

The complaint

Miss R, through her representative, complains that Morses Club PLC lent to her when she could not afford it.

What happened

Using information from Morses, here is a brief loan table.

Loan	Date of Loan	Capital Sum	Date Settled	Term (w)	Weekly Repayment
1	23/07/2019	£400.00	26/02/2020	33	£20.00
2	21/01/2020	£200.00	15/09/2020	34	£10.00
3	26/02/2020	£400.00	20/10/2020	34	£20.00
4	08/05/2020	£200.00	27/11/2020	34	£10.00
5	20/10/2020	£600.00	27/11/2020	34	£30.00

After Miss R complained, Morses sent its final response letter (FRL) in which it said her 'average income' was around £196 a week, her average expenditure was £103 and so Morses said it left Miss R with a disposable income of around £92 each week. So, it said that Miss R could afford the loan repayments.

The complaint was referred to the Financial Ombudsman Service.

A preliminary view from our adjudicator was that each of the five loans ought not to have been approved for Miss R.

Morses disagreed in respect of loans 1 to 3, but agreed to put things right for Miss R in relation to loans 4 and 5. It gave a redress table showing the breakdown of what it planned to repay Miss R. From that it seems that loans 4 and 5 are resolved. And this decision does not review them.

Morses noted that the income for Miss R increased as the months went by. It accepted that for loan 1 Miss R's repayment sum of £20 was 16% of her income. It did not think that was too high. And that percentage of income used to repay loans 2 and 3 (or the combination of more than one of the loans) reduced to 13.2%. So, it says that was satisfactory.

Morses also said that Miss R paid on time and sometimes early and gave no indication to Morses of any financial difficulties.

The complaint was reviewed and our adjudicator issued his view in which he considered that none of the loans should have been approved for Miss R. And he thought that Morses should put things right for all five loans not just loans 4 and 5.

The unresolved complaint was passed to me to decide.

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 high cost, short-term and home credit lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses had to assess the lending to check if Miss 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 have considered a number of different things, such as how much was being lent, the size of the repayments, and Miss R's income and expenditure.

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 Miss R. These factors include:

- Miss 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);
- Miss 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);
- Miss 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 Miss R. Our adjudicator considered this to be the case for Miss R.

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

I have decided that the whole complaint ought to be upheld. And I explain here.

Loan 1

Loan 1 was applied for when Miss R was on a very low wage. Miss R declared it as £124 for the week. Miss R declared some expenditure which amounted to £44.50. The declared sum spent in the week on 'groceries' was £10. Our adjudicator had referred to that being a low

figure, and Morses had a chance to respond.

Its response was that Miss R had had a chance to read through her application and had been given the opportunity to sign it as correct and from that I gather that Morses is saying therefore the onus was on Miss R. I do not accept that.

The figure given for groceries – particularly for loan 1 - was so low as to be not reasonably believable and, in the circumstances, I do not think that Miss R's opportunity to sign the application as correct is a satisfactory explanation as to what I consider to have been a failing in the creditworthiness assessment. Especially where the wage Miss R declared was so low. Certain factors might suggest Morses should have done more to establish that any lending was sustainable for Miss R and I think that having a low wage is one of those factors. And I do not consider it fair, reasonable, or within the spirit of the creditworthiness assessment that a low figure which I think should have been an alert to Morses is explained away as being part of a set of details Miss R signed as being correct. I do not think that makes it alright.

Morses carried out a credit search and in my view Morses failed to apply some of that information it knew about to the affordability assessment. That shows an additional failing in relation to the creditworthiness assessment. If it had information it did not apply to the figures then I consider that to have been a failing.

The credit search results showed that Miss R had six active accounts with a total debt value of £2,525, and two accounts with zero balances. So, four were still live and one may well have been a bank account. And later in the results report was further detail which included the balances on the following types of account and three of the 'live' accounts:

<i>Loan and instalment credit</i>	<i>£458</i>
<i>Revolving credit and budget accounts</i>	<i>£1056</i>
<i>Home credit</i>	<i>£340</i>

And yet, despite knowing this, Morses' spreadsheet which it refers to as its 'front sheet' and effectively is the 'income and expenditure' (I&E), no reference was made at loan 1 for any of the inevitable payments which must have been paid for these debts.

