

The complaint

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

What happened

Mr P was advanced at least ten home collected loans between August 2013 and August 2018. 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 instalments	cost per week per loan
2	£200.00	28/08/2013	18/04/2014	50	£7.00
3	£400.00	06/12/2013	14/11/2014	50	£14.00
4	£300.00	18/04/2014	28/11/2014	50	£10.50
5	£600.00	28/11/2014	13/11/2015	50	£21.00
6	£200.00	27/03/2015	20/11/2015	34	£10.00
gap in lending					
7	£600.00	26/08/2017	09/08/2018	52	£21.00
8	£400.00	26/08/2017	27/04/2018	33	£20.00
9	£300.00	24/11/2017	09/08/2018	33	£15.00
10	£1,000.00	09/08/2018	09/08/2019	52	£35.00
11	£300.00	09/08/2018	29/03/2019	33	£15.00

The numbering of the loans is based on Morses' table that it provided the Financial Ombudsman, and which was used by the adjudicator in her assessment. It's likely Mr P had at least one further loan preceding loan 2 in the table above.

This earlier loan was likely provided by a different company. This other company was acquired by Morses in March 2014, and it only took responsibility for any loans that were still active at the time of purchase. Therefore, this decision will only be able to deal with the loans listed in the table above.

Following Mr P's complaint Morses wrote to his representative to explain that it wasn't going to uphold it because proportionate affordability checks were carried out which showed the loans to be affordable. Mr P's representative didn't agree and instead referred the complaint to the Financial Ombudsman.

An adjudicator reviewed the complaint. She thought Morses had made a reasonable decision to provide loans 2 – 5 and loans 7 – 11 due to the two chains of lending. However, she did think that the statement of account indicated that Mr P may have had some difficulties repaying loans 8 and 9 so by the time loans 10 and 11 were granted (on the same day) Morses ought to have verified the information Mr P had provided. But as she didn't have anything from Mr P about his circumstances at the time, she wasn't upholding his complaint about these loans.

However, she thought the lending was harmful for Mr P by the time loan 6 was granted and so the adjudicator upheld Mr P's complaint about this loan.

Morses disagreed with the outcome the adjudicator had reached about loan 6. I've summarised its comments below.

- All loans up to loan 6 had been paid on time and without any difficulties.
- Loan 6 was the smallest capital loan he had borrowed.
- Although loan 6 overlapped with loan 5, this left a weekly commitment of £31.
- An income and expenditure form was completed with Mr P prior to loan 6 being granted and this showed the loan was affordable.
- There was no reason to believe loan 6 was unaffordable or unsustainable for Mr P.

Mr P's representative has confirmed a copy of the assessment has been sent to Mr P, 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 P 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 P'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 P. These factors include:

- Mr P 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 P 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 P 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 P. The adjudicator thought this had been reached by the time loan 6 was granted.

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

Neither Moses nor Mr P (or his representative) appear to disagree with the outcome the adjudicator reached about loans 2 – 5 and 7 - 11. I therefore I no longer think these loans are in dispute.

I would add, I do also agree Moses made a reasonable decision to provide these loans. Although, I do think Moses ought to have carried out further checks before loans 10 and 11 were granted as there were indicators in the way Mr P had repaid his previous loans that he may have been having some difficulties. So, I think it would've been prudent to have verified his information. However, as no new information about Mr P's financial situation at this time, I can't hope the complaint about loans 10 and 11.

Instead, this decision will focus on whether Moses made a reasonable decision to provide loan 6.

Loan 6

For this loan Moses would've likely asked Mr P for details of his weekly income and expenditure and Moses has provided a copy of a form which was completed with Mr P on the day the loan was granted.

The information provided showed Mr P declared a weekly income of £340 with weekly outgoings of £150. This left more than sufficient disposable income in order to pay Moses a total of £31 per week. Moses could've reasonably believed Mr P would be able to afford his loan repayment.

But given the time in debt, the number of loans that Moses has evidenced and the ever-increasing weekly commitments to Moses which had grown from £7 per week ought to have led Moses to carry out further checks before granting this loan.

So, by the time loan 6 was granted, it would've been reasonable for Moses to have at the very least, started to have verified any information it was being given but I've not seen anything to suggest Moses did this when loan 6 was granted. However, I don't think I need to try and establish, in this case, whether a proportionate check would've led Moses to conclude the loan was unaffordable for Mr P.

So, in addition to looking at the checks that Moses did I've also looked at the overall pattern of Moses' lending history with Mr P, with a view to seeing if there was a point at which Moses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Moses should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr P's case, I think that this point was reached by loan 6. I say this because:

- At this point Moses ought to have realised Mr P was not managing to repay his loans sustainably. Mr P had taken his fifth loan in 19 months. So Moses ought to have realised it was more likely than not Mr P was having to borrow further to cover a long-term short fall in his living costs.
- While this was the joint smallest capital loan value to date, when it was granted loan 5 was still outstanding, this led to a weekly commitment due to Moses of £31 – which was the largest weekly commitment Mr P had to pay to date. So, Mr P's lending pattern was an increasing the time in debt while increasing his weekly commitment.
- Mr P's loans either overlapped or were taken in a consecutive manner. For example, loan 5 was taken around the time loan 3 was repaid and loan 4 was taken on the same day that loan 1 was repaid. All other loans were then held while other loans were running concurrently. However, the fact that these loans were lent, at times in a consecutive manner ought to have led it to realise the lending wasn't sustainable anymore.
- Mr P wasn't making any real inroads to the amount he owed Moses. This loan was taken out 19 months after the first loan that we know about. The final loan was also for the same capital value as the first loan. Mr P had paid large amounts of interest to, in effect, service a debt to Moses over an extended period.

I think that Mr P lost out when Moses provided loan 6 because:

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

So, I'm upholding Mr P's complaint about loan 6.

Putting things right

In deciding what redress Moses 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 to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mr P 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 P 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 P would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Moses' liability in this case for what I'm satisfied it has done wrong and should put right.

Morses shouldn't have provided Mr P with loan 6.

- A. Morses should add together the total of the repayments made by Mr P towards interest, fees and charges on the loan.
- B. Morses should calculate 8% simple interest* on the individual payments made by Mr P which were considered as part of "A", calculated from the date Mr P originally made the payments, to the date the complaint is settled.
- C. Morses should pay Mr P the total of "A" plus "B".
- D. The overall pattern of Mr P's borrowing for loan 6 means any information recorded about it is adverse, so Morses should remove the loan entirely from Mr P's credit file.

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

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 1 March 2023.

Robert Walker
Ombudsman