

The complaint

Mrs S, through her representative, complains that Morses Club PLC, failed to carry out effective affordability assessments and loans advanced to Mrs S would not have been approved if those had been done.

What happened

Morses Club PLC has explained that it acquired active Shopacheck Financial Services (SFS) loans on 10 March 2014 from Welcome Financial Services Limited (WFS). 'Active' usually means that they were open loans and payments were required still. Morses said that loans issued before that date were not approved by it. Morses has given us brief details of four loans approved for Mrs S after that March 2014 date and they are in this table set out here.

In the information provided by Morses, they have been numbered 'loans 33 to 36' which indicates that Mrs S had many other loans before these four were approved by it. But neither Mrs S nor Morses have been able to send us any details.

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment each week	Weeks live
33	04/07/2014	27/03/2015	34	£400.00	£20.00	38
34	27/03/2015	04/12/2015	34	£500.00	£25.00	36
35	04/12/2015	15/07/2016	33	£600.00	£30.00	32
36	15/07/2016	30/12/2016	33	£600.00	£30.00	24

Morses explained further – *'Regarding any missing loans, whilst Morses Club did acquire some Shopacheck financial services accounts, we only acquired open accounts at the point of acquisition in March 2014. The loans we do not hold information for were most likely closed, settled or sold before this point, and therefore the accounts remain the responsibility of Welcome Finance now in administration with KPMG'*

After Mrs S had complained, Morses sent to her its final response to the complaint in which it said it did not need to investigate the July 2014 one (loan 33) as that had been approved more than six years before she had complained about it. So, it has sent us no details at all about that loan other than what is in the table. Later it consented to us including loan 33 in the investigation but we were not sent any additional information.

For the other three loans, Morses did give us some details. For loan 34 it told Mrs S in its final response letter (FRL) that its agent took details of her income and outgoings. It said that Mrs S' self-declared income and expenditure meant that it had calculated Mrs S had *'an income surplus of £125 a week'*. Morses has sent to us the statements of account for that loan which show us that the repayment rate was £25 a week and scheduled to be for 34 weeks.

For loans 35 and 36 Morses has explained that its records show Mrs S' '*... self-declared income and expenditure declarations show an income surplus of £45.00 and £79.00 per week and you signed to agree this information was correct on each loan application*'

One of our adjudicators looked at the complaint and thought that loans 35 and 36 should not have been approved for Mrs S and that Morses should put things right for her for those two loans.

Morses disagreed and I summarise and paraphrase its objections here:

- 17 months from July 2014 (loan 33) to December 2015 (loan 35) was not an excessive period of lending
- The loans increased relatively little by about £100 or £200, so this was not a significant enough increase to indicate any detriment to Mrs S.
- Any missed payments by Mrs S were not severe enough to flag a concern to Morses
- The reason for Mrs S taking the loan was largely irrelevant to Morses at the time of approval
- The regulations do not stipulate that home credit should be used for '*short term emergency costs*' only.

Mrs S' representative has added nothing further to the complaint. It remained unresolved and was passed to me to decide.

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 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 Mrs S could repay the loans in a sustainable manner.

These checks could consider several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. 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 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.

And the loan payments being affordable on a strict pounds and pence calculation might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. The industry regulator defines sustainable as being without undue difficulties and, 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.

I've decided to uphold Mrs S' complaint in part and have explained why below.

Mrs S didn't disagree with our adjudicator's opinion about loans 33 and 34, so I don't think there is any ongoing disagreement about these loans. So, I have not reviewed them. But they were part of the borrowing relationship Mrs S had with Moses. So, they are something I will take into account when considering the other loans she took.

The only indication I have that Mrs S took loans before loan 33 is that Moses has explained why they are 'missing' and has explained the history of it having taken over from another lender. The fact it has provided us details which start the loan listing at loan 33 does indicate to me that Moses was aware that Mrs S had taken 32 previous loans. And so, I think that ought to have been something it considered at the loans 33 to 36 approval dates. Her lending history (even if it had no details) would likely have been a clear demonstration of Mrs S coming back for loans regularly.

In answer to Moses' comment about the 17 months from July 2014 (loan 33) to December 2015 (loan 35) not being excessive, I'd counter that by saying that if Mrs S had taken many loans before it commenced approving loans to her in 2014, then by December 2015 I think that the lending history had been very long indeed. And enough for it to have thought that Mrs S had fallen into the habit of taking loans repeatedly.

I can't comment on the impact of any missed payments as I'm approaching the lending for loans 35 and 36 as having been at the end of a long chain of repetitive lending. And I am using Moses own information provided to us as part of the complaint investigation to conclude that Mrs S had been taking loans for a long time. That ought to have been the flag to Moses before lending further.

I have no information on any reason for Mrs S having taken any loans so I can't comment.

I do notice that even on Moses' brief details furnished to us, the '*income surplus of £45.00 and £79.00*' a week for loans 35 and 36 do make the calculations very tight considering the Moses repayments were £30 a week. I've no records of these figures - just comments by Moses in the FRL to Mrs S. But I have used its own figures to demonstrate that Mrs S had very little left after repayment of everything. And regular use of high cost loans over a long time, as appears to have happened with Mrs S, does lead me to conclude that she was using it for subsistence living potentially.

I haven't recreated individual, proportionate affordability checks for loans 35 and 36 because I don't think that it is necessary to do so. I've looked at the overall pattern of Morses' lending history with Mrs S, with a view to seeing if there was a point at which Morses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Morses should have realised that it shouldn't have provided any further loans.

Given the circumstances of Mrs S's case, I think that this point was reached by loan 35. I say this because:

- At this point she had been indebted to Morses for 17 months *at least* but more likely loan 35 was the latest in an even longer lending history beyond 17 months; and .
- Mrs S' first loan with Morses was for £400 and loan 35 was for £500. This may not have been a huge increase, but within the context of the repeated lending that £500 looks to have been the highest figure by that date.
- At this point Morses ought to have known that Mrs S was likely borrowing to meet an ongoing and increasing need, and this indicated her financial problems may have been worsening.
- So, because of these factors, Morses ought to have realised it was more likely than not Mrs S's indebtedness was unsustainable.
- From loan 33 onwards Mrs S was provided with a new loan a very short time after she settled her previous loan.

I appreciate that Morses feels that the checks it did were enough to show the lending was affordable. But I think the lending pattern itself shows the loans weren't sustainable.

I think that Mrs S lost out because Morses continued to provide borrowing from loan 35 onwards because:

- these loans had the effect of unfairly prolonging Mrs S's indebtedness by allowing him to take expensive credit over an extended period.
- the length of time over which Mrs S borrowed was likely to have had negative implications on Mrs S's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So, overall, I'm also upholding the complaint about loans 35 and 36 and Morses should put things right.

Putting things right

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it stopped lending to Mrs S from loan 35, 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 S may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between him 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 S in a compliant way at this time.

Having thought about all these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mrs S 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 Mrs S loans 35 and 36. My understanding is that these loans were repaid and the accounts are closed.

A) Morses should add together the total of the repayments made by Mrs S towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything it has already refunded.

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

C) Morses should pay Mrs S the total of "A" plus "B".

D) The overall pattern of Mrs S's borrowing for loans 35 and 36 means any information recorded about them is adverse, so it should remove these loans entirely from Mrs S's credit file.

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

My final decision

My final decision is that I uphold Mrs S' complaint in part and direct that Morses Club PLC does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 5 November 2021.

Rachael Williams
Ombudsman