

The complaint

Mrs P says Morses Club PLC (“Morses”) irresponsibly lent to her. Mrs P says the lending was unaffordable for her and led to repeat borrowing and a cycle of debt. This resulted in a worsening of Mrs P’s financial situation.

What happened

This complaint is about four home collected credit loans Morses provided to Mrs P between December 2015 and October 2018. Mrs P’s borrowing history is as follows:

| Loan | Date Taken | Date Repaid | Weekly Instalments | Amount | Repayment |
|------|------------|-------------|--------------------|---------|-----------|
| 1 | 11/12/2015 | 16/06/2016 | 33 | £200.00 | £10.00 |
| 2 | 22/07/2016 | 29/08/2017 | 33 | £200.00 | £10.00 |
| 3 | 27/09/2017 | 05/10/2018 | 33 | £100.00 | £5.00 |
| 4 | 05/10/2018 | 03/01/2020 | 33 | £100.00 | £5.00 |

Our adjudicator reviewed Mrs P’s complaint and thought that loans three and four should be upheld. The adjudicator said this because they thought the overall pattern of Mrs P’s borrowing indicated she was reliant on these loans and the borrowing was becoming unsustainable.

Morses didn’t agree with the adjudicator. It said the lending was over a period of nearly three years and it had confirmed Mrs P’s income for loans three and four. It also said that the repayments for loans three and four were reduced to reflect Mrs P’s reduction in income.

As the complaint remains unresolved, it has been passed to me for decision in my role as ombudsman.

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 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 Moses 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 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 am partially upholding the complaint. I'll explain why.

Our adjudicator didn't uphold Mrs P's complaint about loans one and two. Mrs P 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 Moses' lending history with Mrs P, 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 circumstances of Mrs P's case, like the adjudicator, I think that this point was reached by loan three. I say this because:

- Moses has said there was nothing in the pattern of Mrs P's borrowing which would suggest it was unsustainable for her. But I disagree. When Mrs P applied for loan three, she had now been borrowing from Moses for around 19 months (excluding the periods between the lending), so I think Moses should have realised Mrs P was

not managing to repay her loans sustainably and it was more likely she was using the lending to make ends meet.

- At loan three – and four – Mrs P did borrow less than the earlier two loans and Moses has said her repayments per week had reduced to reflect the reduction in her income. But I think this misses the point that the repayments would have made up a similar proportion of her income which at loan three had reduced from £260 per week at loan one to £163 at loan three. Moses has said there was a technical error in recording Mrs P's income and expenditure at loan four (£140 and nil respectively) so there's no clear picture of Mrs P's financial circumstances. But I do think it's clear that Mrs P's financial circumstances were not improving.
- Moses has referred to the gap in lending of four weeks between loan two being repaid and loan three being taken. But bearing in mind the length of time Mrs P had been borrowing from Moses, I don't think this was a sufficient enough amount of time for it to have been reasonable for Moses to have believed that Mrs P had overcome whatever the financial circumstances were that had caused her to take this type of credit.

I also note that loan four was taken out the same day that loan three was repaid so Moses ought to have known it was unlikely Mrs P was borrowing to meet a temporary shortfall in her income but more to meet an ongoing need.

- Mrs P wasn't making any real inroads to the amount she owed Moses. Loan four was taken out nearly 34 months after Mrs P's first. Mrs P had paid large amounts of interest to, in effect; service a debt to Moses over an extended period.

I think that Mrs P lost out because Moses continued to provide borrowing from loan three onwards because:

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

So, I'm upholding Mrs P's complaint about loans two and three. Moses should put things right as laid out below – making sure to provide Mrs P with a breakdown of its calculations.

Putting things right

- refund all interest and charges Mrs P paid on loans three and four;
- 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 three onwards means any information recorded about them is adverse. So, all entries about loans three and four should be removed from Mrs P's credit file.

† HM Revenue & Customs requires Moses Finance Limited to take off tax from this interest. Moses Finance Limited must give Mrs P a certificate showing how much tax it's taken off if she asks for one.

My final decision

I'm partially upholding Mrs P's complaint. Morses Finance Limited 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 3 September 2020.

Catherine Langley
Ombudsman