

## The complaint

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

## What happened

Mr B was advanced 6 loans and I've included some of the information we've received about them in the table below.

| loan number    | loan amount | agreement date | repayment date | number of weekly instalments | cost per week per loan |
|----------------|-------------|----------------|----------------|------------------------------|------------------------|
| 1              | £200.00     | 22/06/2017     | 27/10/2017     | 20                           | £15.00                 |
| 2              | £500.00     | 06/12/2017     | 24/07/2018     | 33                           | £25.00                 |
| 3              | £500.00     | 24/07/2018     | 09/11/2018     | 33                           | £25.00                 |
| 4              | £500.00     | 24/07/2018     | 09/11/2018     | 52                           | £17.50                 |
| gap in lending |             |                |                |                              |                        |
| 5              | £850.00     | 05/11/2019     | 09/10/2020     | 53                           | £29.75                 |
| 6              | £500.00     | 19/02/2020     | 17/07/2020     | 22                           | £35.00                 |

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

An adjudicator reviewed the complaint. She thought Morses had made a reasonable decision to provide loans 1 - 4 so she didn't uphold Mr B's complaint about them.

However, the adjudicator explained loan 5 was the start of a new lending chain because there had been a break of around a year after loan 4 had been repaid. The adjudicator thought, given the term of the repayment for loan 5 along with what Morses already knew about Mr B's circumstances led her to conclude that he would be required to use a significant portion of his income in servicing the loan (as well as loan 6). She also concluded, that after the loan repayments Mr B wasn't left with very much money. So, the adjudicator upheld Mr B's complaint about loans 5 and 6 only.

Morses disagreed with the outcome, and I've read and considered everything it has provided.

Mr B's representative confirmed it had received the adjudicator's assessment, but no further comments were 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.

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 no longer think these loans are in dispute. So, I say no more about it. Instead, this decision will focus on whether loans 5 and 6 ought to have been granted.

## **Loan 5**

For this loan, Mr B declared an income of £320 per week and Morses said this was verified with the credit reference agencies – although it hasn't provided details of this check or the results.

Mr B's outgoings were declared as being £234.70 for the week. This left, Mr B with £85.30 per week in disposable income to afford the repayment of £29.75.

However, Mr B was due to pay Morses almost 10% of his total weekly income – and he was committed to paying this to Morses for a year. So, the repayment for loan 5, in my view, represented a significant proportion of Mr B's declared income. In these circumstances, there was a significant risk that Mr B wouldn't have been able to meet his existing commitments without having to borrow again. This reason is enough, on its own to uphold the complaint.

In addition, and because it doesn't have any bearing on the outcome that I am reaching, I think it's also clear the loan repayment was also unlikely to be affordable. Before, this loan payment was factored into Mr B's expenditure – Morses knew he had disposable weekly income of £85.30. And this would reduce to £55.55 per week once Mr B had paid Morses – this isn't a lot of disposable income to cover any other costs.

And, there are indicators within the declared expenditure (or with the minimum figures used by Morses) which showed, that the loan was unlikely to be affordable. Morses has recorded zero costs for groceries, which to me doesn't seem plausible especially as Morses had recorded food costs previously of between £30 and £70 per week. I think it is more likely than not that Mr B also had such costs when this loan was granted.

So overall, leaving Mr B with £55.55 per week when it's likely, that he had further costs that Morses hadn't considered or factored into its affordability assessment, means that not only was the loan unsustainable for him, for the reasons I've outlined above but it was also most likely unaffordable for him as well.

## **Loan 6**

Similar checks were also carried out before this loan was approved. Mr B's weekly income has been recorded as £300. With outgoings of £229.45 – leaving disposable of £70.55 – but this included Mr B's commitment for loan 5.

But this time, Mr B had two loans running at the same time, his income had decreased by £20 per week and so, I am also upholding this loan – for the same reason the adjudicator did. Given that over 20% of his income was going to need to be used to service his credit commitments was given everything else Morses knew was in my view too much.

Loan 5 was still outstanding when loan 6 was advanced, so Mr B's total weekly commitment to Morses was £64.75. Which, given the term that was due to be repaid over, compared to his income I once again think this percentage of income was too high for the loan to be sustainable for him.

Indeed, the expenditure information Morses collected also supports the loan wasn't likely sustainable. His disposable weekly income (after the Morses payments for loans 5 and 6 were considered) was £35.55. And like loan 5 Morses recorded zero for food costs, which just isn't plausible given these costs were recorded for earlier loans. And no utilities were recorded either – which there had been for previous loans including for loan 5 – and these had been recorded as being £35 per week.

So, leaving Mr B only £35.55 per week in which to likely have to cover food and utilities costs in my mind clearly isn't sufficient. And therefore, like loan 5, while Mr B was going to need to use a significant portion of his income to repay the loan, he also was unlikely to afford the loan given the extra costs he likely had.

Overall, I'm upholding Mr B's complaint about loans 5 and 6 and I've outlined below what Morses needs to do in order to put things right.

### **Putting things right**

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it had not advanced loans 5 and 6, as I'm satisfied it ought not 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 he 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 and 6.

- 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. Morses should remove any adverse information recorded on Mr B's credit file in relation to loans 5 and 6.

\*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 29 June 2023.

Robert Walker  
**Ombudsman**