

## The complaint

Miss S complains that Morses Club PLC (Morses) didn't carry out proportionate affordability checks before it granted her loans.

Miss S also says repaying these loans was difficult and she often went without basic needs in order to make sure that these loans were repaid. Finally, Miss S says she is a vulnerable person due to her mental health problems.

## What happened

Miss S was advanced eight home credit loans and I've summarised her borrowing in the table below.

loan number	loan amount	agreement date	repayment date	number of weekly instalments	weekly repayment per loan
1	£200.00	02/02/2017	15/05/2017	20	£15.00
2	£200.00	15/05/2017	26/09/2017	20	£15.00
3	£150.00	15/05/2017	10/10/2017	33	£7.50
4	£300.00	20/12/2017	31/07/2018	33	£15.00
5	£200.00	26/10/2018	04/06/2019	33	£10.00
six-month break in lending					
6	£100.00	20/12/2019	21/04/2020	34	£5.00
five-month break in lending					
7	£100.00	18/09/2020	01/12/2020	34	£5.00
eight-month break in lending					
8	£200.00	02/08/2021	04/12/2021	35	£10.00

The 'weekly repayment' column in the table above is the cost per week per loan. When loans overlapped the cost per week increased, for example when loans two and three were running at the same time Miss S's weekly commitment was £22.50.

Morses wrote to Miss S to explain that it wasn't going to uphold her complaint because it had carried out proportionate affordability checks. Miss S didn't accept the outcome and instead referred the complaint to the Financial Ombudsman.

An adjudicator reviewed the complaint, and she didn't uphold it. She explained that due to the gaps in lending there were in effect four chains of borrowing. Loans 1 – 5 and then loan 6, loan 7 and loan 8.

Based on the checks Morses carried out before loans 1 – 5, loan 6 and loan 8 were granted and taking account of Miss S's repayment history the adjudicator didn't think it was wrong for Morses to have granted these loans.

However, for loan 7, the adjudicator thought further checks ought to have been carried out

given the results of the credit search that Morses received from the credit reference agency. The adjudicator proceeded to review Miss S's bank statements but wasn't able to say that the complaint could be upheld given what she could see in the statements.

Finally, the adjudicator considered the sensitive information that Miss S disclosed about her health at the time these loans were approved. But, in her view, there was no evidence of any discussion between Miss S and the Morses' agent and so there wasn't enough for the adjudicator to be able to uphold the complaint based on this information.

Miss S didn't accept the outcome. I've read her response in full, and I've summarised it below.

- Miss S says the total amount she was due to pay for each loan wasn't disclosed to her.
- Miss S says at the time she was vulnerable, in receipt of two types of benefits and the agent checked this, she signed a tablet and then left – she says no checks were carried out.
- Miss S says at the time she was bed bound and didn't leave her home. She also provided some further information about a criminal matter that was ongoing in the background at the time which impacted her decision to take the loans.
- The reason why Miss S wasn't constantly borrowing was there were periods as she “*didn't know what she was doing*” and wasn't in the right frame of mind.
- Miss S provided some further details of her mental health diagnoses.
- Miss S says she was worried about getting into trouble for not paying her loans as a result she says she went without essentials.
- Miss S wasn't paid weekly, but fortnightly and not once did she declare a weekly income of £270.
- The agent coming to her house was overwhelming and so he would ring in the morning to ask for her bank details to make the payments.

The adjudicator, after it was allocated for a decision, went back to Miss S to ask for some further information from her about her health and her wider situation at the time. I appreciate providing this information was difficult for Miss S but I do thank her for doing so.

I then proceeded to issue a provisional decision outlining why I was intending to partly uphold Miss S's complaint about loans 5 and 7 only. A copy of the provisional findings follows this in smaller text and forms part of this final decision.

Both parties were asked to provide anything further for consideration as soon as possible but no later than 5 April 2023.

Both Miss S and Morses let us know before the deadline that the decision had been received and neither party had any further comments or evidence to submit.

