

The complaint

Ms W, through a representative complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted her loans. Had it done so, Morses would've realised she couldn't afford the loans.

What happened

Ms W was advanced six home collected loans between April 2014 and March 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	10/04/2014	16/12/2014	34	£5.00
2	£150.00	06/01/2015	08/09/2015	34	£7.50
3	£100.00	08/09/2015	05/04/2016	34	£5.00
4	£200.00	05/04/2016	09/02/2017	33	£10.00
5	£200.00	09/02/2017	15/11/2018	33	£10.00
6	£150.00	16/03/2017	07/02/2019	33	£7.50

Following Ms W's complaint Morses wrote to her representative to explain that it wasn't going to uphold it. Ms W's representative then referred the complaint to the Financial Ombudsman Service.

An adjudicator reviewed the complaint. He thought Morses had made a reasonable decision to provide loans 1 – 3 so he didn't uphold Ms W's complaint about them. But he thought the lending was now harmful for Ms W by the time loans 4 - 6 were granted and so he upheld Ms W's complaint about these loans.

Morses disagreed with the outcome the adjudicator had reached. I've summarised its comments below.

- While Morses acknowledged the value of the loans increased, it still considered the amounts lent to be low.
- Loans 5 and 6 were running concurrently, but the value of the payments were low - utilising nearly 9% of Ms W's income.
- Ms W had a good repayment history and she hadn't told Morses of any repayment problems.

Ms W's representative confirmed it would pass the assessment to Ms W – but no further comments have been received.

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 Ms W 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 Ms W'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 W. These factors include:

- Ms W 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 W 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 W 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 W.

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

Neither Morses nor Ms W (nor her representative) appear to disagree with the outcome the adjudicator reached about loans 1 – 3. I therefore no longer think these loans are in dispute. I would add that like the adjudicator, I do agree Morses made a reasonable decision to provide these loans. So, I say no more about them.

Loan 4 - 6

For these loans, Morses has shown that it asked Ms W for details of her income and expenditure. However, for loan 4, possibly due to the amount of time that has passed since the loan was approved – Morses doesn't have the details of the income and expenditure information provided by Ms W.

For loans 5 and 6 Ms W declared the same weekly income of £200 and the same weekly outgoings of £50. Leaving weekly disposable income of £150 to make her weekly loan repayments of no more than £10.

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

But its arguable whether these checks went far enough considering how long Ms W had been indebted to Morses, her future weekly commitment and what Morses already knew about Ms W's finances. For example, by loan 4, it was the second time Ms W returned for further borrowing on the same day a previous loan had been repaid. 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. I've not seen anything to suggest it carried out further checks in this case.

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 Ms W.

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 W, 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 W's case, I think that this point was reached by loan 4. I say this because:

- At this point Morses ought to have realised Ms W was not managing to repay her loans sustainably. Ms W had taken out her fourth loan in two years. So Morses ought to have realised it was more likely than not Ms W was having to borrow further to cover a long-term short fall in her living costs.
- From her first loan, Ms W was generally provided with a new loan on the same day a previous loan was repaid and some of the loans were used to fully repay the previous one. For example, it seems that some of loan 4 went towards repaying loan 3. To me, this is a sign that Ms W 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 W's capital amount she borrowed by loan 4 was increasing and was now twice as much as loan 1. There was no time when her commitment decreased. The fact that these loans were lent in generally a consecutive manner, ought to have led it to realise these loans weren't sustainable anymore.
- Ms W wasn't making any real inroads to the amount she owed Morses. Loan 6 was taken out 35 months after Ms W's first loan and was to be repaid over a similar term. Her final loan was slightly smaller than loans 4 and 5 but was still 50% larger than her first loan. Ms W had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

These loans, in my mind were clearly unsustainable for Ms W given it took her 11 weeks longer to repay loan 4 than the contracted term – yet Morses still advanced loan 5 on the same day for the same capital sum.

It also took Ms W three times as long to repay loans 5 and 6 then contracted – further evidence that the loans were unsustainable for her.

I think that Ms W lost out when Morses provided loans 4 - 6 because:

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

Overall, I'm upholding Ms W's complaint about loans 4 – 6 and I've outlined below what Morses needs to do in order to put things right.

Putting things right

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it had stopping lending from loan 4, 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 W 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 Ms W 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 W 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 Ms W with loans 4, 5 and 6.

- A. Morses should add together the total of the repayments made by Ms W 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 W which were considered as part of "A", calculated from the date Ms W originally made the payments, to the date the complaint is settled.
- C. Morses should pay Ms W the total of "A" plus "B".
- D. The overall pattern of Ms W's borrowing for loans 4 - 6 means any information recorded about them is adverse, so you should remove these loans entirely from Ms W's credit file.

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

Morses Club PLC should put things right for Ms W as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 8 December 2022.

Robert Walker
Ombudsman