

The complaint

Mrs C says Morses Club PLC irresponsibly lent to her. Mrs C says Morses told her how much she could borrow rather than consider whether she could afford to repay the loans. Mrs C says she was never asked for proof of her income and that Morses' representative would complete all of the paperwork. Because of the loan repayments Mrs C says she couldn't afford essential household expenses and the lending had a significant impact on her lifestyle and mental health.

What happened

This complaint is about six home credit loans Morses provided to Mrs C between February 2016 and February 2018. Mrs C's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Weekly Instalments	Amount	Highest Weekly Repayment
1	02/02/2016	12/05/2016	20	£200	£15
2	12/05/2016	23/12/2016	33	£300	£15
3	09/09/2016	02/06/2017	33	£300	£30
4	13/01/2017	29/09/2017	33	£500	£40
5	24/10/2017	25/05/2018	33	£500	£25
6	13/02/2018	24/04/2018	33	£500	£50

Our adjudicator partially upheld Mrs C's complaint and thought loans five and six shouldn't have been given. They thought Mrs C's borrowing behaviour showed that she was becoming persistently reliant on the lending.

Mrs C disagreed with the adjudicator. She wanted all of the lending to be reconsidered.

Morses responded to the adjudicator by saying the length of borrowing alone doesn't indicate unsustainably. There was nothing to show that the lending was unaffordable or unsustainable for Mrs C. It said Mrs C repaid loan six early and didn't borrow anything further which would show that she wasn't reliant on the lending.

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 of 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 C could repay the loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the 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.

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 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 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 Mrs C 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 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. 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.

Neither party agreed with the adjudicator, so I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mrs C's complaint. After doing so I've decided to uphold the complaint in part. I'll explain why.

Morses has given us copies of the loan application forms that were completed by its representative. Those applications show that Mrs C had a weekly income of between £490 and £861. Her weekly expenses were recorded as ranging between £325 and £445. On the face of it when looking at the income and expenditure recorded for each particular loan, the lending looked affordable on a pounds and pence basis.

But Mrs C says the figures recorded by Morses' representative wasn't a true reflection of her financial circumstances. Mrs C has also told us she wasn't asked for any proof of income. However, I do note that Mrs C had to sign the application forms, I assume after the representative had filled in the relevant information. So, if something was amiss, I would have expected Mrs C to have questioned it. As I haven't seen anything to the contrary, I have to rely on the information that was recorded on the application forms. I also note that

for two of the later loans proof of income was collected – a wage slip, working tax credit letter, remittance advice and DWP letter are referred to.

It's possible that Mrs C's financial circumstances weren't correctly reflected in either the information she provided, or the information Moses recorded. But as I've said above, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. In these circumstances – at the beginning of a lending relationship – (in this particular case, loans one to four) I don't think Moses needed to take further steps to verify the information it had recorded, and which Mrs C signed for.

Gathering further information could have included asking Mrs C for evidence of her income and outgoings which Moses could have gathered from documents such as bank statements, copies of payslips or bills as examples. But as I've already mentioned, Moses did record having seen proof of income for the later loans when more checks, proportionate to the length of the borrowing relationship, were needed.

I have considered the information Moses recorded when it carried out its checks. And there isn't anything in the information it has given us for the earlier stages of the borrowing relationship that may have led Moses to conclude that it should decline Mrs C's applications for the borrowing. I know Mrs C disagrees with what was recorded but I have to rely on the information that was recorded on the application forms and which was signed for by Mrs C.

So, I don't have any evidence which I can rely on that would have shown that earlier loans – loans one to four – were unaffordable for Mrs C.

In response to the adjudicator, Moses couldn't agree that loans five and six were unsustainable or unaffordable for Mrs C. It said there was no indication that Mrs C was reliant on this type of lending and referred to the one-month gap in lending between loan four being repaid and loan five being taken.

I'll address this point first. By the time Mrs C applied for loan five she had been borrowing from Moses for 20 months, albeit with the one-month gap. Because of the length of the borrowing relationship I don't think that it would have been reasonable for Moses to have concluded that because of the one month break Mrs C had overcome whatever her financial circumstances were that caused her to take this type of borrowing in the first instance. So, I don't agree there was a break in the chain of lending. A break in a chain of lending, in effect, starts the 'clock ticking' again on what we would consider to be proportionate checks a business should carry out when taking into account the length of the borrowing relationship with a consumer.

I've looked at the overall pattern of Moses's lending history with Mrs C, 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 particular circumstances of Mrs C's case, and like the adjudicator, I think that this point was reached by loan five. I say this because:

- At this point Moses ought to have realised Mrs C was not managing to repay her loans sustainably. Mrs C had taken out five loans and had been indebted to Moses for 20 months (with the exception of one month). So Moses ought to have realised it was more likely than not Mrs C was having to borrow further to cover the hole repaying her previous loan was leaving in her finances and that Mrs C's indebtedness was increasing unsustainably.

- Loan one was for £200 and to be repaid over 20 weeks. Loan five was for £500 and the term of the loan had increased to 33 weeks. At this point Morses ought to have known that Mrs C was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need.
- I note that Mrs C often had more than one loan running at a time which increased her weekly repayments and also her overall debt with Morses.
- Mrs C wasn't making any real inroads to the amount she owed Morses. Loan six was taken out two years after Mrs C's first. And it was for a larger amount. Mrs C had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I think that Mrs C lost out because Morses continued to provide borrowing from loan five onwards because:

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

So, I'm upholding the complaint about loans five and six and Morses should put things right.

Putting things right

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

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

My final decision

For the reasons given above, I'm partially upholding Mrs C'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 C to accept or reject my decision before 30 October 2020.

Catherine Langley
Ombudsman