The complaint

Mr B says Morses Club PLC lent to him irresponsibly. He says the loans were hard to pay back and they shouldn't have been approved.

What happened

This complaint is about three home collected loans Morses provided to Mr B between May 2013 and May 2016.

loan number	date taken	amount	weekly instalments	date repaid
1	21/05/2013	£160	32	27/06/2014
2	27/06/2014	£100	34	13/05/2016
3	13/05/2016	£100	33	outstanding

Our adjudicator partially upheld the complaint. He thought that Morses shouldn't have approved loan 3. This is because he thought the lending pattern itself was harmful. Morses agreed with the adjudicator's opinion and agreed to reduce the amount Mr B owed on loan 3 to reflect the compensation the adjudicator recommended.

Mr B disagreed with the adjudicators opinion and asked for an ombudsman's decision.

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 Mr B 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 partially uphold Mr B's complaint and I've explained why below.

Given the time that has passed since these loans were approved the information from the time of sale is sparse. But I understand the repayment for loan 1 would've been around £5 a week. I also think it would be the same for loan 2.

There isn't a lot of detail from either side about Mr B's income and expenditure but I can see that before approving loan 2 Morses recorded that Mr B had a weekly income of £350 and his weekly expenditure was £175. I haven't seen any evidence that Mr B's circumstances were materially different before loan 1 was approved. So, it would've been reasonable for Mutual to think that these loans were affordable for Mr B.

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

Overall, in these circumstances, I think it's likely the assessments Morses did for loans 1 and 2 were proportionate. And so I think its decision to lend for loans 1 and 2 was reasonable. I'm not upholding Mr B's complaint about them.

I've also considered the pattern of lending up to loan 3 and I think the lending history and pattern of lending itself demonstrates that Mr B would struggle to repay this loan sustainably. I note Morses now agrees that it shouldn't have approved this loan and so I won't consider this further. How to calculate the compensation is in the section below.

Putting things right

Morses shouldn't have given Mr B loan 3.

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 Mr B 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 Mr B which were considered as part of "A", calculated from the date Mr B 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 Mr B as though they had been repayments of the principal on all outstanding loans. If this results in Mr B 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 Mr B. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Mr B. Morses shouldn’t pursue outstanding balances made up of principal Morses has already written-off.

E) The overall pattern of Mr B’s borrowing for by loan 3 means any information recorded about them is adverse, so it should remove these loans entirely from Mr B’s credit file. Morses does not have to remove loan 3 from Mr B’s credit file until it has 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 Mr B a certificate showing how much tax Morses has deducted, if he asks for one.

My final decision

For the reasons I’ve explained, I partly uphold Mr B’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 21 May 2021.

Andy Burlinson
Ombudsman