

The complaint

Ms A complains through a representative that Morses Club PLC (Morses) gave her loans that she couldn't afford to repay.

What happened

Ms A took a total of four loans from Morses between October 2016 and November 2021. A summary of her total borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	number of weekly payments	weekly repayment
1	£200.00	18/10/2016	19/01/2017	20	£15.00
2	£300.00	19/01/2017	06/07/2017	33	£15.00
3	£450.00	06/07/2017	31/10/2017	33	£22.50
break in lending					
4	£600.00	11/11/2021	16/12/2021	35	£30.00

Morses considered Ms A's complaint and issued its final response letter (FRL) in June 2022 which it explained why it wasn't upholding her complaint. It is worth saying here, that this response only dealt with one loan – loan 4. Ms A's representative didn't agree, and the complaint was referred to the Financial Ombudsman.

The complaint was considered by an adjudicator who explained, that based on the information provided, loans 1 – 3 had already been investigated and were now settled. So, she went on to consider loan 4.

The adjudicator concluded loan 4 ought not to have been provided because based on the income and expenditure information, along with the credit check results, it seems Ms A had under-reported her monthly credit commitments – and so, this likely showed Morses she was having problems managing her money.

Morses disagreed with the adjudicator's recommendation. I've summarised its response below.

- At the time of loan 4, Ms A had around £3,700 of outstanding credit – which Morses says isn't excessive.
- There was no evidence in the credit search results of repayment plans, insolvencies or County Court Judgements.
- While Morses was aware of four accounts that had been marked as being in default, the most recent of these was defaulted 20 months before the loan was approved. However, the evidence suggests, the default had been satisfied.
- Morses checked the accuracy of Ms A's declared income with a credit reference agency.
- The affordability assessment for loan 4, showed the loan to be affordable.
- Ms A settled loan 4 significantly, earlier than contracted.

Ms A's representative confirmed receipt of the assessment but didn't have anything further to add.

However, after the complaint was passed for a decision, further enquires were made with Morses about loans 1 – 3. This was done, because it was clear, based on Ms A's representative complaint letter that they wanted all the loans to be considered. In addition, Ms A's representative informed us that Ms A said she hadn't received the first FRL Morses said it had sent for loans 1 – 3 in August 2020.

Morses then said, loans 1 – 3 couldn't be considered because the complaint about these loans had been referred here too late after the first FRL was sent in August 2020.

The adjudicator explained to Morses the 2020 FRL wasn't likely received by Ms A because it was dispatched to an incorrect address. However, it did seem, a complaint was raised with the Financial Ombudsman in September 2020 by Ms A about loans 1 – 3. So, in the adjudicator's view, the complaint wasn't outside of the jurisdiction of the Financial Ombudsman Service.

Following the involvement of our external liaison team, Morses provided us, with what I consider to be a full case file for loans 1 – 3. I'm therefore satisfied that it is happy for the Financial Ombudsman Service to consider, under this complaint, all the loans provided to Ms A.

As this was the case, I issued a provisional decision explaining why I didn't think Morses had made an error when it advanced loans 1 – 3. However, I still thought Morses hadn't made a fair lending decision when it advanced loan 4. So, Ms A's complaint was partly upheld. A copy of my provisional findings follows this in smaller font and forms part of this final decision.

In response to the provisional decision, Ms A and Morses were asked to provide anything else for consideration as soon as possible, but no later than 18 January 2023.

Morses emailed the Financial Ombudsman to let us know it had nothing further to add.

Neither Ms A nor her representative have provided anything further for consideration.

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.

Morses had to assess the lending to check if Ms A 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 taken into account a number of different things, such as how much was being lent, the size of the repayments, and Ms A'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 A. These factors include:

- *Ms A 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 A 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 A 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 A.

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

Loan 1

For this loan Ms A declared she had a weekly income of around £490 (made up of wages, benefits and 'other') with outgoings of £199. This left around £291 per week to make the weekly repayment of £15. Morses says for this loan it saw evidence of her income – but it hasn't told us what the evidence was or provided a copy of it.

