

## The complaint

Mrs P (through a representative) complains Morses Club PLC (“Morses Club”) lent to her irresponsibly.

## What happened

Mrs P took five home collected loans between July 2018 and March 2020. I’ve included some of the information we’ve received about these loans in the table below.

Loan Number	Loan Amount	Received Date	Actual Repayment Date
1	£400	18/07/2018	19/02/2019
2	£400	19/02/2019	03/10/2019
3	£200	26/07/2019	05/03/2020
4	£400	03/10/2019	*
5	£600	05/03/2020	*

\*When Morses Club provided us its file, there was an outstanding balance for loans 4 and 5.

Our adjudicator didn’t think it was wrong to have granted the first four home collected loans. But he said loan 5 shouldn’t have been lent. He thought that the pattern of lending suggested repayment of loan 5 was unsustainable.

Morses Club disagreed with the adjudicator’s assessment for loan 5. It doesn’t feel it was wrong to lend this loan. In summary, Morses Club has said that:

- the repayment history showed Mrs P used the credit correctly;
- there are no rules or regulation which govern home credit that state a consumer should only have one loan running at a time;
- the income and expenditure assessments considered existing loans before deciding if Mrs P would qualify for further credit;
- there isn’t any evidence in the form of bank statements or Mrs P’s credit file to show she was borrowing again, finding funds from other sources or missing repayments to make the repayments for the home loans; and
- when Mrs P initially made the complaint, she didn’t wish to complain about her home loans but about other loans which Morses Club wasn’t responsible for – suggesting she didn’t see any issue with the home loans provided by Morses Club.

Mrs P (or her representative) hasn’t responded to the adjudicator’s assessment.

As no agreement has been reached, the case has been passed to me for a final decision.

## 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 short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Mrs P doesn't appear to disagree with our adjudicator's findings that Morses Club wasn't wrong to lend loans 1 to 4. It seems therefore that these loans are no longer in dispute and so I no longer think that I need to make a finding about them.

So instead, this decision will focus on whether Morses Club did anything wrong when it granted loan 5. But I have kept the other lending in mind when thinking about the overall lending relationship between Morses Club and Mrs P.

For the lending which remains in dispute, Morses Club had to assess the application to check if Mrs P could afford to pay back the amount she'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Morses Club's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mrs P's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Morses Club should have done more to establish that any lending was sustainable for Mrs P. These factors include:

- Mrs P having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Mrs P having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mrs P coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mrs P.

Morses Club was required to establish whether Mrs P could *sustainably* repay her home loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Mrs P was able to repay her loans sustainably. But it doesn't automatically follow that this is the case. The Financial Conduct Authority (the industry regulatory) says in the Consumer Credit Sourcebook ("CONC") that payments are sustainable if they are made without undue difficulties and in particular, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mrs P's complaint.

Having looked at the overall pattern of Morses Club's lending history with Mrs P, I agree with our adjudicator that Morses Club should reasonably have seen that further lending was unsustainable, or otherwise harmful, at the time it provided loan 5. I say this because:

- By loan 5 it was almost 20 months into the lending relationship with no breaks between loans. There wasn't a single day where Mrs P wasn't indebted and some of the loans overlapped. In my view, Mrs P's loan history up until this point was a clear indication that her underlying financial situation didn't seem to be improving.
- Mrs P took some loans on the same day that she repaid previous ones. For example, loans 2, 4 and 5 were each taken out on the same day as repayment of a previous lending that this was indicative of her indebtedness not being sustainable.
- The loans show a broadly similar pattern of borrowing and her overall debt was broadly increasing over the period. Mrs P generally took loans of £400. And with loans overlapping and her final loan being £600, her outstanding debt generally increased. I think it's most likely this pattern of borrowing over the period showed that Mrs P didn't just have a short-term cash-flow problem but was probably supporting regular living expenses or other financial commitments.
- Mrs P's lending history was prolonged and after more than 19 months of indebtedness she borrowed her highest loan of all, loan 5 being for £600. The amount of time that Mrs P spent indebted to Morses Club meant that she was servicing a debt to Morses Club over an extended period.

I think that Mrs P lost out when Morses Club provided loan 5 because:

- these loans had the effect of unfairly prolonging Mrs P's indebtedness by allowing her to take expensive credit over an extended period; and
- the number of loans and time spent in debt was likely to have had negative implications on Mrs P's ability to access mainstream credit and so kept her in the market for these high-cost loans.

I appreciate, from what Morses Club has told us, that it appears Mrs P didn't make a complaint about the Morses Club home collected loans when she contacted Morses Club about some other loans. But this doesn't persuade me that Mrs P doesn't wish to complain about the Morses Club loans (as she has raised a complaint to this service about them) or that loan 5 was correctly lent.

So, I'm upholding Mrs P's complaint about loan 5. And I've set out what Morses Club should do to put things right as detailed below.

### **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 provided Mrs P with loan 5, 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 Mrs P 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 Mrs P 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 Mrs P 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.

In order to put thing right Morses Club should:

- remove all unpaid interest, fees and charges from the current outstanding balance on loan 5, meaning Mrs P only has to repay the principal;

apply any repayments already made towards loan 5 as if they were made towards the principal sum. If after doing this, Mrs P has already paid enough for this loan to be fully repaid, then any overpayment needs to be refunded, from the date the over payment became due to the date of settlement. 8% simple interest per year should also be added to any overpayment\*.

If there is still an outstanding balance due for loan 4, then any refund for loan 5 can be offset against it.

However, if an outstanding still remains due for loan 5, Morses Club and Mrs P should try and come to a mutually agreeable repayment plan in order to repay any remaining outstanding balance but I'd remind Morses Club of its obligation to treat Mrs P fairly;

- remove loan 5 from Mrs P's credit file entirely, this is because the period of time Mrs P owed Morses Club money means that any information still recorded about this loan is adverse. Loan 5 doesn't have to be removed from Mrs P's credit file until it has been repaid, but Morses Club should still remove any adverse information recorded about this loan.

\*HM Revenue & Customs requires Morses Club to take off tax from this interest. Morses Club must give Mrs P a certificate showing how much tax it has taken off if she asks for one.

### **My final decision**

For the reasons given above, I partly uphold Mrs P's complaint.

Morses Club PLC should put things right for Mrs P as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 24 February 2021.

Robert Walker  
**Ombudsman**