

## The complaint

Miss P 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 P was advanced six home collected loans between August 2017 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	£300.00	24/08/2017	22/12/2017	33	£15.00
2	£300.00	22/12/2017	24/07/2018	33	£15.00
3	£400.00	30/10/2018	07/06/2019	33	£20.00
4	£300.00	07/06/2019	29/11/2019	33	£15.00
5	£200.00	22/11/2019	08/03/2021	34	£10.00
6	£300.00	29/11/2019	08/03/2021	34	£15.00

The 'weekly repayment' column is the cost per week per loan. Where loans overlapped the commitment to Morses was greater. For example, when loans 5 and 6 overlapped Miss P's commitment to Morses was £25 per week.

Morses explained in its final response letter that it had carried out affordability checks before these loans were advanced and based on the information it received, it was reasonable to lend.

Miss P's representative didn't agree and instead referred the complaint to the Financial Ombudsman Service.

The case was then reviewed by an adjudicator. He concluded it was reasonable for loans 1 – 3 to have been advanced. So, he didn't uphold the complaint about those loans. However, he thought loans 4 - 6 shouldn't have been granted because the lending pattern was now harmful for Miss P.

Miss P's representative didn't respond to the adjudicator's assessment.

Morses disagreed with the adjudicator's assessment in summary, Morses said:

- Loan 4 was the same amount as loans 1 and 2 and Miss P repaid these loans without any issues.
- Loan 5 was Miss P's smallest loan advanced and while loan 6 was larger, Morses doesn't consider these amounts to be excessive.
- Loans 5 and 6 were advanced close together but Morses didn't see any reason not to advance them due to Miss P's good repayment history.
- Morses carried out adequate checks before loans 4 – 6 were advanced which

- showed Miss P could afford the repayments.
- Miss P didn't tell Morses about any financial difficulties she may have been having.

As no agreement has been reached, the case was passed to me to resolve. I issued my provisional decision explaining the reasons why I was intending to uphold Miss P's complaint in part about loans 5 and 6. A copy of the provisional findings follows this in smaller font and italics and forms part of this final decision.

### **What I said in my provisional decision**

*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.*

*Neither Miss P (or her representative) appear to have disagreed with the adjudicator's findings in relation to loans 1 – 3. So, it seems this lending isn't in dispute and so I no longer think that I need to make a finding about it. But I have kept these loans in mind when thinking about the overall lending relationship between Morses and Miss P.*

*Instead, this decision will focus on whether Morses did anything wrong when it granted loans 4 - 6.*

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

- *Miss P 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 P 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 P 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 P.*

*Morses was required to establish whether Miss P 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 P 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 P's complaint.*

*The adjudicator upheld these loans because in his view they were harmful for Miss P because it was now unsustainable for Moses to continue to lend to her.*

*I can understand why the adjudicator has concluded this, but I don't think, Moses would've concluded these loans were now harmful to Miss P. I've explained why below.*

*I accept that Miss P had been indebted with Moses continuously for around 22 months – and she was further committing to be indebted for at least an additional 33 weeks. This, in some situations could be a sign that she was now reliant on the borrowing or at the very least having longer term money management problems. Neither can I ignore that the lending was consecutive and at times overlapped, which could show that Miss P had a continued need for credit.*

*But I also have to keep in mind that Miss P's borrowing wasn't always increasing. Indeed, for loan 4, Miss P's borrowing had reduced back to the level it was for loans 1 and 2 and then for loan 5, her borrowing decreased again. In addition, her weekly commitment to Moses also fluctuated.*

*Finally, there also hadn't been any obvious repayment problems when Miss P had settled previous loans.*

*So, taking everything together, I don't think Moses would've or ought to have realised these loans were unsustainable for Miss P and so I am intending to conclude the loans weren't likely to be so harmful that it would've prompted Moses to have stopped lending to her. But that doesn't mean Moses did all it should've done before advancing these loans.*

