

The complaint

Ms W, through her representative, complains that Morses Club PLC lent to her irresponsibly. Ms W says that she was on benefits and a low income and was not able to afford these loans.

What happened

Using information provided by Morses, here is a brief loan table.

Loan	Start Date	End Date	Capital Amount	Interest amount	Term	Repayment amount	Weeks Live
1	04/11/2019	29/05/2020	£250.00	£175.00	34	£12.50	29
2	05/02/2020	10/07/2020	£300.00	£210.00	34	£15.00	22
3	01/06/2020	05/12/2020	£300.00	£210.00	34	£15.00	26
4	11/06/2020	05/12/2020	£200.00	£140.00	34	£10.00	25
5	10/07/2020	05/12/2020	£300.00	£210.00	34	£15.00	21
6	29/07/2020	05/12/2020	£200.00	£140.00	34	£10.00	18
7*	22/11/2021	£301 still to repay	£400.00	£300.00	35	£20.00	22

*was an account under a new customer number

The complaint letter from Ms W's representative to Morses states that her income was £400 a month at the time she was applying for these loans and her outgoings were £800, leaving her with a monthly deficit of £400. But no evidence to support this financial picture has been sent.

Morses responded with a final response letter (FRL) dated 20 June 2022, to say that it did not uphold Ms W's complaint. Ms W's representative referred it to the Financial Ombudsman Service. The complaint was reviewed and Morses was content to agree with a preliminary view from us - loans 6 and 7 ought to be that part of the complaint which was upheld. Morses set out its offer to resolve the complaint and it was forwarded to Ms W.

Our adjudicator followed that offer letter up with a formal view. At the time our adjudicator thought that the uphold related to loan 6 only but it seems that this has been corrected now. In his view he explained why he thought that the uphold offer to resolve the complaint was a fair outcome.

Ms W was not content. She explained that at the time of the lending she was reliant on the loans, and because she was living on £50 each week which came from benefits. In November 2022 Ms W's representative told us that she was '*gathering information in regard to this matter*' and wanted extra time to be able to send it to us.

We had already received Ms W's personal credit file report dated August 2022. After the case was allocated to me I gave Ms W additional time to send me what she was wanting to send. So far I have received information in the form of a confirmatory letter dated 24 November 2022 that she has been in receipt of benefits since 12 March 2012.

And Ms W has explained about a very sad part of her life in 2012 and 2013 and for privacy reasons I do not repeat them here. I was sorry to read of these circumstances.

Ms W has not sent any further documentation to us, such as bank account statements or copies of benefits received or any other documents to illustrate her finances, but I feel it pertinent to set out her concerns in full:

'I have been registered disabled since 2018 as I was struggling financially my Dr supported my claim for pip which said would cover the cost of child care whilst in hospital I was living off £50.00 per week before bills came out.

Taking out loans that were freely offered to me I did to stay somewhat afloat however looking back now in a good state of mind these loans were a big contribution to my financial difficulties I couldn't see a way out from.

I would like all the loans looked at please as I find it unacceptable for them to just cover the last two, and disregarding the rest'

The unresolved complaint was passed to me to decide. I asked for clarification on the loans Morses was upholding, and I asked for and received a copy of the credit search it carried out before it approved loan 1 for Ms W in 2019. So, I issued a provisional decision on 19 December 2022. That is duplicated here in full and in smaller type to differentiate it from the final decision.

My provisional decision dated 19 December 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 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 have considered a number of different things, such as how much was being lent, the size of the repayments, and Ms W'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 W. These factors include:

- Ms 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);
- Ms 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);
- Ms 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 Ms W. Morses was required to establish whether Ms 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 Ms 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 Ms W's complaint.

Loans 1 to 5

Ms W has given us a sad explanation of events which took place in 2012/2013. And I realise the enormity of the tragic event. I was sorry to read of it.

I note that the first loan with Morses was in November 2019 which would have been many years following the sad event. What I think Ms W is saying is that being registered disabled in 2018 and being in receipt of benefits additional to the ones she was already on, ought to have been something Morses took into account. I've thought about these points as I have considered the complaint but I have no details from Ms W about the benefits she was receiving in 2019 when she first applied to Morses. And Morses has shown me its records which gave me details of Ms W's income – even if that income was derived from benefits – and her expenditure.

