

The complaint

Mr G says Morses Club PLC lent to him irresponsibly. He says that he was in a debt spiral and so he couldn't afford the short-term loans. He says that Morses should have made better checks into his financial circumstances, found out about this and not lent to him.

What happened

This complaint is about seven home collected loans Morses provided to Mr G between September 2013 and August 2017.

loan number	date started	amount borrowed	Term (weeks)	date ended
1	09/09/2013	£100	20	14/12/2016
2	23/11/2016	£300	33	31/05/2017
3	14/12/2016	£100	20	05/04/2017
4	05/04/2017	£100	20	16/08/2017
5	05/04/2017	£150	33	outstanding
6	31/05/2017	£300	33	outstanding
7	16/08/2017	£100	20	outstanding

Our adjudicator partially upheld the complaint. He didn't think that Morses did anything wrong when it approved loans 1 to 3. He thought it was evident Mr G was having problems managing his money by loan 4. And the lending pattern itself had become harmful by loan 6.

Morses agreed with our adjudicator. It calculated compensation on the basis that our adjudicator recommended. However, because Mr G still owed some of the capital he borrowed on the final three loans, the compensation resulted in him owing less to Morses, rather than being paid an amount of compensation.

Mr G disagreed with the adjudicator's opinion. He said that as the adjudicator had said that the loans shouldn't have been approved then he shouldn't need to repay the capital he borrowed. And he should receive monetary compensation.

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. Broadly speaking, this all means that Morses needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice, this means it should have carried out proportionate checks to make sure Mr G could repay his loans in a sustainable manner. Additionally, there may come a

point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Applying this to the circumstances of this particular complaint, I have reached the same outcome as our adjudicator, for essentially the same reasons. I've decided to uphold Mr G's complaint in part and I've explained why below.

Mr G didn't disagree with our adjudicators opinion not to uphold loans 1 to 3. Because of this, I don't think there is any ongoing disagreement about these loans. And, for the avoidance of doubt, I agree that that Moses wasn't acting incorrectly when it approved these loans. But, they are something I will take into account when considering the other loans he took.

Our adjudicator thought proportionate checks for loans 4 and 5 would've likely shown Mr G couldn't have repaid them in a sustainable manner. I have independently reviewed the evidence of Mr G's income, expenditure and the pattern of lending so far. Having done this, I've come to the same conclusion. And, as Moses has agreed with this, there is now no dispute that Moses shouldn't have approved these loans.

I've also considered the pattern of lending up to loan 6 and I think the lending history and pattern of lending itself clearly demonstrates that further lending would likely be unsustainable. So, I think Moses was irresponsible to continue lending after this point. Again, this is now not in dispute because Moses accepted the adjudicator's assessment.

I've considered the points Mr G made in response to the adjudicator's view. I've considered if the compensation is fair for the errors it's now been established that Moses made.

The purpose of any compensation should be to put Mr G (as far as possible) back in the position he would be in had Moses not approved these loans. But in cases of irresponsible lending that isn't always possible. This is because a consumer has been given a loan and had benefit of the money.

The approach this service takes is that Mr G he should be refunded any interest and charges (plus interest) he paid on the lending as he wouldn't have paid these. Because he is out of pocket by this sum. But he should repay the capital he borrowed as he wouldn't have received this - if Moses hadn't lent irresponsibly.

So, I think the method of compensation agreed by Moses and the adjudicator recommended is fair as it essentially, as far as possible, puts Mr G back into the position he would've been in had these loans not been granted. That is a refund of any additional costs above the capital but also, its reasonable for the capital that he borrowed that needs to be repaid. I haven't seen enough to make me think I should depart from our well-established approach to compensation on this case.

If Mr G accepts this decision then Moses should implement compensation on this basis.

Putting things right

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it stopped lending to Mr G from loan 4, 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 Mr G 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 Mr G 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 Mr G 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 Mr G loans 4 to 7.

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

E) Morses should remove any adverse information recorded on Mr G's credit file in relation to loans 4 and 5. The overall pattern of Mr G's borrowing for loans 6 and 7 means any information recorded about them is adverse, so it should remove these loans entirely from Mr G's credit file. Morses does not have to remove outstanding loans 6 and 7 from Mr G'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 Mr G 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 Mr G'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 Mr G to accept or reject my decision before 15 October 2021.

Andy Burlinson
Ombudsman