

The complaint

Mrs P says Morses Club PLC (“Morses”) irresponsibly lent to her.

What happened

This complaint is about four home collected credit loans Morses provided to Mrs P between August 2017 and October 2018. Mrs P’s borrowing history is summarised below:

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	24/08/2017	16/11/2017	20	£200.00	£64.95
2	16/11/2017	04/05/2018	33	£500.00	£108.25
3	04/05/2018	23/10/2018	33	£750.00	£162.37
4	23/10/2018	Not repaid	33	£750.00	£162.37

Our adjudicator partially upheld Mrs P’s complaint and thought loan 4 shouldn’t have been given as it was likely Mrs P was struggling financially. They said this because Mrs P had missed payments and she was taking out a new loan each time she repaid a previous one.

Morses disagreed and said that Mrs P hadn’t missed any payments, she’d changed her repayment pattern to fortnightly instead of weekly.

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

Morses 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 Mrs P 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. 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 Morses should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer’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.

I think that it is important for me to start by saying that Moses was required to establish whether Mrs P could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the relevant regulations define sustainable as being without undue difficulties and 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 the arguments, evidence and information provided in this context and what this all means for Mrs P's complaint. Having done so, I'm partially upholding the complaint. I'll explain why.

Our adjudicator didn't think Moses needed to do more when it approved loans 1 to 3. Mrs P didn't respond to the view. As there is no dispute with the adjudicator's opinion about these loans, I won't be making further findings on them.

Moses says it carried out checks before it lent loan 4 to Mrs P and the results of these checks didn't raise any concerns. But as this was the fourth time Mrs P had taken out a new loan having repaid her previous loan on the same day, I think Moses should have been looking to build a clearer picture about Mrs P's finances before approving this loan. I don't think it did this.

I say this because I think Mrs P was showing signs of having problems managing her money. Not only was she taking out a new loan each time she repaid the previous one, she had been indebted to Moses for over a year by loan 4. And the amounts she had borrowed had increased significantly from £200 to £750. I think this should have caused some concern for Moses. As this might be the sort of behaviour that would indicate someone was facing longer term problems managing their money.

I think if Moses carried out proportionate checks before lending loan 4, it's likely to have found that Mrs P was borrowing from other home collected credit lenders. The repayments for all these loans would have been increasing Mrs P's monthly outgoings. Again, this was most likely an indication that she was in a cycle of debt and was further borrowing to cover the hole that repaying her previous, and other, loans was leaving in her finances.

So, I'm upholding Mrs P's complaint about loan 4 and Moses should put things right.

Putting things right

If Moses has sold the outstanding debt Moses should buy this back if Moses is able to do so and then take the following steps. If Moses can't buy the debt back, then Moses should liaise with the new debt owner to achieve the results outlined below.

A) Morses should add together the total of the repayments made by Mrs P towards interest, fees and charges on loan 4, not including anything Morses has already refunded.

B) Morses should calculate 8% simple interest† on the individual payments made by Mrs P which were considered as part of “A”, calculated from the date Mrs P originally made the payments, to the date the complaint is settled.

C) Morses should remove all interest, fees and charges from the balance on loan 4 and treat any repayments made by Mrs P as though they had been repayments of the principal on all outstanding loans. If this results in Mrs P having made overpayments then Morses should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Morses should then refund the amounts calculated in “A” and “B” and move to step “E”.

D) If there is still an outstanding balance then the amounts calculated in “A” and “B” should be used to repay any balance remaining on loan 4. If this results in a surplus, then the surplus should be paid to Mrs P. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Mrs P. Morses shouldn't pursue outstanding balances made up of principal Morses has already written-off.

E) Morses should remove any adverse information recorded on Mrs P's credit file in relation to loan 4.

† HM Revenue & Customs requires Morses to take off tax from this interest. Morses Club PLC must give Mrs P a certificate showing how much tax it's taken off if he asks for one.

My final decision

I'm partially upholding Mrs P's complaint. Morses Club PLC should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 19 August 2020.

Claire Marchant-Williams
Ombudsman