

## The complaint

Mrs B says Morses Club PLC (“Morses”) irresponsibly lent to her. Mrs B says Morses failed to carry out sufficient affordability checks. If it had done it would have seen that it shouldn’t have given her the loans.

## What happened

This complaint is about two home collected credit loans provided to Mrs B between March and July 2018. Mrs B’s borrowing history is as follows:

Loan	Started	Settled	Loan amount	Highest Combined Weekly repayment	Term
1	02/03/2018	03/09/2018	£400	£20	33 weeks
2	04/07/2018	31/12/2018	£300	£35	33 weeks

Our adjudicator reviewed Mrs B’s complaint and thought that the complaint should be upheld. The adjudicator said this because they thought both of the loans were unaffordable because the repayments accounted for a significant proportion of Mrs B’s income.

Morses didn’t agree with the adjudicator. It said that when both loans were running consecutively Mrs B made regular repayments in excess of the weekly amount due, so it was highly unlikely the repayments were unsustainable. There was no evidence the repayments caused Mrs B any significant distress.

As the complaint remains unresolved, it has been passed to me for a 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 B 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 B 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 B's complaint. Having done so, I am upholding the complaint. I'll explain why.

Moses has given us details of the income and expenditure checks it carried out before lending to Mrs B. I note that for loan one Mrs B's weekly income was recorded as £118 and Moses has told us that figure was checked with credit reference agencies. Mrs B's expenditure was recorded as £70. The weekly repayment for the loan was £20. This represented 17% of Mrs B's weekly income or 41% of her disposable income. I think this is too high a proportion of Mrs B's income. The loan was to be repaid over a 33-week term – over eight months – so I don't think it would be unforeseeable that Mrs B could experience some additional and unexpected expenditure during that time. I think there was a significant risk the lending would prove to be unsustainable.

For loan two Mrs B's income was recorded as being £121.05 and which was verified via a Department of Work and Pensions letter. And again, Mrs B's expenditure was recorded as being £70. When loan two was taken loan one was still running and the combined weekly repayment was £35 so 29% of Mrs B's income or 69% of her disposable income which again left Mrs B with very little flexibility in the event of unforeseen additional expenditure. And bearing in mind the source of Mrs B's income it would seem unlikely that she would have been in the position to increase the level of income.

Moses has said that Mrs B would repay £40 per week when the two loans were running concurrently which was more than she needed to and therefore showed the lending was

affordable for her. But I think this misses the point as this wasn't known at the time the lending was given. It was the income and expenditure recorded at the outset of the lending that should have been taken into account and it should have been concluded that the repayments were unsustainable for Mrs B. So neither of the loans should have been given.

### **Putting things right**

- refund all interest and charges Mrs B paid on loans one and two;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement†;
- remove any negative information about loans one and two from Mrs B's credit file;

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

### **My final decision**

I'm upholding Mrs B'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 B to accept or reject my decision before 1 October 2020.

Catherine Langley  
**Ombudsman**