A duplicate of the information we have been given for all the loans appears here:

LOAN	CRA INCOME CHECKED	EXPENDITURE	DISPOSABLE INCOME
1	£600.00	£236.50	£363.50
2	£461.89	£256.50	£205.39
3	£554.27	£229.00	£325.27
4	£554.00	£224.00	£330.00
5	£554.00	£240.50	£313.50
6	£581.99	£288.00	£293.99
7	£613.92	£222.00	£391.92

The credit search carried out by Morses in 2019

Now we have received a copy of the credit search results Morses undertook just before loan 1 in 2019 then I have reviewed them. I can see that Ms W had 11 active 'SHARE' accounts (meaning credit accounts of one kind or another) and the total value of those came to £3,873. And the credit search indicated that Ms W was only paying £68 a month on all accounts excluding mortgages, which were 'currently active'. Ms W he had five defaulted accounts. One was a utility bill default but it dated back October 2016 plus she had a County Court Judgment (CCJ) in November 2016. I consider this to have been too far back to be a concern to Morses who was a lender which often lent to individuals with adverse records on their credit files.

On balance for a £250 loan when Ms W was a new customer in November 2019, then I do not think that Morses likely would have had too much of a concern for loan 1. It carried out proportionate checks. Ms W appeared to have the income and the disposable income to cover the existing repayments required of her and the one for Morses.

I'd agree with our adjudicator that by the time Morses had been lending to Ms W for some

time – at loan 5 in July 2020 it would have been around eight months - then I think that additional enquiries ought to have been asked of Ms W to discover why it was she was returning regularly for credit.

However, to assess that I'd need to know what Ms W's position was financially in July 2020, and apart from her credit file and the information she gave to Morses at the time she was applying for the loans I have very little from her to demonstrate the true nature of her finances at that time. The I&E table Morses has and which were from contemporaneous notes taken at the time show me that Ms W had enough to afford loans 5.

The letter Ms W sent to us recently and the one she relies on confirms she was on benefits but it gives me no specific details. And so, for a £300 loan I think that the checks Morses carried out may not have been good enough but without more from Ms W to tell me her financial position in July 2020 I cannot make a finding that Morses lent to her irresponsibly.

Loans 6 and loan 7

Morses has agreed with an initial view from us that, loans 6 and 7 ought to be upheld. As it has agreed then I need not reconsider the merits of this part of the complaint.

The redress for loan 6 included the removal of the unpaid interest of £300 on loan 7 and the write-off of £1 remaining on the capital for loan 7. And so, there'd be nothing left to repay Morses and her accounts will close, if they have not done so already.

The redress section covers the situation to reflect the offer made by Morses and which I endorse.

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.

Since issuing my provisional decision Morses has confirmed that it has already completed the redress actions for loans 6 and 7, following the adjudicator's outcome. So there is nothing left for it to do.

Ms W has been reminded, through her representative, that the deadline for the provisional decision reply was 6 January 2023. Since then, I have received nothing from Ms W or her representative. It is in the interests of both parties for this complaint to be resolved and so I issue my final decision along the same lines as my provisional decision. I uphold Ms W's complaint in part.

The redress section that follows is to be clear on what Morses needs to do if it has not done so. My understanding is that it has actioned this already.

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 W from loan 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 Ms W 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 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 W 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 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 Ms W loans 6 and 7 and as it has already agreed to do the following, I am setting it out for the avoidance of doubt:

If Morses has sold the outstanding debts Morses should buy these back if it is able to do so and then take the following steps. If Morses is not able to buy the debts back then Morses 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 W 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 W which were considered as part of "A", calculated from the date Ms W originally made the payments, to the date the complaint is settled.

C) Morses should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Ms W as though they had been repayments of the principal on all outstanding loans. If this results in Ms W 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 loans [and any principal Morses has already written-off]. If this results in a surplus then the surplus should be paid to Ms W. However if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Ms W. Morses shouldn't pursue outstanding balances made up of principal Morses have already written-off.

E) The overall pattern of Ms W's borrowing for loans 6 and 7 means any information recorded about them is adverse, so Morses should remove these loans entirely from Ms W's credit file. Morses do not have to remove these from Ms W's credit file until these have been repaid, but Morses should still remove any adverse information recorded about these loans.

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

My final decision

I uphold Ms W's complaint in part and I direct that Morses Club PLC does as I have outlined above, if not already carried out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 10 February 2023.

Rachael Williams
Ombudsman