

The complaint

Mr M says Moses Club PLC lent to him irresponsibly. He says making the loan repayments was difficult and he couldn't really afford them. When he was facing these problems Moses approved further loans over a long period of time. He thinks that Moses shouldn't have lent to him.

What happened

This complaint is about two home credit loans (loans 3 and 4) Moses provided to Mr M between February and July 2014. Some of the information Moses has supplied about Mr M's lending is in the table below.

Loans 1 and 2 are now the responsibility of another business so I won't be looking at them as part of this complaint. But it is my understanding that Moses was aware of these earlier loans when it approved loans 3 and 4.

loan number	date started	amount borrowed	term (weeks)	date ended
1	24/08/2012	£200	32	25/06/2013
2	21/06/2013	£200	32	10/02/2014
3	08/02/2014	£200	32	28/07/2014
4	28/07/2014	£300	34	23/02/2015

Our adjudicator upheld complaint. He thought that Moses was wrong to approve loans 3 and 4 due to the length of time that Mr M had already been using home credit. Moses disagreed with the adjudicator's opinion. It said that:

- whilst it was aware of the lending (it purchased loans 1 and 2 from another business) it did not use full details of the loans to inform its lending decisions;
- the loans were affordable for Mr M. He had no repayment problems with loans 1 and 2 and the amounts he borrowed were 'stable';
- so the lending pattern doesn't indicate that Mr M was struggling financially

As no agreement has been reached the complaint has been passed to me.

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 short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Moses needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr M could repay the loans in a sustainable manner.

These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Moses should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer's 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 *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

And the loan payments being affordable on a strict pounds and pence calculation might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. The industry regulator defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr M's complaint. I've decided to uphold Mr M's complaint and I've have explained why below.

I haven't recreated individual, proportionate affordability checks for loans 3 and 4 because I don't think that it is necessary to do so. I've looked at the overall pattern of Mr M's lending history with Moses, 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 M's case, I think that this point was reached by loan 3. I say this because:

- at this point Moses ought to have realised Mr M was not managing to repay his loans sustainably. Mr M had been using home credit for around a year and a half. So Moses ought to have realised it was more likely than not Mr M was having to borrow further to cover the hole repaying his previous loans were leaving in his finances and that Mr M's indebtedness was becoming unsustainable;
- Mr M was provided with a new loan as soon as the previous one ended. And it looks like he used the proceeds of the new lending to repay the loans he had;
- Mr M wasn't making any real inroads to the amount he owed. Loan 4 was taken out around two years after Mr M's first. And it was for a larger amount. Mr M had paid significant amounts of interest to, in effect, service a debt to Moses over an extended period;

- so even though I can see that Morses did make some affordability checks, and these checks may've shown on the face of it, that the loans were affordable. I think the lending pattern itself became harmful and so it shouldn't have lent

I think that Mr M lost out because Morses continued to provide borrowing from loan 3 onwards because:

- these loans had the effect of unfairly prolonging Mr M's indebtedness by allowing him to take expensive credit over an extended period of time.
- the length of time over which Mr M borrowed was likely to have had negative implications on Mr M's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So I'm upholding the complaint about loans 3 and 4 and Morses should put things right.

Putting things right

- refund all interest and charges Mr M paid on loans 3 and 4;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement*;
- the number of loans taken from loan 3 onwards means any information recorded about them is adverse. So all entries about loans 3 and 4 should be removed from Mr M's credit file.

*HM Revenue & Customs requires Morses to take off tax from this interest. Morses must give Mr M a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons I've explained, I uphold Mr M's complaint about loans 3 and 4.

Morses Club PLC should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 23 July 2020.

Andy Burlinson
Ombudsman