

## The complaint

Miss K complains (through a representative) that Morses Club PLC (Morses) didn't carry out proper affordability checks before it granted loans to her. Had it done so, Morses would've discovered she couldn't afford to repay these loans.

## What happened

Miss K took five loans from Morses between May 2015 and June 2017. A summary of her borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
3	£100.00	11/05/2015	17/12/2015	34	£5.00
4	£150.00	17/12/2015	07/07/2016	33	£7.50
5	£150.00	07/07/2016	05/12/2016	33	£7.50
6	£300.00	05/12/2016	20/06/2017	33	£15.00
7	£300.00	20/06/2017	sold	33	£15.00

Morses has said Miss K may have had further loans. And looking at Morses' own spreadsheet that it provided the loan numbering does suggest this given the first loan in the table in the above is a 3.

Morses says the reason it has no further information is either due to its data retention policy or when it acquired other lenders it may not have purchased either historic loans or certain loan numbers. However, Miss K's representative hasn't provided details of any further loans so this decision will only focus on the loans detailed above.

Miss K had some problems repaying her final loan, and Morses has shown that it sold the outstanding debt to a third-party collection agency in August 2018.

Following Miss K's complaint, Morses considered it and didn't uphold it. Unhappy with this response, Miss K's representative referred the complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator. She concluded Morses made a reasonable decision to provide loans 3 – 5 (loan numbers based on the table above).

However, she thought Morses needed to have done more before loan 6 was granted. She considered Miss K's credit file, and while she could see some adverse information it wasn't in her view, sufficient to uphold this loan.

But the adjudicator did uphold loan 7, in her view, had Morses carried out further checks before this loan was granted it would've likely discovered that Miss K had a recent County Court Judgement (CCJ) recorded against her as well as being in arrears with a utility company. Thinking about Miss K's overall lending with Morses the adjudicator concluded this loan ought to not have been granted.

Morses didn't agree with the adjudicator's assessment in summary it said.

- Miss K borrowed relatively low value loans and none of them overlapped.
- There is no evidence that Miss K was using these loans to repay her other loans or other credit.
- The industry regulator didn't provide a list of checks that needed to be carried out before each loan was approved and therefore there was no legal requirement for Morses to have checked Miss K's credit file.
- These loans were repaid on time and without hardship.
- Loan 7 looked affordable based on the income and expenditure information Morses gathered from her. For loan 7, her income was checked with a wage slip and a benefits statement.
- Miss K had a good repayment history.

Miss K's representative didn't provide any additional comments or evidence.

As no agreement has been reached, the case has been passed to me for a 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.

We've set out our general approach to complaints about short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses had to assess the lending to check if Miss K 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 Miss K'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 Miss K. These factors include:

- Miss K 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 K 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 K 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 K.

Morses was required to establish whether Miss K 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 Miss K 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 Miss K's complaint.

### **Loan 3 – 6**

The adjudicator didn't uphold these loans and neither Morses nor Miss K's representative has disagreed with this. I therefore consider the dispute about these loans to be resolved, so I haven't made a finding out them. But I have kept them in mind when thinking about the overall lending relationship between Miss K and Morses.

### **Loan 7**

For this loan, Morses carried out the same sort of checks as it did for the other loans. It asked Miss K for her weekly income and expenditure details. Miss K declared a weekly income of £421 made up of a salary and some benefits. She declared total outgoings of £190 per week for items such as rent and utilities and £23 per week for other credit commitments.

This left Miss K with £208 per week in disposable income to afford her repayment of £15. Based on the results of these checks, Morses could've been confident that Miss K would be able to afford the loan repayments.

However, there were times when loans were taken in a consecutive manner. Loan 7 was also Miss K's largest loan to date and was significantly larger than any of her previous loans and finally Miss K had been indebted to Morses for at least two years and was further extending that indebtedness by a further 33 weeks.

Thinking about everything above, I do think Morses needed to have done further checks before this loan was approved. In my view It needed to have verified the information Miss K had provided.

Morses could've gone about doing this several ways, it could've asked to see evidence of her income and or outgoings through evidence of wages or seen copies of bills. Morses says evidence of her income was taken. Or it could've asked to see her bank statements to understand her living costs – which as far as I can see it didn't do.

Miss K hasn't provided her bank statements, but she has provided a copy of her full credit file, which has enabled the Financial Ombudsman to see an overview of her credit status at the time this loan was approved.

I appreciate that Morses didn't have to do a credit search before each loan, and it is correct in saying there is no set list of checks that the regulator would expect it to carry out. But I am satisfied that its checks needed to go further than what it did for this loan, and so I've used the information that has been provided. As I've said above, there were other sources and types of evidence it could've collected.

So, having considered Miss K's credit file I do think there are signs that she was having ongoing financial difficulties and problems managing her current commitments. I can see that in January 2017, Miss K had a CCJ recorded against her. In addition, Miss K was now in

arrears with a utility company for her water bill. Given the proximity of the CCJ and how recent the arrears were for her water bill, this to me would indicate that Miss K was having immediate financial difficulties and wasn't managing her outstanding commitments.

On top of this, she still had three outstanding home credit loans with another provider, which meant she was already committed to paying this lender £75 per week.

So had Morses made better checks, as I'm satisfied it ought to have done, it would've discovered that Miss K wasn't able to take on this loan. As this is the case, I'm upholding Miss K's complaint about loan 7 only. 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 stopped lending to Miss K from loan 7, 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 Miss K 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 Miss K 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 Miss K 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 K loan 7.

If Morses has sold the outstanding debt it should buy it back if it is able to do so and then take the following steps. If Morses can't buy the debt back, then it 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 Miss K towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything you have already refunded.
- B. Morses should calculate 8% simple interest\* on the individual payments made by Miss K which were considered as part of "A", calculated from the date Miss K 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 Miss K as though they had been repayments towards the principal on loan 7. If this results in Miss K 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” can be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Miss K. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Miss K. Morses shouldn't pursue outstanding balances made up of principal you have already written-off.
- E. Morses should remove any adverse information recorded on Miss K's credit file in relation to loan 7.

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

### **My final decision**

So, for the reasons I've explained above, I'm upholding Miss K's complaint in part.

Morses Club PLC should put things right for Miss K as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 5 December 2022.

Robert Walker  
**Ombudsman**