

## The complaint

Mr S says Morses Club PLC lent to him irresponsibly. He says that repaying the loans caused him financial difficulty.

## What happened

This complaint is about eleven home collected loans Morses Club provided to Mr S between December 2016 and September 2019. The information I've been provided about the lending is in the table below:

Loan	Date advanced	Date repaid	Amount	Term / repayment
1	6/12/2016	20/5/2017	£200	20 weeks £15
2	21/2/2017	18/12/2017	£500	33 weeks £25
3	18/12/2017	12/6/2018	£500	33 weeks £25
4	24/2/2018	15/5/2018	£200	33 weeks £10
5	12/6/2018	7/12/2018	£600	33 weeks £30
6	14/8/2018	13/4/2019	£300	33 weeks £15
7	14/9/2018	4/7/2019	£400	52 weeks £14
8	7/12/2018	4/6/2019	£600	33 weeks £30
9	4/6/2019	23/7/2019	£850	33 weeks £42.50
10	4/7/2019	17/10/2019	£400	52 weeks £14
11	25/9/2019	17/10/2019	£600	33 weeks £30

One of our adjudicators looked into the complaint and said they thought it should be upheld from the point of loan 5 onwards. Morses Club doesn't agree, so the complaint has come to me for an ombudsman's final decision.

## 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. I've followed this approach when thinking about Mr S's complaint.

Morses Club 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 that Mr S could repay all the loans he was given in a sustainable manner. These checks ought to have taken into account a range of different factors, such as the amounts being lent, the total 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. However, certain factors might point to the fact that

Morses Club should have fairly and reasonably 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 or pattern of lending itself clearly demonstrates that the lending was unsustainable. So, Morses Club was required to establish whether Mr S could sustainably repay his loans; not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, the loan being affordable on this basis *might* be an indication that Mr S could sustainably make the repayments. But it doesn't automatically follow that this is the case. This is because the relevant regulations define 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. So, it follows that a lender should realise, or it ought to have fairly and reasonably realised, that a borrower won't be able to make their repayments sustainably if they are unlikely to be able to make them without borrowing further.

Morses Club told us it carried out certain affordability and credit checks before agreeing to lend to Mr S. I've thought about this and I've also looked at the overall pattern of lending history to him with a view to seeing if there was a point at which Morses Club should reasonably have seen that further lending was unsustainable, or otherwise harmful. I've considered whether, at some point, Morses Club should have realised that it shouldn't have provided any further loans.

Our adjudicator said that they thought the complaint about loans 1, 2, 3 and 4 ought not to be upheld as they appeared affordable. I've looked carefully at these and taken note of Mr S's job and of the income declared by him at around the time. I've also looked at what he said about his monthly expenditure. With this information, and bearing in mind what I've said above about the length of the lending relationship, I think the checks which Morses Club most likely carried out appear to have been proportionate for loans 1 – 4. And I think these levels of checks, together with the income and expenditure details provided by Mr S, would have made those particular loans appear affordable for him.

However, I think the emerging and repeated lending pattern from the point of loan 5 onwards in this case would have looked different and therefore required a more thorough and responsible approach. The overall pattern of Morses Club's lending to Mr S should have caused it to see, in my view, that it shouldn't have provided any further loans from this point onwards.

This is because this was his fifth short-term loan application with Morses Club in the previous 18 months. And in common with his borrowing pattern thus far, he was again asking to borrow relatively quickly after paying off a previous loan and the amount he was asking to borrow had reached the highest level yet. So Morses Club ought to have realised

that Mr S was probably borrowing to meet regular shortfalls in his income and to meet an ongoing need. He was having to consistently take out high interest, short-term lending and his indebtedness was becoming unsustainable. Morses Club should have seen this and ought to have realised Mr S was at risk of not managing to repay his loans sustainably.

So I'm upholding this complaint in respect of loans 5 - 11. Morses Club repeatedly lent in an unsustainable manner because:

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

### **Putting things right**

- refund all interest and charges Mr S paid on loans 5 - 11;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- the number of loans taken from loan 5 onwards means any information recorded about them is adverse. So all entries about loans 5 -11 should be completely removed from Mr S's credit file;

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

### **My final decision**

For the reasons given, I partly uphold Mr S's complaint. Morses Club PLC should put things right for Mr S as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 30 September 2020.

Michael Campbell  
**Ombudsman**