As both parties responded to the provisional decision, I see no reason to delay the issuing of the final decision.

### **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 this type of lending - including all the relevant rules, guidance and good industry practice - on our website.*

*This decision has been split into two distinct parts. The first part, and what continues below deals with Morses decisions to provide these loans and the checks it did at the time each loan was granted. The second part I will provide my findings in relation to the information Miss S gave us about her vulnerability.*

*Morses had to assess the lending to check if Miss S 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 Miss S'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 Miss S. These factors include:*

- Miss S 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);*
- Miss S 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);*
- Miss S 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 Miss S. The adjudicator didn't think this applied in Miss S's complaint.*

*Morses was required to establish whether Miss S 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 Miss S 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 Miss S's complaint.*

#### **Loans 1 – 4**

*For these loans Morses says it carried out the same sort of checks and Morses has shown that it asked Miss S for details of her income and expenditure.*

*For these loans Miss S's income remained broadly similar being between £220 and £250 per week. Miss S has previously provided details of the benefits she was receiving at loan 4 so I think it is highly likely, that around this time, Morses was satisfied the weekly income was £240. Albeit Miss S would've likely received her benefits every other week.*

*In addition, Miss S declared weekly outgoings of between £80 and £120. Overall, Morses was aware that Miss S had at least £120 per week in disposable income to afford her highest combined repayment of £22.50 per week.*

*Based solely on her income and expenditure information Morses could've been confident Miss S would be able to afford the repayments she was committed to making.*

*I also have copies of the credit agreements for each of these loans and these have been signed by Miss S – possibly on a tablet as she suggested. But the information contained within each agreement provides Miss S with the details of the loan, term and total amount payable.*

*All of these loans appeared to have been either on time or slightly earlier than Miss S was contracted to. There wasn't anything in the way these loans were repaid that ought to have led Morse to conclude that either the loans were unaffordable or that they were unsustainable for her.*

*Given it was early on in the lending relationship, taking account of some of the small gaps between loans, such as between loans 3 and 4, I think it was reasonable for Morse to have relied on the information Miss S gave to it and which showed these loans to be affordable. There also wasn't anything else, in what I've seen that would've led Morse to believe the loan was unsuitable for Miss S for some other reason.*

*I'm therefore proposing to not uphold Miss S's complaint about these loans.*

### **Loan 5**

*There was then almost a three-month break after loan 4 was repaid before Miss S returned for loan 5. I don't think that gap is long enough to have broken the chain of lending, but it was something that Morse could take account before it approved this loan.*

*For this loan, similar checks were carried as they were for loans 1 – 4. Miss S declared she had a weekly income of £250. Morse says this income was checked with the credit reference agency but, it hasn't provided the results of the check.*

*A weekly expenditure figure of £92 was declared which left Miss S with disposable weekly income of £158 in which to afford her weekly repayment of £10. This loan therefore looked affordable to Morse.*

*While I acknowledge that the previous loans had been repaid without any obvious repayment problems – mainly by Miss S making payments every other week. I do think, given how long the lending relationship had been on going, the fact that Miss S's sole source of income was benefits (which Morse knew from loan 4) and the fact that this loan was still for £200 – which is a similar amount to her other loans - ought to have prompted Morse to have carried out further in-depth checks before advancing this loan.*

*There were a number of ways these further checks could've been carried out. It could've asked Miss S for a copy of her full credit report, copy of her bank statements and / or any documentation Morse felt was necessary to review to satisfy itself the repayments were both affordable and sustainable for Miss S.*

*Miss S's credit report which she has provided shows only three credit agreements were open at the time, a water bill, a mobile phone and a bank account. Looking at the repayment history for this account there also isn't anything which would've suggested to Morse that she was struggling to repay these other creditors.*

*However, Miss S's bank statement for the period leading up to this loan being approved, shows that she had another loan with a well-known home credit provider as well as two further loans from another high-cost credit provider.*

