

The complaint

Ms C, through her representative, complains that Morses Club PLC lent to her when her financial situation was '*struggling on a minimum wage*' and her credit history was poor. So, they were lent when Ms C could not afford them.

What happened

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

Loan	Date Taken	Date Repaid	Instalments	Capital	Repayment
1	01/08/2017	06/03/2018	33	£300.00	£15.00
2	06/03/2018	08/10/2018	33	£500.00	£25.00
3	08/10/2018	21/06/2019	33	£500.00	£25.00
4	21/06/2019	30/12/2019	33	£500.00	£25.00
5	30/12/2019	25/08/2020	34	£500.00	£25.00
6	25/08/2020	11/03/2022	34	£500.00	£25.00

Morses issued its final response letter (FRL) in July 2022 in which it gave reasons for not upholding Ms C's complaint. So, she referred it to the Financial Ombudsman Service together with her original complaint letter and income an expenditure form (I&E). The covering letter said that a credit file and bank statements would follow but they have not been sent. I'll come back to the lack of detail from Ms C that later in the decision.

One of our adjudicators reviewed the complaint and said that loans 4 to 6 ought not to have been lent to Ms C. He felt that the pattern of lending showed that the loans from loan 4 were unsustainable.

Morses disagreed and made two sets of submissions as to why, all of which I have read. They are summarised here:

- The loans remained relatively consistent at £500 from loan 2
- Ms C's repayments remained at £25 a week and was one loan at a time
- Income figures were verified for most of the loans – certainly for loan 4 (£291 a week) and £353 and £398 for loans 5 and 6 respectively – and Morses is confident these were accurate
- It sent to us copy account notes made at the time of the loan applications in which Ms C had made specific comments about not having transport costs, had no

childcare costs and rent was paid by benefits, no insurance or travel costs, and she'd had a council tax rebate. These related to loans 4, 5 and 6.

- It used Office of National Statistics (ONS) to populate details for Ms C. It said it used the credit search details to note the payments she made to creditors.
- *'We used 14.7% of Miss C's uncommitted and available income for loan 4, 15.5% for loan 5 and 19.8% of her disposable income was utilised to meet her repayment for loan 6, we do not consider these figures to be excessive.'*
- It has a note that in August 2021 Ms C was on a reduced income and that was when it knew she was having difficulties repaying, which was after Ms C had taken loan 6.
- *'as well as using figures from the ONS, we also used actual figures confirmed by [Ms C], as shown in the screenshots of the information she declared.'*
- Ms C *'...had sufficient disposable income after all including all expenditure which was more than enough to meet her repayments'*
- Ms C could have closed the loans at the end of each lending period.

Since our adjudicator's view neither Ms C nor Ms C's representative have replied so we do not know Ms C's response.

The unresolved complaint was passed to me to decide and on 24 November 2022 I issued a provisional decision giving my reasons for a change in outcome – that I was planning to uphold Loans 5 and 6 and for slightly different reasons to those of our adjudicator.

Both parties were given time to respond. Morses has told us it has nothing more to add. Ms C's representative has said that she agrees with the provisional decision.

For ease of reference that is set out here in full and in smaller type to differentiate it from the final decision.

My provisional decision dated 24 November 2022.

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 Ms C 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 Ms C'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 Ms C. These factors include:

- Ms C 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 C 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 C 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 C. Our adjudicator considered this to be the case for Ms C.

Morses was required to establish whether Ms C 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 C 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, 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 C's complaint.

Evidence from both parties

I've provisionally decided to reject the financial evidence Ms C has sent to us through her representative. And I say this because her own figures do not match up. And what I mean is the figures presented in the covering letter from Ms C's representative and the I&E she has submitted (which looks to have been completed by Ms C) do not match, and then those figures do not correlate with what she is said to have given Morses at the time she was applying for the loans.

Ms C's representative's figures say that Ms C was earning £400 a month and had expenses of either £430 a month or £240 a month – depending on the document - and hence the inconsistency. Whereas Morses had recorded income figures ranging from £288 a week to £398 a week. The duplicated partial table from that Morses I&E spreadsheet is set out below. These figures are totally different to the ones Ms C has submitted through her representative recently.

LOANS	CRA INCOME CHECKED	INCOME	EXPENDITURE	DISPOSABLE INCOME
1	£0.00*	£370.00	£130.00	£240.00
2	£293.00	£293.00	£100.00	£193.00
3	£288.00	£288.00	£110.00	£178.00
4	£291.00	£291.00	£121.00	£170.00
5	£353.00	£353.00	£187.00	£166.00
6	£398.00	£398.00	£271.00	£127.00

*another two columns in the Morses I&E sheet show me that Ms C earned £150 a week in wages and £220 in benefits and the agent had seen that evidence. So her income for loan 1 was £370.

This table is an extract from the spreadsheet Morses sent to us showing the figures it says that Ms C gave to it at the time. Morses has sent us screenshots of account notes made contemporaneously about some of Ms C's circumstances. I have listed those in the 'what happened' part of the decision.

When weighing up the submissions from both parties I have more faith in the contemporaneous notes and figures on that I&E from Morses than I do from Ms C's representative. But this is a provisional decision and so Ms C has time to send us further evidence. And by 'evidence' I do not simply mean submissions: I'd need to see financial details.