*Moses has provided us with the income information it collected from Miss P for loans 4 – 6. For these loans, Moses was aware, that the weekly disposable income (so the amounts Miss P had after deducting expenditure from her income) ranged from around £49 to 87 per week. This may have then led Moses to believe that Miss P had sufficient disposable income and could afford the loan repayments.*

*But that doesn't mean that Moses carried out a proportionate check. I do think the time in debt ought to have altered Moses to the possibility that Miss P may have been reliant on this credit and her indebtedness were potentially extending for another 33 weeks and by loan 4, Miss P had the smallest amount of declared disposable income to date. These factors ought to have prompted it to consider whether it knew enough about Miss P's financial position.*

*Overall, I don't think it was reasonable for Moses to have relied on what Miss P declared to it about her income and expenditure. Even though this information suggested Miss P could afford these loan repayments.*

*Instead, I think it needed to gain a full understanding of Miss P's actual financial position to ensure the lending was affordable. This could've been done in several ways, such as asking for evidence of her outgoings or looking at bank statements and/or Miss P's full credit file. This might've helped verify information provided and revealed whether there was any other information that Moses might've needed to consider about Miss P's financial position.*

*However, that isn't the end of the matter. For me to be able to uphold these loans, I have to be satisfied that had Moses carried out a proportionate check it would've likely discovered that Miss P couldn't afford them.*

*Miss P's representative has provided a full copy of her credit file, which I've considered. Having done so, I don't think there is anything from around the time at loan 4 was granted which would've given Moses cause for concern. So, based on what I currently have, I can't uphold Miss P's complaint about that loan.*

*However, by loans 5 and 6 Miss P's finances had changed. It's important to note here that for loan 5, Morses has recorded that there were no other, outstanding credit commitments and Morses established Miss P had £79.60 per week in disposable income. For loan 6, there were £40 per week of outstanding other credit commitments and disposable weekly income of £49.80.*

*But, in October 2019, Miss P opened another home credit account – which led to weekly repayments of £69. Then at the start of November 2019, Miss P had recently opened a hire purchase agreement with weekly repayments of £68. These commitments, which were both outstanding at the time of loans 5 and 6 led to weekly commitment of £137. I think Morses would've discovered these outstanding commitments had it carried out a proportionate check.*

*Taking account of the income and expenditure information Morses relied upon, it would've concluded that Miss P couldn't afford the loan repayments because she didn't have any disposable income in which to pay her outstanding creditors as well as paying her Morses loans.*

*Although Morses didn't carry out proportionate checks, I'm not able to conclude that further checks would've led it to conclude that loan 4 shouldn't have been granted. However, there is sufficient information contained within the credit report to show that she didn't have enough disposable income to afford the repayments for loans 5 and 6.*

*So, I'm intending to uphold Miss P's complaint about loans 5 and 6.*

### **Response to the provisional decision**

Both Miss P and Morses were asked to provide anything further for consideration in response to the provisional decision, as soon as possible, but in any event no later than 10 November 2022.

Neither Morses or Miss P (or her representative) responded to the provisional 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.

As no new information or comments have been provided, I see no reason to depart from the findings I reached in the provisional decision. I still don't think Morses ought to have approved loans 5 and 6 for Miss P because had it carried out proportionate checks it would've likely discovered that she didn't have enough disposable income to be able to afford the repayments towards these loans.

I've outlined below what Morses needs to do in order to put things right for Miss P.

### **Putting things right**

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it hadn't lent loans 5 and 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 Miss P 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 P 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 P 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 Miss P with loans 5 and 6.

- A. Morses should add together the total of the repayments made by Miss P 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 Miss P which were considered as part of "A", calculated from the date Miss P originally made the payments, to the date the complaint is settled.
- C. Morses should pay Miss P the total of "A" plus "B".
- D. Morses should remove any adverse information recorded about loans 5 and 6 from Miss P's credit file.

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

### **My final decision**

For the reasons I've explained above and in the provisional decision, I'm upholding Miss P's complaint in part.

Morses Club PLC should put things right as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 9 December 2022.

Robert Walker  
**Ombudsman**