

The complaint

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

What happened

Mr B was advanced seven home collected loans between May 2016 and March 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	number of weekly repayments	highest repayment
1	£300.00	11/05/2016	22/09/2016	21	£19.50
2	£300.00	06/10/2016	04/02/2017	20	£22.50
3	£300.00	03/02/2017	29/06/2017	20	£22.50
4	£300.00	11/07/2017	30/03/2018	33	£15.00
5	£200.00	07/12/2017	20/07/2018	33	£10.00
6	£400.00	17/08/2018	15/03/2019	33	£20.00
7	£600.00	15/03/2019	14/10/2019	33	£30.00

Following Mr B's complaint Morses wrote to his representative to explain that it wasn't going to uphold it. Mr B's representative didn't agree and referred the complaint to the Financial Ombudsman.

An adjudicator reviewed the complaint. He thought Morses had made a reasonable decision to provide loans 1 – 4 and so he didn't uphold Mr B's complaint about them. But he thought the lending was now harmful for Mr B by the time loans 5 - 7 were granted and so the adjudicator upheld Mr B's complaint about these loans.

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

- There were a number of short breaks between loans such as two weeks between loans 3 and 4.
- Loan 5 was Mr B's smallest capital loan to date.
- Income and expenditure checks were carried out before loan 5 was approved and Mr B's income was checked with a payslip.
- Morses also says it saw a copy of a mortgage statement and a water bill, so it knew the figures for this expenditure to be correct.
- There is no evidence Mr B struggled to repay these loans, indeed he had a good repayment history.
- After loan 5, Mr B only had one loan outstanding at any one time.
- Mr B didn't tell Morses of any financial difficulties he may have been having.

Mr B's representative has confirmed a copy of the assessment has been sent to Mr B, but no further comments have been provided.

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 Mr B 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've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr 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 Mr B. These factors include:

- Mr 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);
- Mr 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);
- Mr 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 Mr B. The adjudicator thought this had been reached by the time loan 5 was granted.

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

Neither Morses nor Mr B (or his representative) appear to disagree with the outcome the adjudicator reached about loans 1 – 4. I therefore I no longer think these loans are in dispute. I would add, that like the adjudicator, I do also agree Morses made a reasonable decision to provide these loans. So, I say no more about them. Instead, this decision will look at whether Morses did all it ought to have done before it provided loans 5 – 7.

Loans 5 - 7

For these loans, Morses has shown that it asked Mr B for details of his income and expenditure. Mr B declared a weekly income of £455 for loan 5, £450 for loan 6 and £400 for loan 7. Morses also says for loan 5 it saw a copy of Mr B's wage slip so it was confident the amount he declared was accurate – although I would add a copy of the wage slip hasn't been provided.

In terms of expenditure, Mr B declared weekly outgoings of £150 for loan 5, £37 for loan 6 and £55 for loan 7. In my view, the declared expenditure is unlikely to have been accurate. After all, for loan 5 payments have been noted as needing to be made for a mortgage yet for loans 6 and 7 there are no figures for either the mortgage or any rent. In addition, payments for utilities are noted for loans 5 and 7 and not for loan 6. It would be, in my view, unlikely Mr B would be paying utilities, then stop and then suddenly start paying them again.

So, it's arguable whether Morses' checks went far enough considering how long Mr B had been indebted to Morses, his future weekly commitment and the concerns highlighted above about his expenditure.

By the time loan 5 was granted, it would've been reasonable for Morses to have at the very least, started to have verified all the information it was being given and I've not seen anything to suggest Morses did this. 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 Mr B.

So, in addition to looking at the checks that Morses did I've also looked at the overall pattern of Morses' lending history with Mr 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 Mr B's case, I think that this point was reached by loan 5. I say this because:

- At this point Morses ought to have realised Mr B was not managing to repay his loans sustainably. Mr B had taken his fifth loan in almost 18 months. So Morses ought to have realised it was more likely than not Mr B was having to borrow further to cover a long-term short fall in his living costs.
- While loan 5 was the smallest capital loan value to date, when it was granted, loan 4 was still outstanding, this led to a weekly commitment due to Morses of £25 per week – the largest commitment Mr B needed to pay – to date.
- Mr B appears to have had some minor problems repaying loan 4, as it took four weeks longer than planned. This, along with the concerns about the weekly expenditure ought to have led Morses to conclude that Mr B couldn't sustainably repay these loans.
- Over the course of the lending relationship, Mr B's weekly commitments generally increased. While the commitments did decrease at loan 4, this was offset by the fact Mr B took loan 5. This may have given Morses confidence that Mr B was no longer reliant on these loans. However, the fact that these loans were lent, at times in a consecutive manner (or close to the previous loan), ought to have led it to realise these loans weren't sustainable anymore.
- Mr B wasn't making any real inroads to the amount he owed Morses. Loan 7 was taken out 33 months after Mr B's first loan and was to be repaid over the joint longest

term – 33 weeks. His final loan was also the largest capital loan to date and was double the value of the first loan. Mr B had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I think that Mr B lost out when Morses provided loans 5 - 7 because:

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

So, I'm upholding Mr B's complaint about loans 5 - 7.

Finally, while Morses has pointed out some small gaps between loans, such as the two-week gap between Mr B repaying loan 3 and taking loan 4. I don't think in this case, those gaps are significant enough to have either made Morses think that it could start a new chain of borrowing or were an indication that Mr B had resolved whatever financial issue had led him to borrow in the first place. So, while I've noted the gaps, in this case, given what else Morses knew it hasn't changed my mind about the outcome.

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 - 7, 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 B may have simply left matters there, not attempting to obtain the funds from elsewhere. If this wasn't a viable option, he may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, he 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 he 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 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 Mr 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 Mr B with loans 5 - 7.

- A. Morses should add together the total of the repayments made by Mr B towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything Morses has already refunded.
- B. Morses should calculate 8% simple interest* on the individual payments made by Mr B which were considered as part of "A", calculated from the date Mr B originally made the payments, to the date the complaint is settled.
- C. Morses should pay Mr B the total of "A" plus "B".

D. The overall pattern of Mr B's borrowing for loans 5 - 7 means any information recorded about them is adverse, so Morses should remove these loans entirely from Mr B's credit file.

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

My final decision

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

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 23 February 2023.

Robert Walker
Ombudsman