*I think it's fair to say that Miss S was already on a modest income – given her sole source of income was in my view, already over committed to high-cost lenders. In that situation, there was, in my view, a real risk that the loan wasn't going to be sustainable for her given her income and her other outstanding loans. I am therefore intending to uphold Miss S's complaint about this loan.*

### **Loan 6**

*There was then a six-month break between Miss S repaying loan 5 and returning for loan 6. As this loan was smaller than any loan Miss S had taken in her first chain of lending and the break in lending, was enough for Morses to have reconsidered Miss S's application afresh.*

*The consequences of this, is that while this was Miss S's sixth loan in total, it was her first loan in a new chain of lending and that does have implications for the level and type of check that Morses ought to have carried out before this loan was approved.*

*For this loan, similar checks were carried out as they were for loans 1 – 5. Miss S declared she had a weekly income of £270. Again, Morses says this income was checked with the credit reference agency but like loan 5, it hasn't provided the results of the check. In any event, given it was the first loan in a new chain I do think it was reasonable for Morses to have relied on the information Miss S had provided.*

*A weekly expenditure figure of £105 – which left Miss S with disposable weekly income of £165 in which to afford her weekly repayment of £5. This loan therefore looked affordable.*

*The credit agreement for this loan again set out the term, amount borrowed, and the total amount Miss S was contracted to pay. Miss S settled this earlier than planned and she received an interest rebate of £16.41 for doing so. As far as I can see the interest has been charged in line with what the credit agreement explained and so I can't say Morses has made an error by granting this loan.*

*I'm therefore planning not to uphold Miss S's complaint about this loan.*

## **Loan 7**

*There was then another break of around 5 months after loan 6 was repaid. And I've considered this loan to be the start of a new lending chain.*

*The same checks were carried out for this loan, but in addition a credit search was also carried out by Morses, and a copy of the results have been provided. I've explained what this means for this loan below.*

*Morses also says, that Miss S wouldn't have 'signed' the credit agreement as she did for previous loans because it has said this was a "faster payment loan". This means, the loans were applied for and signed on Morses online customer portal.*

*As before, there didn't appear to have been any previous repayment problems that Morses needed to consider or to factor into its decision.*

*For this loan, Morses has shown that it asked Miss S for details of her income and Miss S declared she had an income of £270 per week. Morses also suggested that this income was verified through a check with the credit reference agency. This would've given Morses confidence that the figure Miss S declared was accurate.*

*Miss S also declared outgoings of £117 per week. This left Miss S with £153 a week disposable income in which to make her repayments of £5. The loan appeared affordable.*

*Morses also carried out a credit check when this loan was approved, and a copy of those results have been supplied to the Financial Ombudsman Service. It's worth saying here that there was no regulatory requirement for Morses to have carried out a credit search let alone one to a specific standard. But what Morses couldn't do is carry out a credit check and not react to the information it was provided with.*

*I've summarised the key information which Morses saw as part of the credit check;*

- *Miss S had 3 active credit facilities*
- *Miss S had 1, unsatisfied County Court Judgement (CCJ) for £901 which was*

- recorded against Miss S just 6 months before this loan was approved.
- Miss S had only opened one new credit account within the last year – this was likely to be a previous Morses' loan.
  - Miss S had 2 delinquent accounts with the most recent having entered delinquency the month before this loan was approved. This is despite Miss S only having 3 active accounts.