And the later entry in the search results gives the figure for '*total monthly payments on all accounts excluding mortgages which are currently active*'. That figure was £121. So, I think it is reasonable of me to calculate, and incumbent on Morses to have noted it at the time, that Miss R was committed to paying £121 a month to other lenders which does not appear on her I&E for loan 1.

So, that £121 a month, divided across the weeks of the year – translates to just under a £28 a week liability to be factored into the figures.

That plus what I think ought to be a more realistic groceries figure factored into the I&E leads me to think that Miss R would not have enough to pay for loan 1. Even if that increase for groceries was just an additional £10 a week, then I think Morses would have seen that Miss R was not going to be able to afford loan 1. I uphold the complaint about loan 1.

Loans 2 and 3

Six months later in January 2020, Miss R applied for loan 2.

I note that the loan 2 application was made by Miss R when loan 1 had not been repaid and so her repayments would have increased to cover two loans from Morses.

The Morses' I&E document does include a slightly higher sum for groceries and additional credit repayment figures - £29 (£20 for other credit and £9 for credit cards). But as Morses does not carry out credit searches after loan 1, it's not clear whether this £29 is in addition to the £28 a month I have referred to earlier in this decision for loan 1, or whether it's for the same debt. It is feasible that Miss R's credit record had altered in that six months.

I have seen that Miss R's declared income had increased at loan 2. And such a large increase in weekly income – while welcome – ought, in my view, to have been checked to ensure it was correct. And I say this because it does not look to me from the Morses records that the £100 a week increase in the salary was because Miss R got a job – the record says that it was benefits, just as it was for loan 1. And I find that such a large increase in her benefit income in six months ought to have been checked. Morses records does show that it was CRA checked but I have no information on that check.

For loan 3, it appears to have been applied for by Miss R to repay Loan 1, when the balance on that loan was not insignificant and ate into the fresh loan 3 capital to a large degree. And it meant that Miss R was left to repay two loans to Morses.

Morses has referred to the percentage of her monthly income on the Morses loans for loans 2 and 3 had come down to 13.2%, but with the other debt as well I think that was too high. From Morses own I&E records, it knew Miss R was repaying £29 to other credit accounts, £20 to the existing loan – loan 1 – and then £10 for the new loan 2. That would have made a total debt repayment sum of just shy of £60 a week. That translates into about 26% of her total net declared salary of £226 a week. And if I just count the Morses loans its 13%. I don't think that was right for Miss R. And the figures were similar for loan 3.

The cumulative picture of overlapping loans and applying for a loan to repay an earlier loan, plus a relatively high percentage of her net income being paid out on debt, does not lead me to be persuaded that Morses lent to Miss R when it was confident she could afford it. I do not consider Miss R could afford them easily and so I uphold the complaint for loans 2 and 3.

Loans 4 and 5 have been agreed by Morses and I have included them all in the redress section or completeness.

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 lent to Miss R at all, as I'm satisfied it ought not to have.

Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Miss R may have simply left matters there, not attempting to obtain the funds from elsewhere. 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 Miss R in a compliant way at this time.

Having thought about all these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Miss R 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 Miss R loans 1 to 5.

- A) Morses should add together the total of the repayments made by Miss R towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything it has already refunded.
- B) Morses should calculate 8% simple interest* on the individual payments made by Miss R which were considered as part of "A", calculated from the date Miss R originally made the payments, to the date the complaint is settled.
- C) Morses should pay Miss R the total of "A" plus "B".
- D) Miss R's credit file ought to be amended to remove any adverse payment information.

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

My final decision

My final decision is that I uphold Miss R's complaint and I direct that Morses Club PLC does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 15 November 2022.

Rachael Williams
Ombudsman