

The complaint

Ms A complains that Morses Club PLC was irresponsible in its lending to her.

What happened

Morses Club provided Ms A with four loans between June 2017 and May 2020. Ms A says that Morses Club didn't carry out adequate checks before providing the loans and had it done so the loans wouldn't have been provided. She also complains that Morses Club didn't give her information about the free debt advice services available.

Morses Club explained its approach to lending and that affordability assessments were undertaken before each loan with its agent visiting Ms A's home and going through her income and expenses.

Our adjudicator didn't think there was enough to say that loans 1 and 2 shouldn't have been provided. But he thought that by loan 3 Morses Club should have been concerned that Ms A had become reliant on this form of lending. He noted that by loan 3, Ms A had taken out three loans in 17 months and the amounts she was borrowing weren't significantly reducing. He thought this showed a pattern of lending that was becoming unsustainable and therefore recommended that Morses Club refund Ms A the interest and charges applied to loans 3 and 4.

Morses Club didn't agree with our adjudicator's view. It said that the loan amounts had remained about the same – three being for £200 and one for £300. It said Ms A was never repaying more than one loan at a time and her payments were never more than £15 a week. It said that Ms A's income was verified for loan 4 and that Ms A's repayments were never more than 10% of her disposable income. It said Ms A didn't tell it about any financial difficulties and that she was never in arrears by more than two weeks. Morses Club didn't think that three loans in 17 months was excessive.

My provisional conclusions

I issued a provisional decision on this complaint. I concluded in summary:

- Ms A was provided with the first loan by Morses Club in June 2017. This was for £200 and a finance charge of £130 was added. Repayments were set at £10 a week. I thought the checks carried out before this loan was provided were reasonable and as the information gathered suggested the loan was affordable, I didn't think it was unreasonable this loan was provided.
- Ms A repaid her first loan in January 2018 and took out a second loan in March 2018. This was also for £200 with a £130 finance charge and weekly repayments of £10. Again I thought the checks carried out were reasonable and as these didn't raise concerns about the affordability of the loan I didn't think I could say this loan shouldn't have been provided.

- At the time loan 3 was provided, Ms A had repaid the two previous loans. The first loan was repaid over a period of around seven and a half months and the second was repaid in just under eight months. Therefore, Ms A had been borrowing from Morses Club for around 15 months out of the previous 17. This was only Ms A's third loan and I thought it was too early to say that Morses Club should have considered Ms A as being reliant on this form of finance. The information gathered before loan 3 suggested the loan was affordable and so I didn't uphold this complaint in regard to this loan.
- By loan 4, Ms A had been borrowing from Morses Club for over two years. By this time, I thought that Morses Club should have been concerned that Ms A had become reliant on this form of borrowing. Because of this I upheld this complaint regarding loan 4.

Morses Club accepted my provisional decision. No further information was provided by Ms A.

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.

Morses Club 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 that Ms A 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 Club should fairly and reasonably have done more to establish that any lending was sustainable for a 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).

I think that it is important for me to start by saying that Morses Club was required to establish whether Ms A could sustainably repay her loans - not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC"), defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their

repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

Taking the above into account, and as I set out in my provisional decision, I do not find I have enough to say that Morses Club did anything wrong by providing the first three loans. However, by loan 4 I think there should have been concern that Ms A had become persistently reliant on this type of finance. As Morses Club accepted my provisional decision and no further information was provided by or on behalf of Ms A, my conclusions haven't changed. Therefore I uphold this complaint in regard to loan 4.

Putting things right

My final decision is that I uphold this complaint in regard to loan 4.

In deciding what redress Morses Club should fairly pay in this case I've thought about what might have happened had it not provided Ms A with loan 4.

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

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

Or, she 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 she 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 Ms A 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 Ms A would more likely than not have taken up any one of these options. So it wouldn't be fair to now reduce Morses Club's liability in this case for what I'm satisfied it has done wrong and should put right.

Morses Club PLC should:

- refund Ms A all interest and charges she paid on loan 4 along with 8% simple interest calculated from the date of payment to the date this complaint is settled*; and
- remove any adverse information that may have been recorded on Ms A's credit file in relation to loan 4.

*HM Revenue & Customs requires Morses Club to take off tax from this interest. Morses Club must give Ms A a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold this complaint in regard to loan 4. Morses Club PLC should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms A to accept or reject my decision before 30 July 2021.

Jane Archer
Ombudsman