

The complaint

Mr H says Morses Club PLC (“Morses”) irresponsibly lent to him. Mr H says the lending was unaffordable for him.

What happened

This complaint is about nine home collected credit loans provided to Mr H between March 2015 and February 2019. There were some earlier loans but the complaint about them was brought to us too late under the time limits that apply. There are two chains of lending and Mr H’s borrowing history is as follows:

Loan (and reference numbers)	Date Taken	Date Repaid	Weekly Instalments	Amount	Weekly Repayment
1 (9582/12)	11/03/2015	03/12/2015	34	£100.00	£5.00
Break in lending					
2 (2173/01)	30/11/2016	22/03/2017	20	£200.00	£15.00
3 (2173/02)	22/03/2017	22/11/2017	33	£300.00	£15.00
4 (2173/03)	22/11/2017	31/05/2018	33	£300.00	£15.00
5 (2173/04)	31/05/2018	30/01/2019	33	£300.00	£15.00
6**	29/09/2018	28/06/2019	29	£100.00	£5.00
7* (9738/02)	19/01/2019	Outstanding	29	£500.00	£25.00
8 (2173/05)	30/01/2019	Outstanding	33	£500.00	£25.00
9**	09/02/2019	Outstanding	29	£300.00	£15.00

* Morses bought another business in February 2019 and these loans were provided by the other business. But Morses is taking responsibility for the lending. Of those three loans, the two loans annotated with ** means Morses wasn’t able to locate any information about them so has already made an offer to Mr H. I have included them within the table as they are part of the borrowing relationship Mr H had with Morses.

For ease of reference I will refer to the loan numbers I have highlighted under the ‘loan’ column – so loans one to eight – rather than the business’ loan reference numbers.

Our adjudicator reviewed Mr H’s complaint and thought that loans two to five and loan eight should be upheld. The adjudicator said this because they thought the loans were unaffordable because the repayments accounted for a significant proportion of Mr H’s

income. They also thought that the lending taken after May 2018 was unsustainable so any information about them should be removed from Mr H's credit file.

Morses didn't fully agree with the adjudicator. But it did agree to make an offer for loans four and five and loan eight which we put to Mr H but he didn't wish to accept it. It didn't agree that loans two and three should be upheld.

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 Mr H 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 Mr H could sustainably repay his 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.

Morses has already offered to uphold the two loans for which it couldn't locate any information – loans six and nine. And further to the adjudicator's assessment it has agreed to make an offer for loans four and five and loan eight. Mr H didn't comment on the adjudicator's findings that loan one shouldn't be upheld. As there's no outstanding disagreement on these loans I won't be making any findings on them. But I have borne them in mind when considering the other loans Mr H took. So, the outstanding loans for my consideration are loans two and three.

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr H's complaint. Having done so, I am upholding the complaint. I'll explain why.

Morses has given us details of the income and expenditure checks it carried out before lending to Mr H. Mr H had a relatively low income which were in the form of benefits. For loan two Mr H's weekly income was recorded as £90. Mr H's expenditure was recorded as £15 and the weekly repayment for the loan was £15. This represented 17% of Mr H's weekly income or 20% of his disposable income. I think this is too high a proportion of Mr H's income. The loan was to be repaid over a 20-week term – eight months – so I don't think it would be unforeseeable that Mr H 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 three Mr H's income was recorded as being £100 and his expenditure was £20. The loan repayment of £15 per week represented 15% of his weekly income or 19% of his disposable income. And this loan was to run for 33 weeks, or over eight months. Bearing this in mind I think it left Mr H with very little flexibility in the event of unforeseen additional expenditure. And bearing in mind the source of Mr H's income it would seem unlikely that he would have been in the position to increase the level of income.

So, I think it's likely that the lending was unaffordable for Mr H and was likely to become unsustainable for him. And I note that loan three was taken the same day that loan two was repaid and it was for a larger amount. It looks like loan two was repaid before the agreed term so it may have been the case that Mr H was using part of the sum he borrowed at loan three to make a final repayment for the loan two which would indicate the lending was already becoming unsustainable for him.

In conclusion, for the reasons given above, I don't think loans two and three should have been given.

Putting things right

For completeness, I have included the loans I have upheld – loans two and three plus the other loans that Morses has already agreed to uphold;

- refund all interest and charges Mr H paid on loans two to six and loans eight and nine;
- 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 two to four;

- the number of loans taken from loan five onwards means any information recorded about them is adverse. So, all entries about loans five and six and loans eight and nine should be removed from Mr H's's credit file.

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

My final decision

I'm partially upholding Mr H'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 Mr H to accept or reject my decision before 8 October 2020.

Catherine Langley
Ombudsman