

## The complaint

Mrs R 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 Mrs R couldn't afford them.

## What happened

Mrs R took six loans between February 2018 and November 2019. 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	£200.00	07/02/2018	17/05/2018	20	£15.00
2	£200.00	17/05/2018	03/09/2018	20	£15.00
3	£150.00	17/05/2018	13/09/2018	33	£7.50
4	£500.00	03/09/2018	12/04/2019	33	£25.00
5	£500.00	12/04/2019	12/11/2019	33	£25.00
6	£1,000.00	12/11/2019	30/06/2020	34	£50.00

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 2 and 3 were running at the same time Mrs R's weekly commitment was £22.50.

Morses considered Mrs R's complaint and didn't uphold it. Mrs R's representatives didn't agree and referred the complaint to the Financial Ombudsman Service.

The complaint was considered by an adjudicator who thought a reasonable decision to lend had been made for loans 1 - 3. But in the adjudicator's view, loans 4 and 5 shouldn't have been granted as Mrs R was committed to using a significant portion of her income to meet the repayments. Finally, she thought by the time of loan 6, considering the lending relationship that any further loans would have been harmful for Mrs R.

Morses disagreed with the adjudicator's recommendation and I've summarised its response below.

- Mrs R only had six loans and it isn't unreasonable to expect the loan values to increase.
- No evidence has been provided to show Mrs R was using other funds to meet her repayments.
- While loan 4 was opened at the same time as loan 3, they only ran concurrently for 10 days which meant there was only one week where Mrs R had to make her combined commitment of £32.50
- Adequate checks were completed before each loan application and Mrs R had a good repayment history.
- Mrs R didn't tell Morses she was having financial difficulties.

Mrs R's representative confirmed receipt of the assessment but no further comments were provided.

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 this sort 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 have 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.

Mrs R appears to have agreed with the outcome that the adjudicator reached and Morses hasn't disagreed with the adjudicator's assessment about loans 1 - 3. Therefore, these loans are no longer in dispute, so I won't be making a finding about them. But I have kept these loans in mind when thinking about the overall lending relationship.

Instead, this decision will focus on whether Morses' decision to provide loans 4 – 6.

## **Loans 4 and 5**

The adjudicator upheld these loans, because in her view, the combined repayment due for loans 3 and 4 represented a significant portion of her income. Therefore, loan 4, and any further lending was now unsustainable for Mrs R. I've considered this and I've outlined my reasons below for why these loans should be upheld.

For loan 4 Mrs R declared she had a weekly income of around £156.50 and Morses was aware, at this time that Mrs R's income was solely made up of benefits. Mrs R had outgoings of around £86.75 per week. The outgoing figure included the repayment Mrs R was already making towards loan 3. This left around £69.75 per week to make her weekly repayment of £25. The loan therefore may have looked 'pounds and pence' affordable.

However, in saying that I don't think, given what I've seen that Morses made a fair decision when it decided to lend to Mrs R. I'm, therefore, upholding Mrs R's complaint about it and I've explained why below.

Mrs R was committed to spending around 22% of her income towards meeting her commitment to Morses when loan 4 was granted (and with loan 3 running concurrently). In my view these payments in this case were too high when considering what it knew about Mrs R's circumstances.

In these circumstances, there was a significant risk, in my view that Mrs R wouldn't have been able to meet her existing commitments without having to borrow again. So, I think it's unlikely Mrs R would've been able to sustainably meet her repayments for this loan and any future loans. Which, in my view was shown by the fact Mrs R continued to take new loans of the same value or greater in a consecutive manner.

This is especially so, when considering the statement of account, it looks like part of loan 4 went towards repaying loan 2. Loan 4 was also the largest capital loan to date – at more than twice of the size of any other loan taken and it was now the second time that Mrs R had been approved for a loan in a consecutive manner (given loans 2 and 3 were approved on the same day).

So, given the concerns about the borrowing history Mrs R provided along with what else Morses knew about her meant, that in my view loan 4 and 5 weren't sustainable for Mrs R.

I've considered what Morses says about the overlap between loans 3 and 4 was only 10 days. However, Loan 3 was closed 16 weeks sooner than Morses had expected so when loan 4 was approved, it ought to have considered that the loan would run to term. There was no indication, as far as I can see, that would've led Morses to believe Mrs R would settle loan 3 so quickly after granting loan 4.

There's clearly going to be a line beyond which it wouldn't have been reasonable for Morses to lend, but that's going to be particular to the circumstances of each individual complaint. And whilst a large proportion is going to increase the likelihood in any case that something has gone wrong there isn't an automatic cut off – I will always look at the broader circumstances – as I've done here.

I'm not suggesting that just because Mrs R had a modest income which was likely made up solely from benefits that funds couldn't be lent to her. But what Morses needed to do was

appreciate that taking into account the commitments that she had to it and over the time period was in my view not sustainable.

I've considered what Morses says in response to the adjudicator, but I don't think these comments change my mind. As I've said above, some checks were carried out which may have shown the loans were affordable, but Morses also had to consider whether the loan was sustainable and I don't think, in this case it did that.

Based on what I've seen I'm upholding Mrs R's complaint about loans 4 and 5.

## **Loan 6**

For this loan, Morses has shown that it asked Mrs R for details of her income and expenditure. She declared, an income of £362.94 with outgoings of £288.03 per week. This left Mrs R with a weekly disposable income of £74.91 per week to make her weekly repayments of no more than £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. Although, Morses knew it was leaving around £25 per week to Mrs R to cover any unexpected living costs for the next 34 weeks – which is a not an insignificant period of time.

But it's arguable whether these checks went far enough considering the consecutive nature of the borrowing and the large capital increase. 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 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 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 6. 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 five 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.
- From her first loan, Mrs R was provided with a new loan on the same day a previous loan was repaid and at times the new loans went to repay outstanding loans. For example, it seems that some of loan 4 went towards repaying loan 2. 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 generally increased. There was no time when her commitment significantly decreased. Which may have given Morses confidence that Mrs R was no longer reliant on these loans. However, the fact that these loans were lent in a consecutive manner and there was a general pattern that her overall lending was increasing, 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 Moses. Loan 6 was taken out 21 months after Mrs R's first loan and was to be repaid over the longest term – 34 weeks. Her final loan was also the largest capital loan to date and was five times the value of the first loan. Mrs R had paid large amounts of interest to, in effect, service a debt to Moses over an extended period.

I think that Mrs R lost out when Moses provided loan 6 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 4 - 6.

### **Putting things right**

In deciding what redress Moses' should fairly pay in this case I've thought about what might have happened had it not given Mrs R loans 4 - 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 Mrs R 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 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 Moses' liability in this case for what I'm satisfied it has done wrong and should put right.

Moses shouldn't have given Mrs R loans 4 - 6.

- A. Moses 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 you have already refunded.
- B. Moses 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. Moses should pay Mrs R the total of "A" plus "B".
- D. Moses should remove any adverse information it has recorded on Mrs R's credit file in relation to loans 4 and 5. The overall pattern of Mrs R's borrowing for loan 6 means any information recorded about it is adverse, so Moses should remove the loan entirely from Mrs R's credit file.

\*HM Revenue & Customs requires you to deduct tax from this interest. Morses should give Mrs R a certificate showing how much tax it 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 I've directed above.

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

Robert Walker  
**Ombudsman**