

The complaint

Miss W, through a representative, complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted her loans.

What happened

Miss W was advanced six home collected loans between April 2019 and December 2021. 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	£300.00	25/04/2019	01/11/2019	33	£15.00
2	£600.00	01/11/2019	17/04/2020	34	£30.00
3	£1,000.00	17/04/2020	29/10/2020	34	£50.00
4	£1,000.00	29/10/2020	11/10/2021	53	£35.00
5	£300.00	29/10/2020	09/04/2021	34	£15.00
6	£600.00	29/12/2021	10/06/2022	35	£30.00

Following Miss W's complaint, Morses wrote to her representative to explain that it wasn't going to uphold it. Miss 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 Miss W's complaint about these loans. But he thought the lending was now harmful for Miss W by the time loan 4 was granted and so he upheld Miss W's complaint about loans 4 - 6.

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

- Loan 4 was the same value as loan 3 and Miss W chose to take a longer-term loan thereby reducing her weekly payments.
- Loans 5 and 6 were both smaller than loan 4.
- Although the loans were taken out in a consecutive manner Miss W was able to settle loans early and she received an interest refund.
- Loan 6 was affordable and by this point in time Miss W continued to have a good repayment history.
- A detailed income and expenditure assessment was carried out by Morses before it granted loans 4 – 6.

Miss W sent an email through her representative telling the Financial Ombudsman she accepted the outcome reached by the adjudicator.

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 Miss 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 Miss 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 Miss W. These factors include:

- Miss 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);
- Miss 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);
- Miss 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 Miss W.

Morses was required to establish whether Miss 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 Miss 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, 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 W's complaint.

Neither Morses nor Miss W (or her representative) disagree with the outcome the adjudicator reached about loans 1 – 3. I therefore no longer think these loans are in dispute. But I've kept them in mind when thinking about the overall lending relationship.

For these loans Morses has shown, that it gathered information from Miss W about her weekly income and expenditure. For loans 4 and 5 Miss W declared the same weekly income of around £796 per week. She also declared weekly expenditure of £579 for loan 4 and £583 for loan 5. This left a minimum disposable income for loans 4 and 5 of £216 per week to afford the largest repayment of £35.

It is also worth saying for loans 4 and 5 Miss W declared she already had weekly credit commitments to credit cards, loans and other home credit loans of at least £269 per week. So Morses knew, before it advanced further lending that close to third of Miss W's income was already being taken up meeting existing credit commitments. This in my view is not an insignificant portion and, in some circumstances, on its own could be enough to uphold the complaint. But I consider it to be further evidence that these loans (4 – 6) were likely to be unsustainable for her.

For loan 6, Miss W's declared income had increased to around £979 per week, with declared weekly expenditure of £820.54. Leaving £158 in disposable income to afford her repayment of £30.

Clearly, there must have been a change in Miss W's circumstances by the final loan, given the significant increase in both income and outgoings. Although, this was one of the smallest disposable incomes that Miss W had. But there doesn't appear to be any information to suggest what this change in circumstances may be.

Morses also says, for these loans Miss W's income was checked with a credit reference agency but no further information about this check has been provided. Although it also provided a copy of a system note that suggests that during this time Miss W's sole source of income was benefits although this isn't reflected in the information contained within the income and expenditure spreadsheet Morses has provided.

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

But its arguable whether these checks went far enough considering how long Miss W had been indebted to Morses, by loan 4 borrowing the same amount as loan 3 but over a much longer term and what Morses already knew about Miss W's lending. For example, Miss W returning for further borrowing on the same day a previous loan had been repaid.

By loan 4, it would've been reasonable for Morses to have at the very least, started to have verified the information it was being given about her income and expenditure. 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 Miss W.

I say this because in addition to looking at the checks that Morses did I've also looked at the overall pattern of Morses' lending history with Miss 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 Miss W's case, I think that this point was reached by loan 4. I say this because:

- At this point Morse ought to have realised Miss W was not managing to repay her loans sustainably. Miss W was taking out her fourth loan within 18 months. So Morse ought to have realised it was more likely than not Miss W was having to borrow further to cover a long-term short fall in her living costs.
- Miss W was provided with a new loan each time on the day a previous loan was repaid, and some of the loans appear to have been used to repay the outstanding balance of the previous one. For example, it seems that some of loan 4 likely went towards repaying loan 3. To me, this is a sign that Miss W was using these loans to fill a long-term gap in her income rather than as a short-term need.
- When it comes to loan 4, Miss W's weekly commitments only decreased because she had increased the repayment term to over a year. While the commitments did drop for loan 5, it again increased to close at the same level of loan 4 when loan 6 was advanced. The total commitment for loan 6, was £30 per week which was more than twice the amount compared to the first loan in the lending relationship. However, the fact that these loans were lent consecutively and at times overlapped, ought to have led Morse to realise these loans weren't sustainable anymore.
- Miss W wasn't making any real inroads into the amount she owed Morse. Loan 6 was taken out 32 months after Miss W's first loan and was to be repaid over a similar term. Her final loan was also twice the size of her first loan. Miss W had paid large amounts of interest to, in effect, service a debt to Morse over an extended period.

I think that Miss W lost out when Morse provided loans 4 - 6 because:

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

So, I'm upholding Miss W's complaint about loans 4 - 6.

Putting things right

In deciding what redress Morse should fairly pay in this case I've thought about what might have happened had it hadn't lent loans 4 - 6, 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 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 Miss 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 Miss W would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Morse's liability in this case for what I'm satisfied it has done wrong and should put right.

Morses shouldn't have provided Miss W with loans 4 - 6.

- A. Morses should add together the total of the repayments made by Miss W towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Morses has already refunded.
- B. Morses should calculate 8% simple interest* on the individual payments made by Miss W which were considered as part of "A", calculated from the date Miss W originally made the payments, to the date the complaint is settled.
- C. Morses should pay Miss W the total of "A" plus "B".
- D. The overall pattern of Miss W's borrowing for loans 4 - 6 means any information recorded about it is adverse, so Morses should remove these loans entirely from Miss W's credit file.

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

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

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

Robert Walker
Ombudsman