## The complaint

Mr W complains (through a representative) that Morses Club PLC (Morses) didn't carry out proper affordability checks before it advanced his loans.

## What happened

Mr W took six home collected loans between January 2019 and September 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 | £125.00 | 01/01/2019 | 10/05/2019 | 25 | £7.50 |
| 2 | £60.00 | 01/01/2019 | 04/03/2019 | 14 | £6.00 |
| 3 | £200.00 | 01/01/2019 | 04/03/2019 | 14 | £20.00 |
| 4 | £500.00 | 04/03/2019 | 05/09/2019 | 33 | £25.00 |
| 5 | £200.00 | 10/05/2019 | 03/01/2020 | 33 | £10.00 |
| 6 | £500.00 | 05/09/2019 | 25/03/2020 | 33 | £25.00 |

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 1, 2 and 3 were running at the same time Mr W's weekly commitment was £33.50.

Morses considered Mr W's complaint and didn't uphold it. Mr W's representative then referred the complaint to the Financial Ombudsman.

The complaint was considered by an adjudicator who thought Morses made a reasonable decision to lend loans 1 – 3 and so these weren't upheld. However, the adjudicator didn't think the remaining loans should've been granted because in his view, the portion of Mr W's income that would have to be used to make the repayments was too high and therefore the loans were likely to be unsustainable.

Morses disagreed with the adjudicator's recommendation to partly uphold the complaint. I've summarised its response below.

- Mr W's income was verified as £215 per week and so 15% of his income was used to make his commitments to Morses.
- The percentage of income Mr W was required to use to pay Morses decreased for the later loans.
- Mr W had a good repayment history.

Mr W's representative acknowledged the adjudicator's assessment.

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 Mr W could afford to pay back the amounts he'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 Mr 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 Mr W. These factors include:

- Mr 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);
- Mr 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);
- Mr 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 Mr W.

Morses was required to establish whether Mr W could *sustainably* repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr W was able to repay his 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 Mr W's complaint.

Neither Morses of Mr W's representative have disagreed with the findings about loans 1 – 3. In my view, these loans are no longer in dispute and so I won't be making a finding about them. But I have kept them in mind when thinking about the overall lending history.

**Loans 4 – 6**

For loan four Mr W declared he had a weekly income of around £215 with outgoings of £88.50. This left around £126.50 per week to make his weekly repayment of £25.

For loan five Mr W declared that his weekly income had increased to £270.23, and his declared weekly expenditure was £144.50. Leaving just over £155.73 a week to afford the repayment of £10 per week. But the combined weekly repayment due to Morses at this time was £35 per week.

Finally, for loan six, Mr W's weekly declared income was £275 with his weekly outgoings declared as £98.50. This left around £176.50 per week disposable income to afford the repayment on this loan of £25. Again, the total commitment to Morses was £35 per week.

Morses says for loans 4 and 6 it also carried out an income verification check, which given my understanding of Morses' processes was done through a credit reference agency. Although based on the spreadsheet provided by Morses there is no salary or benefits (such as a pension) recorded for these loans. While income for loan 5 wasn't verified the source of income for this loan was noted as benefits. So, I do have some concerns about Mr W's income.

Mr W had at least two loans running at the same time, and his weekly commitment to Morses generally increased - it was £33.50 when loans 1 and 4 were running and then £35 when loans 5 and 6 were granted.

In addition, Mr W had a habit of taking new loans on the same day that previous loans were repaid, and it seems new loans were used to repay outstanding ones. For example, according to the statement of account a portion of loan 6 was likely used to repay loan 4.

However, in saying that I don't think, given what I've seen, that Morses made a fair decision when it decided to lend these loans to Mr W. I'm, therefore, upholding Mr W's complaint about these loans.

As Morses has pointed out in response to our adjudicator, Mr W was committed to spending 15% of his income when loan four was advanced, 12.9% when loan five was advanced and 12.7% when loan six was granted. In my view these payments as a portion of Mr W's income, in this case were too high when considering what else it knew about Mr W's income and lending history.

In these circumstances, there was a significant risk, in my view that Mr W wouldn't have been able to meet his existing commitments without having to borrow again. So, I think it's unlikely Mr W would've been able to sustainably meet his repayments for these loans.

While Morses doesn't think those percentages are excessive I think they were. There is 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 – we'll always look at the broader circumstances – as I've done here.

I'm not suggesting that just because Mr W had an income which was likely made up from benefits that funds couldn't be lent to him but what Morses needed to do is appreciate that considering the commitments that he had to it and over the time period the loans were 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 loans were sustainable and I don't think, in this case it did that.

Based on what I’ve seen I’m upholding Mr W’s complaint in part, and I’ve outlined below what Morses needed 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 not lent 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 Mr W 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 Mr 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 Mr W 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 Mr W loans 4 - 6.

A. Morses should add together the total of the repayments made by Mr W 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 Mr W which were considered as part of “A”, calculated from the date Mr W originally made the payments, to the date the complaint is settled.
C. Morses should pay Mr W the total of “A” plus “B”.
D. Morses should remove any adverse information you have recorded on Mr W’s credit file in relation to loans 4 - 6.

*HM Revenue & Customs requires you to deduct tax from this interest. Morses should give Mr W a certificate showing how much tax it deducted if he asks for one.

## My final decision

For the reasons I’ve explained above, I’m upholding Mr W’s complaint in part.

Morses Club PLC should put things right for Mr W as I’ve directed above.

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

Robert Walker
**Ombudsman**