Based solely on the information Ms A declared to Morses, it was reasonable for Morses to have concluded Ms A would be able to afford her weekly repayment of £15.

Morses has also said for this loan, it carried out a credit search and it has provided the Financial Ombudsman Service with the results. It is worth saying here that although Morses carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard.

Therefore, it's entirely possible that the information Morses received may not have entirely reflected the information Ms A may be able to view on the credit report that has been provided to us. There could be for several reasons for this, such as Morses only asking for certain pieces of information such as the number of active credit accounts. But what Morses can't do is carry out a credit search and then not react to the to the information it received.

This means I won't be considering the credit report which Ms A's representative has provided. This is because, Morses carried out its own credit search and received the results. In that situation I think it's entirely reasonable to see what Morses was told and whether the information it received ought to have alerted it to consider anything else.

Looking at the credit file data provided by Morses I'm satisfied it was aware of some adverse information. It knew that Ms A had five defaults recorded on her credit file of which four had been settled. However, the most recent of these defaults had been recorded 15 months before this loan was approved. In my view, this isn't enough, on its own to uphold the complaint because the defaults suggest that in the past Ms A had financial difficulties but there weren't any obvious signs that she was experiencing difficulties in the lead up to the loan being approved.

The credit check results, also showed Morse, that she £4,751 of outstanding debt across 11 active credit accounts. However, there were no other signs of financial difficulties such as accounts subject to payment arrangements or County Court Judgements (CCJ).

There are some negative indicators in Ms A's credit check such as the defaults but overall there doesn't seem to me, enough to indicate that Ms A was likely having financial difficulties.

Given it was still quite early on in the lending relationship and there was also nothing else in the information that I've seen that would've led Morse to believe that it needed to go further with its checks – such as verifying the information Ms A had provided. In addition, there wasn't anything, as far as I can see which would've suggested the loan was unsustainable for her.

I intend to not uphold Ms A's complaint about loan 1.

Loans 2 and 3

Similar checks were carried out by Morse before loans 2 and 3 were approved. Expect this time, no further credit checks were carried out. As I've said above, there was no requirement for Morse to have carried out a credit search, so the fact one wasn't carried out for these two loans wouldn't be a reason, on its own to uphold these loans.

For loan 2, Ms A declared the same income and expenditure information as she did for loan 1. And so, it would've been reasonable for Morse to have believed – given the weekly repayments were the same, that Ms A could afford her repayments.

For loan 3, Ms A's declared income had decreased to £364 per week with a slight decrease in her weekly expenditure to £191. This left, around £173 per week in disposable income in which to afford her repayment of £20.50.

I have thought about that these loans were taken in a consecutive manner, with the capital balances increasing each time. Although the weekly repayment only increases between loans 2 and 3.

But the fact both of these loans were repaid earlier than Morse had anticipated and looking at the statement of account there doesn't appear to have been any repayment problems. So, I don't think at this time, it would've been reasonable for Morse to have carried out further checks such as reviewing her bank statements.

It was entitled to rely on the information it was provided which showed the loans were likely to be affordable for Ms A. There also wasn't anything else, that I can see that may have led Morse to believe these loans were unsustainable for Ms A.

So, I consider the checks Morse carried out to be proportionate, which showed it that Ms A was likely to be in a position to afford these loan repayments.

I am therefore intending to not uphold Ms A's complaint about loans 2 and 3.

Loan 4

There was then a four-year gap between Ms A settling loan 3 and returning for loan 4. In my view, this gap is more than enough for Morse to have treated Ms A as if she was new customer. As a result of treating Ms A as a new customer, this has a bearing on what a proportionate check maybe. In short, while this was loan 4, it was in effect loan 1 in a new chain of lending.

As part of Ms A's application, she declared to Morse that her weekly income was £326, and Morse says this was checked with a credit reference agency for its accuracy. I haven't been provided with the result of that check, but given the loan was approved, it is likely Morse

considered the income declared to be accurate.