*I appreciate the adjudicator thought the credit search ought to have led to further checks, but I disagree because the information it had suggested that Miss S was already struggling to maintain her contractual repayments for her open credit accounts.*

*Therefore, given what the credit results show, I don't think, in this case that it matters whether the loan appeared pounds and pence affordable because in my view the loan wasn't suitable for Miss S.*

*I say this because the credit file information provided to Morses showed that Miss S had a recently unsatisfied CCJ as well as the fact that 2 of Miss S's active accounts were delinquent (likely due to missed payments) which ought to have alerted Morses that Miss S was having immediate financial difficulties.*

*Overall, I'm satisfied the information within the credit checks ought to have alerted Morses to the fact that Miss S was likely having current and immediate financial difficulties and it shouldn't have approved the loan.*

*I am therefore intending to uphold Miss S's complaint about this loan.*

## **Loan 8**

*There was then another 8-month break after Miss S repaid loan 7 before returning for this loan. Again, I've treated this as a new chain of lending, because in my view the break is significant enough for Morses to treat her application afresh.*

*Miss S declared an income of £270 with outgoings of £185. This left Miss S with her smallest amount of disposable income to date at only £85 per week. Although, Morses may still have felt this loan was affordable because the weekly repayment Miss S was due to make was £10.*

*Morses hasn't provided a credit search result for this loan, so I can only assume that a credit search wasn't carried out like it was for loan 7. But, while a credit search wasn't carried out, I do think, Morses may have wanted to have carried out further checks before granting this loan.*

*I say this, because it was previously on notice that Miss S was having immediate difficulties in repaying the outstanding credit commitment that she had at the time. So, I do think, for this loan further checks ought to have been carried out by Morses.*

*There were a number of ways these further checks could've been carried out, it could've asked Miss S for a copy of her full credit report, copy of her bank statements and / or any documentation Morses felt was necessary to review to satisfy itself the repayments were both affordable and sustainable for Miss S.*

*I don't have Miss S's bank statements for July or August 2021, so I don't know exactly what was going on with her finances. However, I can see in the May and June 2021 bank statements, that Miss S received the two types of benefit payments she previously described. It looks like Miss S received £340 every other week and then a further £240 once a month.*

*There is very little in the way of living costs visible on the statements, so I don't know whether the cash withdrawals went towards the living costs that Miss S had. In addition, as the adjudicator pointed out in her view, there are several transfers made through a third-*

party payment provider – but I don't know what all of them were for.

At the time, I can see repayments to one other lender, but these are £70 per month and there is nothing to suggest that Miss S was having difficulties repaying that loan.

I've also considered Miss S's credit file and there isn't anything contained within it that I can see that ought to have led Morses to have declined her application. So, there doesn't appear to have been, for example, lots of outstanding credit or that she was behind with any of her repayments.

So, while, Morses didn't do enough checks before this loan was approved, had further checks been carried out I think it's more likely than not Morses would've discovered that Miss S could afford the loan repayment.

I'm therefore also not intending to uphold this loan.

### **Other considerations**

As I said above, shortly after allocation Miss S provided further details about her situation at the time these loans were approved, I've summarised her response below, but I have removed certain pieces of information to protect Miss S's privacy.

### **Health**

I want to be clear I have considered everything that Miss S has disclosed to the Financial Ombudsman about her medical history and diagnoses – which stretches back a number of years and does coincide with the dates that she took loans from Morses. In short, Miss S says she wasn't in the right frame of mind to take out these loans, and often went without essentials such as food, in order to pay what she owed, because she was so anxious about not paying and then consequences of such actions.

The earliest documentation Miss S has provided about her health was that she sought treatment in 2014 and then she has provided screen shots of notes that I believe come from her GP – these show that at least from March 2019 she was making contact with her GP to discuss her current mental health. Given what Miss S has told us – this is likely to have been connected to the other events she has described to the Financial Ombudsman and which I briefly comment on below.

So, I think it's fair to say, based on Miss S's testimony and the medical evidence she has provided she has had a need for ongoing treatment and support for a number of years and there are times during the lending relationship with Morses that we have documentary evidence of further appointments. However, I do not need to outline everything here, but I am glad to see that in her recent correspondences she has been receiving the help and support that she needs, and I wish her well for the future.

Miss S says that Morses ought to have been aware of her vulnerability caused by her mental health. This is because she's explained how these were discussed with the agent at the time the loans were approved. Whereas, Morses says that it was unaware of Miss S's vulnerability and its contact notes support what it has said because there is nothing within these notes to suggest Miss S was vulnerable.

