

## The complaint

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

## What happened

Ms B was advanced six home collected loans between March 2019 and March 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	£100.00	21/03/2019	19/09/2019	20	£7.50
2	£130.00	16/10/2019	18/04/2020	34	£6.50
3	£300.00	27/07/2020	20/03/2021	34	£15.00
4	£200.00	15/08/2020	23/12/2020	34	£10.00
5	£200.00	23/12/2020	sold	34	£10.00
6	£200.00	24/03/2021	sold	34	£10.00

Ms B had some problems repaying her final two loans and Morses' statement of account shows these balances were sold to a third-party collection agency in February 2022.

Following Ms B's complaint, Morses wrote to her representative to explain that it wasn't going to uphold it. Ms B 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 – 5 so he didn't uphold Ms B's complaint about these loans. But he thought the lending was now harmful for Ms B by the time loan 6 was granted and so he upheld Ms B's complaint about the loan.

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

- For loan 6, Ms B's income was verified and therefore Morses believed only about 5% of her income was being used to meet her loan repayments. The loan looked affordable.
- Loan 6 was for the same value as the previous two loans.
- Ms B did have problems repaying loan 5 in January 2021, but the contact note provided by Morses shows this was caused by the pandemic. But she was back working and receiving her salary when loan 6 was approved.

Ms B's representative has acknowledged receipt of 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 Ms B 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 Ms B'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 Ms B. These factors include:

- Ms B 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 B 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 B 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 B.

Morses was required to establish whether Ms B 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 B 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 Ms B's complaint.

Neither Morses nor Ms B (or her representative) appear to disagree with the outcome the adjudicator reached about loans 1 – 5. I therefore no longer think these loans are in dispute. I would add, that like the adjudicator, I do agree Morses made a reasonable decision to provide these loans. So, I say no more about these loans.

For loan 6, Morses has shown that it asked Ms B for details of her income and expenditure. She declared, an income of £368.36 with outgoings of £272 per week. This left Ms B with a weekly disposable income of £96.36 per week to make her weekly repayment for loan 6 of £10. But with loan 5 being outstanding than the total weekly commitment to Morses was £20 per week.

Based solely on Ms B'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 it's arguable whether these checks went far enough considering how long Ms B had been indebted to Morses, her future weekly commitment and what Morses already knew about Ms B's lending. For example, Ms B returning for further borrowing on the same day a previous loan had been repaid. 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 about her 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 the loan was unaffordable for Ms B.

And 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 Ms B, 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 Ms B's case, I think that this point was reached by loan 6. I say this because:

- At this point Morses ought to have realised Ms B was not managing to repay her loans sustainably. Ms B had taken out five previous loans in 2 years. So Morses ought to have realised it was more likely than not Ms B was having to borrow to cover a long-term short fall in her living costs.
- Ms B was generally provided with a new loan either on or around the same day a previous loan was repaid, and it seems the new loans were partly used to repay the previous loans. For example, it seems that some of loan 5 went towards repaying loan 4. To me, this is a sign that Ms B was using these loans to fill a long-term gap in her income rather than as a short-term need.
- Morses says that Ms B had some previous repayment problems, but this was caused by the pandemic. I can see no payments being received between December 2021 and February 2022. But, shortly after loan 6 was approved, Ms B didn't make a payment for nearly two months – indicating that her repayment problems were likely still affecting her when this loan was granted.
- Over the course of the lending relationship, Ms B's weekly commitments generally either increased or remained static – any decrease was small. The total commitment for loan 6, was £20 per week which was more than three times as large as when the relationship started. However, the fact that these loans were lent in a consecutive and overlapping manner, ought to have led Morses to realise the lending wasn't sustainable anymore.
- Ms B wasn't making any real inroads to the amount she owed Morses. Loan 6 was taken out 2 years after Ms B's first loan and was to be repaid over a longer term – 34 weeks. Her final loan was also twice the size of her first loan. Ms B had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

My view is further reinforced, that loan 6 was unsustainable, because Ms B had further repayment problems that resulted in Morses selling the debt to a third-party collection agency.

I think that Ms B lost out when Morses provided loan 6 because:

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

So, I'm upholding Ms B's complaint about loan 6.

### **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 loan 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 Ms B 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 Ms B 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 Ms B 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 Ms B with loan 6.

If Morses has sold the outstanding debts it should buy it back if it is able to do so and then take the following steps. If Morses are not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

- A. Morses should add together the total of the repayments made by Ms B towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Morses have already refunded.
- B. Morses should calculate 8% simple interest\* on the individual payments made by Ms B which were considered as part of "A", calculated from the date Ms B originally made the payments, to the date the complaint is settled.
- C. Morses should remove all interest, fees and charges from loan 6, and treat any repayments made by Ms B as though they had been repayments of the principal towards loan 6. If this results in Ms B having made overpayments then Morses should refund these overpayments with 8% simple interest\* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Morses should then refund the amounts calculated in "A" and "B" and move to step "E".
- D. If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loan. If this results in a surplus then the surplus should be paid to Ms B. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Ms B.

- E. The overall pattern of Ms B's borrowing for loan 6 means any information recorded about it is adverse, so Morses should remove the loan entirely from Ms B's credit file. Morses do not have to remove loan 6 from Ms B's credit file until it has been repaid, but Morses should still remove any adverse information recorded about it.

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

Morses Club PLC should put things right for Ms B as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 16 December 2022.

Robert Walker  
**Ombudsman**