In addition, Ms A declared weekly outgoings of £266.50. which left her £59.50 weekly disposable income to afford the loan repayment of £30. I think it's fair to say, that the affordability of this loan appears significantly tighter than the previous loans Ms A had taken.

However, Morses has said, that as the loan was approved after 20 June 2019, the following applied.

“... we used figures from the Office of National Statistics (ONS) and pre-populated minimum figures for expenditure which included rent, council tax, utilities, insurance, transport, groceries, media and childcare. We also pre-populated the payments she made toward creditors by using information provided by [credit reference agency]. Miss A [full name removed] confirmed she had no transport costs as she walked to work and had no childcare costs.”

However, Morses hasn't provided information as to which of the possible expenditure areas (such as rent, food etc) were pre-populated or which ones it used the declared information given to it by Ms A.

So, for example, was Ms A's utility weekly spend of £25 what she declared or was the ONS suggested amount used. No further information has been provided. So, I can only rely on the summary provided to the Financial Ombudsman Service as to what was declared.

Having done so, as I've said above, after the loan repayment Ms A would've only been left with £29.50 per week to cover any unexpected expenses.

In addition to asking about Ms A's income and expenditure, as part of the assessment for this loan, Morses carried out a credit search and it has provided the full results to the Financial Ombudsman. The same caveats as outlined under loan 1 apply here to credit files. The credit results showed the following.

- *4 accounts in default, but all had been satisfied. With the most recent of the accounts being defaulted 20 months before this loan was approved.*
- *8 open credit accounts with a total outstanding balance of £3,725.*
- *There were also indicators that Ms A was regularly seeking to open new credit facilities – she had opened two new accounts in the previous three months, and four accounts in the last six.*
- *Morses was also on notice that she already had outstanding balances of £1,229 due to other home credit provider(s).*

However, I do think the credit check results showed that Ms A was unlikely to be able to afford the repayments to this loan in a sustainable manner. As part of the application process Ms A told Morses she had existing credit commitments of around £68 per week. But the credit search showed these monthly commitments came to £579 per month which if broken down to a weekly figure is around £133. This is significantly more than what has been reported and used by Morses as part of its affordability assessment.

It would therefore seem, that Ms A's weekly credit commitments were significantly under reported – by nearly 50%. Had Morses used the weekly figure of £133 – which is what I think it ought to have done here as it was the amount provided to it by the credit reference agency. It would've likely concluded that Ms A couldn't afford the loan repayments because she was already overstretched with her other creditors and didn't any disposable income in which to make these repayments.

I'm therefore intending to uphold loan 4 and I've outlined below what Morses needs to do in order to put things right for Ms A.

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.

Morses has explained it has nothing further to add and we've not heard from Ms A or her representative.

As nothing new has been provided for consideration, I see no reason to depart from the findings that I made in the provisional decision and which I've repeated above. I still don't think Morses made an unreasonable decision to provide loans 1 – 3. But the information Morses had from Ms A as well as its credit search results indicated she didn't have any disposable income in which to meet her loans repayments for loan 4.

Morses shouldn't have granted loan 4 and I've outlined below what it should do in order to put things right for Ms A.

Putting things right

In deciding what redress Morses' should fairly pay in this case I've thought about what might have happened had Morses not lent loan 4 to Ms A, 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 A 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 Ms A 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 A 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 A loan 4.

- A. Morses should add together the total of the repayments made by Ms A towards interest, fees and charges on loan 4.
- B. Morses should calculate 8% simple interest* on the individual payments made by Ms A which were considered as part of "A", calculated from the date Ms A originally made the payments, to the date the complaint is settled.
- C. Morses should pay Ms A the total of A and B.
- D. Morses should remove any adverse information recorded on Ms A' credit file in relation to loan 4.

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

My final decision

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

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms A to accept or reject my decision before 21 February 2023.

Robert Walker
Ombudsman