

## The complaint

Miss M says Morses Club PLC irresponsibly lent to her.

## What happened

This complaint is about 14 home collected credit loans provided to Miss M between February 2015 and December 2019. Miss M's lending history is shown below:

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	25/02/2015	20/11/2015	34	£100.00	£5.00
2	26/11/2015	18/05/2016	33	£200.00	£10.00
3	18/05/2016	10/11/2016	33	£200.00	£10.00
4	10/11/2016	30/06/2017	33	£300.00	£15.00
5	06/07/2017	19/12/2017	33	£300.00	£15.00
6	19/12/2017	12/06/2018	33	£400.00	£20.00
7	13/02/2018	07/08/2018	33	£200.00	£10.00
8	12/06/2018	18/12/2018	33	£400.00	£20.00
9	07/08/2018	29/01/2019	33	£400.00	£20.00
10	18/12/2018	31/07/2019	33	£400.00	£20.00
11	29/01/2019	06/08/2019	33	£400.00	£20.00
12	31/07/2019	21/02/2020	33	£400.00	£20.00
13	06/08/2019	21/02/2020	33	£400.00	£20.00
14	19/12/2019	outstanding	34	£400.00	£20.00

Our adjudicator reviewed Miss M's complaint and thought that the loans from loan 4 onwards should be upheld. The adjudicator said this because they thought the overall pattern of Miss M's borrowing indicated she was reliant on these loans and the borrowing was becoming unsustainable.

Morses disagreed. It said that Miss M used the loans in line with a typical customer for this type of loan. And that its checks showed the loans were affordable and her pattern of borrowing didn't indicate that she was using the loans as another source of income.

As the complaint couldn't be resolved informally, it has been passed to me for a 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 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 Miss M could repay the loans in a sustainable manner.

These checks could consider several 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 level of income);
- the *greater* the number and frequency of loans, and the longer the period 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 Morses was required to establish whether Miss M 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 Miss M's complaint. Having done so, I am partially upholding the complaint. I'll explain why.

Our adjudicator didn't uphold Miss M's complaint about loans 1 to 3. Miss M hasn't provided any further evidence or arguments for us to consider, so I won't be making any further findings on these loans because they no longer appear to be in dispute.

I've looked at the overall pattern of Morses' lending history with Miss M, with a view to seeing if there was a point at which Morses should reasonably have seen that further lending

was unsustainable, or otherwise harmful. And so Morses should have realised that it shouldn't have provided any further loans.

Given the circumstances of Miss M's case, like the adjudicator, I think that this point was reached by loan 4. I say this because:

- At this point Morses ought to have realised Miss M was not managing to repay her loans sustainably. Miss M had taken out four loans in nearly two years. So, it should have realised it was more likely than not Miss M was having to borrow further to cover the hole repaying her previous loan was leaving in her finances and that Miss M's indebtedness was increasing unsustainably.
- Miss M's first loan was for £100 and loan 4 was for £300. At this point Morses ought to have known it was unlikely Miss M was borrowing to meet a temporary shortfall in her income but more to meet an ongoing need.
- From loan 4 onwards Miss M was provided with a new loan either on the same day she repaid a previous one – or shortly afterwards. She also often had loans running concurrently which would have been increasing her weekly outgoings.
- Miss M wasn't making any real inroads to the amount she owed Morses. Loan 14 was taken out nearly five years after Miss M's first. Miss M had paid large amounts of interest to, in effect; service a debt to Morses over an extended period.

I think that Miss M lost out because Morses continued to provide borrowing from loan 4 onwards because:

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

So, I'm upholding Miss M's complaint about loan 4 onwards and Morses should put things right.

### **Putting things right**

If Morses has sold the outstanding debt Morses should buy this back if Morses is able to do so and then take the following steps. If Morses can't buy the debt back, then Morses 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 Miss M towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Morses has already refunded.

B) Morses should calculate 8% simple interest<sup>7</sup> on the individual payments made by Miss M which were considered as part of "A", calculated from the date Miss M 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 14, and treat any repayments made by Miss M as though they had been repayments of the principal

on this loan. If this results in Miss M 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 14. If this results in a surplus, then the surplus should be paid to Miss M. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Miss M. Morses shouldn't pursue outstanding balances made up of principal Morses has already written-off.

E) The overall pattern of Miss M's borrowing for loans 4 to 14 means any information recorded about them is adverse, so Morses should remove these loans entirely from Miss M's credit file. Morses does not have to remove loan 14 from Miss M's credit file until this has been repaid, but Morses should still remove any adverse information recorded about the loan.

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

### **My final decision**

I'm partially upholding Miss M'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 Miss M to accept or reject my decision before 3 September 2020.

Claire Marchant-Williams  
**Ombudsman**