

## The complaint

Miss C says Morses Club PLC lent to her irresponsibly. She says she was offered loans when she had a low income. She says the loans put her in a difficult position and left her with very little money. She says this adversely affected her financially and caused her stress.

## What happened

This complaint is about four home collected loans Morses provided to Miss C between August 2016 and May 2018.

loan number	date started	amount borrowed	term (weeks)	date ended
1	10/08/2016	£200	26	04/05/2017
2	04/05/2017	£170	33	25/09/2017
3	25/09/2017	£300	33	17/05/2018
4	17/05/2018	£300	33	outstanding

Miss C has made her complaint to Morses. Before bringing the complaint here Morses offered to pay compensation in respect of loan 1.

Our adjudicator partially upheld the complaint. She agreed with the offer Morses had made in respect of loan 1. She also thought that Morses should pay compensation in respect of loan 4.

Morses agreed with our adjudicator's findings. Miss C disagreed with the adjudicator's opinion. She said she couldn't repay the outstanding balance on loan 4.

As no agreement has been reached the complaint has been passed to me.

## 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 Miss 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 customer'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've decided to uphold Miss C's complaint in part and have explained why below.

Miss C, and Morses, appear to agree that compensation should be paid in respect of loans 1 and 4. So I won't be making a decision about whether Morses was right to approve this lending but I've included what Morses needs to do to put things right about these loans in 'putting things right' section below. These loans were part of the borrowing relationship Miss C had with Morses. So, they are something I will take into account when considering the other loans she took.

I'll look at whether Morses was right to approve loans 2 and 3 and whether the compensation offered on loans 1 and 4 is fair.

I've seen a record of the information Miss C provided when she completed her applications for loans 2 and 3. Miss C said she had a weekly income of around £160 and she had regular weekly outgoings of £55. This left her with a disposable income of around £105 a week. So the loan repayments of £15 a week would've seemed affordable to Morses.

I haven't seen any further information that shows its likely Morses was made aware of any financial problems Miss C might've been having. Or anything that would've prompted it to investigate Miss C's circumstances further. So I think it was reasonable for Morses to rely on the information it obtained.

So overall, in these circumstances, I think the assessments Morses did for loans 2 and 3 were proportionate. And I think its decision to approve these loans was reasonable based on the checks that it carried out. So I'm not upholding Miss C's complaint about these loans.

Miss C hasn't said this outcome is unfair itself. But she has said she may struggle to repay the outstanding balance on loan 4. Where a loan has been irresponsibly lent compensation should put the consumer back in the position, they would have been in had the loan not been arranged. So it's fair that any interest or charges Miss C has paid should be returned to her as she should not have paid them. But is also fair that the capital lent is returned to the business as Miss C would not have had the use of this.

So Miss C should repay this if she is able. But I would remind Morses of its responsibility to treat Miss C fairly in respect of any repayment plan that is arranged.

### **Putting things right**

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it not approved loans 1 and 4 to Miss C, as I'm satisfied it ought to have.

Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Miss C may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them and this particular lender which they may not have had with others. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if they had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct. From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Miss C in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Miss C would more likely than not have taken up any one of these options. So it wouldn't be fair to now reduce Morses' liability in this case for what I'm satisfied it has done wrong and should put right."

Morses shouldn't have given Miss C loans 1 and 4.

If Morses has sold the outstanding debts Morses should buy these back if it is able to do so and then take the following steps. If Morses is not able to buy the debts back then Morses should liaise with the new debt owner to achieve the results outlined below.

A) Morses should add together the total of the repayments made by Miss C towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything it has already refunded.

B) Morses should calculate 8% simple interest\* on the individual payments made by Miss C which were considered as part of "A", calculated from the date Miss C originally made the payments, to the date the complaint is settled.

C) Morses should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Miss C as though they had been repayments of the principal on all outstanding loans. If this results in Miss C having made overpayments then Morses should refund these overpayments with 8% simple interest\* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Morses should then refund the amounts calculated in "A" and "B" and move to step "E".

D) If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Miss C. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Miss C. Morses shouldn't pursue outstanding balances made up of principal Morses has already written-off.

E) Morses should remove any adverse information recorded on Miss C's credit file in relation to loan 1. The overall pattern of Miss C's borrowing by loan 4 means any information recorded about it is adverse, so it should remove these loans entirely from Miss C's credit

file. Morses does not have to remove loan 4 from Miss C's credit file until these have been repaid, but Morses should still remove any adverse information recorded about these loans.

\*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Miss C a certificate showing how much tax Morses has deducted, if they ask for one.

### **My final decision**

For the reasons I've explained, I partly uphold Miss C's complaint.

Morses Club PLC should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 21 January 2021.

Andy Burlinson  
**Ombudsman**