

The complaint

Mr B complained about a number of home-collected loans he took out through a company called Morses Club PLC. Mr B says he was lent to irresponsibly and the loans caused him financial problems. To keep things simple, I'll refer mainly to "MCPLC" throughout this decision.

What happened

These events were a long time ago and some reasonable assumptions have been necessary because neither party has much information left to show us about the loans.

But we know Mr B took out 2 such loans from MCPLC. The first loan was in May 2013 and the second was in December 2013. I've enclosed a summary of his borrowing with MCPLC, based on the information I have:

	Date	Amount (with interest)	Term	Repayments
1	15.05.13	£500 (£875)	Assumed 50 weeks	£17.5 pw
2	06.12.13	£350 (612.50)	Assumed 50 weeks	£12.25pw

I issued a provisional decision about this complaint in September 2020 saying that I was minded to partially uphold it (in respect of loan number 2, but not loan number 1). This final decision should be now read in conjunction with that provisional decision.

I gave both parties a month in which to provide any further information or evidence they wanted me to consider. I've had a reply from Mr B which I've considered with care. MCPLC didn't have anything else to say about the complaint.

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 the sale of PPI on our website and I've taken this into account in deciding this case. Having done that, I'm partially upholding the complaint in accordance with my provisional decision.

In my provisional decision, I comprehensively outlined that I considered the length of the lending relationship to be important to the types and depths of financial checks that should have been carried out when deciding whether to lend the monies to Mr B.

I explained that at the point of loan number 1, the lending relationship would have obviously only just started between MCPLC and Mr B. And looking over all the information I've seen, I think the financial checks carried out by MCPLC at that point would have probably been quite basic ones, incorporating only what Mr B himself had declared his income and

outgoings to be. Given what Mr B declared and that this was also his first MCPLC loan, I think this basic level of checking was probably proportionate, particularly when considering the loan was for £500 spread out over 50 weeks. The weekly repayments were £17.50 and his income was around £230 per week.

Therefore, having considered Mr B's income, the loan he was asking for and the term over which it was payable, I think MCPLC would have thought its basic checks were sufficient. I also think it would have considered the borrowing as being sustainable.

I've thought about what Mr B has said about his financial situation and his opinion that the checks ought to have been more thorough at the point of loan 1. But I'm afraid I don't agree this means I should uphold his loan 1 complaint; I think the probable 'basic' checks were appropriate given all the information available. So MCPLC would have probably considered it safe to lend because of what I've said above – it seemed sustainable.

However, I think at the point of loan 2, the situation was different. I think further requests to borrow more money (loan 2) should have caused MCPLC to do further and deeper checks to validate Mr B's overall financial situation. The type of lending, his relatively low income and crucially, the fact he was asking to borrow more money whilst loan 1 was still outstanding, were all factors that should have been considered. I think it should have been obvious that by loan 2 Mr B was in a financially vulnerable situation and the risk in lending him money had increased by quite a bit.

More comprehensive financial checks at this point would have then revealed quite a lot.

Mr B was already in financial trouble at the time and had defaulted recently on other borrowing. He was currently also borrowing extensively from other short-term lenders and the repayments were substantial, set against his available income. The combined prepayments for loans 1 and 2 had by this time reached a point where the lending was unsustainable.

With a low income and substantial debt responsibilities elsewhere, loan 2 was unsustainable. MCPLC should have identified that risk and that's why I'm intending to partially uphold this complaint. Loan 2 shouldn't have been advanced to Mr B.

Mr B says he's now repaid loan 2 after a period of difficulty.

Putting things right

In order to put things right for Mr B, MCPLC should:

- refund all interest and charges Mr B paid on loan number 2;
- also 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 interest and charges still outstanding on loan 2 and treat any payments Mr B made towards this loan as payments towards the capital;
- if reworking Mr B's loan 2 account as I've directed results in him effectively having made payments above the original capital borrowed, then MCPLC should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement†.
- if reworking Mr B's loan 2 account leaves an amount of capital still to be paid, then MCPLC can use the total refund for loan 2 to offset this. And if there is still an outstanding capital balance then I would remind it that it should take a sympathetic

view when seeking to agree an affordable repayment plan with Mr B for the remaining capital;

- if MCPLC has sold any debt to another party, it should cause the above to be adhered to strictly;
- remove any adverse information MCPLC has recorded on Mr B's credit file in relation to loan 2;

My final decision

For the reasons set out above, I partially uphold Mr B's complaint and I direct Morses Club PLC to pay the compensation as above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 12 November 2020.

Michael Campbell
Ombudsman