I have evidence that Morses, at the very least didn't note down any discussions that may have been had between Miss S and her agent, and it has reiterated it didn't know about Miss S's vulnerability. However, that isn't the only test I have to consider. I also have to consider ought Morses to have been aware of Miss S's health and even if it was aware, does that mean that Miss S shouldn't have been provided with her loans?

I've therefore looked at and considered regulatory Mental Capacity Guidance in the Financial Conduct Authority (FCA) CONC Chapter 2.10 with which I am familiar. In summary I have to decide whether Morses knew or ought to have known at the time the loans were granted that

*Miss S lacked capacity. If the answer to either one of these questions is yes, then I have to go on to consider whether Moses ought to have lent the loans.*

*As I've said above, Miss S says she discussed her conditions with the Moses agent. I can't say for sure, but given these were home credit loans, I would be surprised if there was no discussion about Miss S's health considering that we know from the checks Moses' knew that Miss S was in receipt of benefits. I also don't think it's an unreasonable leap to say that she would've likely disclosed the type of benefit she was receiving and the reasons for that.*

*However, I have kept in mind that even if Moses or its agent did have any grounds to suspect that a customer may have some form of 'mental capacity limitation', this doesn't mean it was necessarily wrong for the loan(s) to be granted.*

*This has been part of my consideration. So, in short, I have to be satisfied that Moses either knew or ought to have known about Miss S's vulnerability but equally even if it did know about her vulnerabilities that doesn't mean it was necessarily wrong for it to have advanced the loans.*

*Ultimately, the indicators mentioned in the guidance have guided me, and while it is clear that Miss S has been unwell for a number of years and has at times sought extra help and support, I really don't have enough evidence in this case to say that even if Moses knew about Miss S's mental health problems that it ought to mean all the loans shouldn't have been granted to her.*

*I appreciate Miss S will be disappointed by my decision on this case in relation to this aspect of her complaint, but I do hope she understand as to why I've come to these conclusions.*

### **Coercion**

*Miss S say that loans taken out between, and September 2018 and February 2019 were only applied for because she was forced to do – which covers the period when loan 5 was granted. And she has supplied evidence from a local charity and the police as well as her own testimony to support what she has disclosed to us.*

*I understand there is a criminal investigation ongoing and to respect Miss S's privacy I won't go into any great detail here. Having considered the evidence provided by Miss S I have no doubt she was coerced into taking lending – loan 5. It is also likely, given the evidence and the fact this was a home collected loan that Moses ought to have been aware that she was coerced into lending. However, as I've explained above, as I intend to uphold Miss S's complaint about this loan, I say no more about it.*

### **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.

As neither Miss S nor Moses provided any new comments or evidence about the outcome that was intending to be reached I see no reason to depart from the findings that were made in the provisional decision.

I still think Moses made a reasonable decision to provide loans 1 – 4, 6 and 8. However, Moses ought to not have provided loans 5 and 7 due to the information it was provided with from the credit reference agency showed Moses these loans were likely to be unsustainable for her.

I've set out below what Moses needs to do in order to put things right for Miss S.



## **Putting things right**

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it not provided loans 5 and 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 Miss S 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 Miss S 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 Miss S 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 granted Miss S loans 5 and 7.

- A. Morses should add together the total of the repayments made by Miss S towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Morses has already refunded.
- B. Morses should calculate 8% simple interest\* on the individual payments made by Miss S which were considered as part of "A", calculated from the date Miss S originally made the payments, to the date the complaint is settled.
- C. Morses should pay to Miss S the total of "A" plus "B".
- D. Morses should remove any adverse information recorded on Miss S's credit file in relation to loans 5 and 7.

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

## **My final decision**

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

Morses Club PLC should put things right for Miss S as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 2 May 2023.

Robert Walker  
**Ombudsman**