loan was unsustainable for Ms B given that there appears to have been a change in her circumstances.*

*However, that doesn't mean that Morse did all it ought to have done. Given, the value of this loan, the fact that Ms B was committed to being indebted for another 33 weeks and that her income had increased significantly while being in receipt of benefits ought to have prompted Morse to have checked and to have made further inquiries into Ms B's circumstances around her finances to confirm the increase in income.*

*So, while, I don't think Morse ought to have autonomically declined this loan - I don't think it did all it ought to have done before approving it. Morse, in my view, needed to have taken some steps to check Ms B's finances. It could've done this a number of ways such as asking evidence of her income and outgoings through say benefit statements or bills, a copy of her credit file or her bank statement.*

*However, for me to be able to uphold this loan I have to be satisfied that Morse would've likely discovered – with further checks that this loan wasn't affordable.*

*Neither Ms B or her representative has provided copies of her bank statements or credit file from the time or anything else to show what her living costs were at the time. Without this, I can't fairly say that Morse, by carrying out further checks it would've concluded it shouldn't have provided this loan.*

*Therefore, I'm intending to not uphold Ms B's complaint about this loan.*

## **Loans 4 and 5**

*The adjudicator upheld this loan because he concluded that by now this loan was harmful for Ms B and so it was now unsustainable to continue to lend to her.*

*I can understand why the adjudicator has concluded this, but I don't think, Morses would've concluded that these loans were now so harmful to Ms B for the reasons I've outlined below.*

*I accept, that Ms B had been indebted with Morses for 20 months, which in some situations could be a sign that she was now reliant on these loans or at the very least was having longer term money management problems. Neither can I ignore that the lending was consecutive, which could be a sign that Ms B had a continued need for credit – without a break. But I also must keep in mind the loan repayments were fairly modest at £20 per week, and there were no other overlapping loans at this time.*

*There also hadn't been any obvious repayment problems – up to this point all the loans had been repaid at least a week early. So, I don't think I can fairly uphold these loans solely because in effect Ms B had been indebted to Morses for around two years.*

*So, taking everything together, I don't think Morses would've or ought to have realised that these loans were unsustainable for Ms B. But that doesn't mean Morses did all it should've done before advancing this loan.*

*For loans 4 and 5 Morses believed Ms B had a disposable weekly amount of at least £225 to meet her loan repayment of £20 per week. This may have then led Morses to believe that Ms B had sufficient disposable income and could afford the loan repayment.*

*But that doesn't mean that Morses carried out a proportionate check. I do think, by this stage in the lending relationship, considering the time in debt and the fact that Ms B's lending hadn't decreased since she started borrowing and the large decrease in her declared expenditure for loan 5 ought to have prompted it to consider whether it knew enough about Ms B's financial position.*

*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 these loans were affordable. This could've been done in several ways, such as asking for evidence of her outgoings or looking at bank statements. This might've helped verify information provided and revealed whether there was any other information 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's representative hasn't been able to provide copies of her bank statements (which may have shown us and Morses what other commitments Ms B had and / or her living costs) or any other information that may have shown what Ms B's financial position was at the time.*

*So, without any further information from Ms B about her living costs and her wider financial position, it's difficult for me to conclude what Morses would've likely seen had it made better checks.*

*Looking at everything together, I've not seen quite enough evidence to suggest Morses shouldn't have lent loans 4 and 5. Even considering what Ms B declared to Morses for her income and expenditure. I'm therefore minded to believe it was reasonable for Morses to*

have provided these loans.

As this is the case, on current evidence, I'm intending to not uphold Ms B's complaint about these loans.

### **Loan 6**

For this loan, Morses has shown that it asked Ms B for details of her income and expenditure. She declared an income £362 with outgoings of £108 per week. This left Ms B with a weekly disposable income of £254 per week to meet her largest repayment of £20.

Based solely on Ms B'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 Ms B had been indebted to Morses, her future weekly commitment and what Morses already knew about Ms B's finances. For example, according to Morses, it still knew that Ms B's sole source of income was benefits and Ms B's main expenditure was groceries, and £15 for utilities.

I don't think given the vast fluctuations that there had been within Ms B's expenditure figures during the lifetime of the loan agreements that these could really be plausible. By now, it would've been reasonable for Morses to have at the very least, started to have verified the information it was being given.

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 her I say this because I now think it had reached the point where the loans were unsustainable for her.

So, in addition to looking at the checks that Morses did I've also looked at the overall pattern of Morses' lending history with Ms B, 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 Ms B's case, I think that this point was reached by loan 6. I say this because:

- At this point Morses ought to have realised Ms B was not managing to repay her loans sustainably. This was now Ms B's sixth loan within 34 months. So, Morses ought to have realised it was more likely than not Ms B was having to borrow further to cover a long-term short fall in her living costs.
- Ms B was provided with a new loan on the same day a previous loan was repaid. By loan 6, it was the fourth time that this had happened and the loans were all for the same value. To me, this is a sign that Ms B 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, Ms B's weekly commitments stayed roughly the same – reaching weekly commitments of £20 per week. But it is worth saying here that neither did Ms B's weekly commitment show signs of decreasing or her indebtedness reducing. Each loan to date had been due to be repaid over at least 33 weeks, which I think shows that she was, more likely than not, having longer term problems with a consistent need for credit.
- Ms B wasn't making any real inroads to the amount she owed Morses. Loan 6 was taken out 34 months after Ms B's first loan. Her final loan was for more than her first. She was also committing to spending at least another 33 weeks indebted to Morses. Ms B had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I think that Ms B lost out when Morses provided loan 6 because:

- *this loan had the effect of unfairly prolonging Ms B'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 Ms B borrowed was likely to have had negative implications on Ms B's ability to access mainstream credit and so kept her in the market for these high-cost loans.*

*So, I'm planning to uphold Ms B's complaint about loans 2 and 6 only.*

### **Response to the provisional decision**

Both Ms B and Morses were asked to provide anything further for consideration as soon as possible but no later than 13 October 2022.

Morses responded, agreeing with the proposed outcome in the provisional decision.

Ms B's representative also confirmed she was accepting the findings in 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 both Morses and Ms B have accepted the findings in the provisional decision I see no reason to depart from those. So, I still don't think Morses ought to have approved loan 2 or 6 for Ms B and I've outlined below what Morses needs to do in order to put things right.

Ms B's representative has asked for a breakdown of the refund, and I don't consider this to be an unreasonable request, so Morses should also provide this if the final decision is accepted.

### **Putting things right**

In deciding what redress Morses' should fairly pay in this case I've thought about what might have happened had it not given Ms B loans 2 and 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 loans 2 and 6.

- A. Morses should add together the total of the repayments made by Ms B towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything you have already refunded.
- 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 Morses has recorded on Ms B's credit file in relation to loan 2. The overall pattern of Ms B's borrowing for loan 6 means any information recorded about it is adverse, so Morses should remove the loan entirely from Ms B's credit file.

\*HM Revenue & Customs requires you to deduct tax from this interest. Morses should give Ms B 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 B's complaint in part.

Morses Club PLC should put things 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 11 November 2022.

Robert Walker  
**Ombudsman**