

complaint

Miss C complains Morses Club PLC was irresponsible when lending her money and that correct affordability and credit checks were not carried out.

background

Between June 2013 and December 2014 Miss C took out six loans ranging from £300 to £600 with Shopcheck Financial Services (SFS). SFS merged with Morses Club in March 2015. By October 2015 Miss C had started to struggle to make the payments to loan six.

In 2018 Miss C complained to Morses Club that the loans had been unaffordable and mis-sold to her. Morses Club did not agree. It said it had done proper affordability checks and concluded that Miss C's disposable income, based on information provided by Miss C, was sufficient to afford the repayments. Miss C didn't agree and brought her complaint to this service.

Initially our adjudicator concluded that loans one to four had been agreed following reasonable checks and were therefore affordable. But she felt that SFS should have done more to ensure that loans five and six were affordable, and concluded they weren't.

Morses Club disagreed with this view and argued it had undertaken checks that were proportionate to the amounts borrowed. And it said it was entitled to rely on the accuracy of the information provided by Miss C. Our adjudicator agreed and amended her view.

Miss C wasn't happy and asked for a final decision from an ombudsman. She said Morses Club should have known at the time that she was on a debt management plan, as it would've been recorded on her credit file.

After considering all of the evidence, I issued a provisional decision on this complaint to Miss C and Morses Club on 23 January 2019. I said:

I've outlined the progression of the loans in the table below:

<i>Loan</i>	<i>Principal</i>	<i>Charge</i>	<i>Date sold</i>	<i>Date settled</i>	<i>Weekly Repayments</i>
1	£400	£300	11/6/13	11/3/14	£14.00
2	£300	£225	18/12/13	12/8/14	£10.50
3	£400	£300	11/3/14	18/12/14	£14.00
4	£400	£300	21/5/14	17/3/15	£14.00
5	£600	£450	8/8/14	18/6/15	£21.00
6	£500	£375	18/12/14	31/8/16 (debt sold)	£17.50

By loan four a pattern of increased borrowing is evident. There is six months between loans one and two. And then three months between loans two and three and two months between loans three and four. The level of repayments jumped at loan three and then jumped again at loan five. However, we know that Miss C's disposable income increased at the time of her application for loan four, as can be seen in this second table.

From	Loans (outstanding balance)	Total of repayments	Disposable income (Weekly income)
Loan 1 - 11/6/13	1	£14.00	120 (230)
Loan 2 - 18/12/13	1 (£295) and 2	£24.50	130 (230)
Loan 3 - 11/3/14	2 (£393) and 3	£24.50	110 (230)
Loan 4 - 21/5/14	2 (£283), 3 (£560) and 4	£38.50	130 (230)
Loan 5 - 8/8/14	3 (£402), 4 (£539) and 5	£49.00	130 (230)
Loan 6 - 18/12/14	4 (£282), 5 (£691) and 6	£52.50	120 (220)

Morses Club has said that SFS carried out appropriate and proportionate checks. With the value of the loans, it's possible that a credit check in June 2013 would have been proportionately satisfactory for the business to proceed with the first loan. Morses has said it did carry out a credit check for this loan. Although it hasn't been able to provide evidence of this check, I think it's very likely that it took place.

Miss C has said she was on a debt management plan and this would've been evident on her credit file. I agree that evidence of debt would be on a credit file, but the actual debt management plan would not have been on it.

Having agreed loan one Miss C made regular payments against the loan and her positive account behaviour would have contributed to the successful application of the next loans.

Loans five and six were higher than the previous loans. And with a static and then decreasing disposable income and an increase in debt I believe that in August 2014 SFS should have carried out further checks on affordability. Although I accept that the total value of repayments for all the loans fell within the range of Miss C's declared disposable income.

Morses Club has said Miss C hadn't told SFS about the debt management plan; that the amounts borrowed were modest; that her payment history indicated she could afford the loans; and that it was entitled to rely on the income and expenditure information Miss C provided at the time. It also said that there was no requirement to look at Miss C's bank statements.

I don't disagree with the points raised by Morses Club in general. Miss C had a responsibility to provide an honest account of her financial history. But the checks that may have been proportionate for loan one would be different by loan five on the basis that:

- *loans three and four were still outstanding*
- *loans five and six were both for higher amounts than loans one to four*
- *Miss C's disposable income was static for loan five, and was lower by loan six*

Had it done a new credit check at any point after loan two it would've seen that Miss C was in arrears with a payday loan in August 2013 and had defaulted on it by February 2014. Which I'm satisfied would've been a red flag for further checks, including possibly viewing Miss C's bank statements. I've examined these myself, and I can see Miss C was already on a debt management plan from the start of her first loan.

Miss C did meet her repayments until October 2015 during loan six. But this doesn't necessarily mean she was on top of things and I was satisfied that, subject to any further evidence or information I might receive from either party, loans five and six were unaffordable.

Both Miss C and Morses Club agreed with my provisional findings.

my findings

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

My provisional decision was sent to Miss C and Morses Club and both parties accepted it. So I see no reason to depart from its conclusions.

my final decision

My final decision is to instruct Morses Club PLC to:

- Refund all interest and charges that Miss C paid on loans five and six;
- Pay interest of 8% simple a year on all refunds from the date of payment to the date of settlement;
- The total refund should be paid towards the outstanding capital balance;
 - If the refund clears the outstanding capital balance, the remaining funds should be paid directly to Miss C;
 - If the refund doesn't clear the outstanding balance, Morses Club and Miss C should agree on an affordable repayment plan; and
- Remove any negative information about loan five and six from Miss C's credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 8 April 2019.

Maxine Sutton
ombudsman