Checks carried out

Morses always carries out a credit check for the first loan and it did the same for Ms C. A copy of those credit search results has been sent to us and dated August 2017 which coincides with Ms C's application for loan 1. A summary of some of the results are in the next paragraph.

Ms C had seven active accounts (which can include bank accounts) and her total outstanding debt was £2,485 of which £1,504 related to defaulted accounts. The last defaulted account had been 39 months before (so about three years) and an account had become delinquent the previous month so July 2017. And it appears from these records that Ms C had had some home credit accounts default in the past.

Ms C's total monthly payments on home-credit debt was £194 which translates to be about £45 a week.

So while this was not a great record, Morses is often a lender approached by, and which is used to lending to, customers with a credit record where there are some adverse entries. The defaults were more than three years before August 2017 and so I doubt they would have given Morses too much to be concerned about.

Its I&E spreadsheet does not include the £45 a week for existing debt commitment which I do not understand why – but even if I add that figure into the figures for loans 1 and 2 (loan 2 being only a few months later) then still, on the Morses figures, Loans 1 and 2 looked affordable.

I'd say the same for loans 3. But by loan 4 I'd expect Morses to have gone a bit further. Either it could have checked Ms C's credit file again or it could have looked at some other details relating to her financial situation to see where she was and why she needed the additional loans. By loan 4 Ms C had been asking Morses for credit for almost two years and at that stage I think it ought not to have simply relied on what Ms C had been telling it.

And when I review Morses' evidence it says that it did obtain additional information from Ms C and it made notes about those. I have referred to these in the 'what happened' part of the decision. And in the I&E spreadsheet there are indicators that the agent had obtained CRA verification for loan 4 on her income and had benefits evidence for loans 5 and 6. But checking her expenditure ought to have been carried out too, and I'm not sure Morses did that.

To assess what it is that Morses might have seen had it carried out additional checks for loan 4 then I'd need some information and evidence about Ms C's financial position for that lending period. I do not rely on Ms C's financial evidence as I have explained before. I have received nothing else from Ms C to support her complaint. And so, I am not able to do that.

In the circumstances and on current evidence, I plan not to uphold Ms C's complaint about loans 1 to 4.

Loans 5 and 6

These loans were when Ms C had been borrowing from Morses for a long time by this stage and the records Morses has sent us show that she was a) coming back for more credit when there was still around £175 outstanding on the previous loan which she had not done before and b) had noted that for loan 5 she had other credit and other home credit commitments. Those, with the loan 5 repayment meant that Ms C was paying at least £87 a week on these. And for loan 6 – it was £75 a week in total. It had calculated the following on its I&E sheet:

Loan 5	£87.00	24.65%
Loan 6	£75.00	18.84%

The percentage of Ms C's total repayments to these loans of her (increased) income from benefits was almost 25% and almost 19%. I consider these to have been too high and so likely unsustainable. So, although I do not have much financial evidence from Ms C, and I have expressed a preference for Morses' evidence on the spreadsheet, still I consider that its own information and calculations show me that Ms C was not taking other debt and still asking Morses for more.

And so, I consider that the combination of a lengthy lending relationship where Ms C still needed Morses credit and other credit, the percentage of her income being spent on home credit and other credit was high, does lead me to think these were unsustainable and harmful for Ms C to be

constantly offered further loans. At that stage – loan 5 - this would not likely have been the answer for Ms C.

Borrowing consecutively for many months and without any breaks highlights the fact that Ms C was likely to be having trouble making ends meet.

I think that by loan 5 Morses ought to have realised that she was filling a hole left by the repayments for the earlier loans. And the repetitive nature of the lending was otherwise unsustainable.

I think that Ms C lost out because Morses provided loans 5 and 6:

- these loans had the effect of unfairly prolonging his indebtedness by allowing her to take expensive credit over an extended period of time.
- the number of loans and the length of time over which Ms C borrowed was likely to have had negative implications on her ability to access mainstream credit and so kept her in the market for these high-cost loans.

So, I'm planning to uphold the complaint about loans 5 and 6 as and Morses should put things right.

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.

Both parties have responded and neither has sent to me any further points, evidence or submissions. Ms C has agreed with my provisional decision findings and they are repeated here. I see no reason to depart from them.

I uphold Ms C's complaint for loans 5 and 6 for the same reasons.

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 Ms C at loan 5, 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 C may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between him 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 reconstruct now accurately. 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 C 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 Ms C 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 C loans 5 and 6.

- A) Morses should add together the total of the repayments made by Ms C 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 Ms C which were considered as part of "A", calculated from the date Ms C originally made the payments, to the date the complaint is settled.
- C) Morses should pay Ms C the total of "A" plus "B".
- D) The overall pattern of Ms C's borrowing for loans 5 and 6 means any information recorded about them is adverse, so it should remove loans 5 and 6 entirely from Ms C's credit file.

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

My final decision

My final decision is that I uphold Ms C's complaint in part and I direct that Morses Club PLC does as I have outlined in the 'putting things right' part of the decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 9 January 2023.

Rachael Williams
Ombudsman