

The complaint

Ms H says Morses Club PLC lent to her irresponsibly. Ms H says that this unaffordable high cost lending caused a debt spiral, leading to repeat borrowing. This made her already poor financial situation worse.

What happened

This complaint is about eight home collected loans Morses provided to Ms H sometime before 2013 and up to May 2019.

loan	start date	capital amount	term (weeks)	end date
1	no information about loan provided			
2	07/06/13	£600	50	11/07/14
3	27/06/14	£600	50	03/06/15
4	03/06/15	£600	50	02/06/16
5	05/08/16	£1,000	52	25/05/17
6	25/05/17	£1,000	52	31/05/18
7	31/05/18	£1,000	52	30/05/19
8	30/05/19	£1,000	52	11/06/20

Our adjudicator partially upheld the complaint. She didn't think that Morses lent irresponsibly for loans 1 to 3. But she thought that it shouldn't have approved loans 4 to 8 as it was clear that Ms H was reliant on this type of lending.

Morses agreed in part with the adjudicator's opinion. It agreed that it shouldn't have approved loan 4. But it didn't think it lent irresponsibly for loans 5 to 8. It said that the checks it did showed that Ms H could afford the loan repayments and they also showed that her situation had improved over time.

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 Ms H 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.

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 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.

I've decided to uphold Ms H's complaint in part and have explained why below.

Ms H accepted our adjudicators opinion about loans 1 to 3. Because of this, I don't think there is any ongoing disagreement about these loans. And Morses accepted our adjudicators opinion that loan 4 shouldn't have been lent.

So, I won't be looking at loans 1 to 4 in detail in this decision. But they were part of the borrowing relationship Ms H had with Morses. And they are something I will take into account when considering the other loans she took.

I've included the compensation for loan 4 in my putting things right section below.

I haven't recreated individual, proportionate affordability checks for loans 5 to 8 because I don't think that it is necessary to do so. I've looked at the overall pattern of Morses' lending history with Ms H, 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 particular circumstances of Ms H's case, I think that this point was reached at loan 5. I say this because:

- Ms H had been indebted to Morses for at least three years, and possibly significantly longer. This is a long time to be using high cost credit and indicates to me that Ms H had ongoing financial problems.
- The first loan I have information for, loan 2, was for £600. And loan 5 was for £1,000. This was a significant increase on the amount borrowed. So Morses ought to have

known that Ms H was likely borrowing to meet an ongoing, and probably increasing need.

- Right from the start Ms H was provided with a new loan within a few days, or weeks, of settling a previous one. There wasn't a significant period when Ms H wasn't making repayments to Morses and she sometimes had more than one loan running at the same time.
- Because of the above factors, at this point, Morses ought to have realised Ms H was not managing to repay her loans sustainably.
- And it whilst there may have been some indication of an improvement in her circumstances over these loans Ms H was still borrowing relatively high amounts without any signs of improvement or reduction in the lending itself.
- And going forward Ms H didn't make any real inroads to the amount she owed Morses. Loan 8 was taken out at least six years after Ms H's first. And it was for a larger amount. Ms H had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I think that Ms H lost out because Morses continued to provide borrowing from loan 5 onwards because:

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

So, I'm upholding the complaint about loans 4 to 8 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 Ms H 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 Ms H 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 she 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 H 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 H 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 Ms H loans 4 to 8.

A) Morses should add together the total of the repayments made by Ms H 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 Ms H which were considered as part of "A", calculated from the date Ms H originally made the payments, to the date the complaint is settled.

C) Morses should pay Ms H the total of "A" plus "B".

D) The overall pattern of Ms H's borrowing for loans 4 to 8 means any information recorded about them is adverse, so it should remove these loans entirely from Ms H's credit file. If Morses has sold any of the loans Morses should ask the debt purchaser to do the same.

*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Ms H a certificate showing how much tax Morses has deducted, if she asks for one.

My final decision

For the reasons I've explained, I partly uphold Ms H'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 Ms H to accept or reject my decision before 22 November 2021.

Andy Burlinson
Ombudsman