

## The complaint

Mr J says Morses Club PLC lent to him irresponsibly. He says that he was in a 'debt spiral' and he thinks that Morses should've realised this and not lent to him.

## What happened

This complaint is about six home collected loans Morses provided to Mr J between July 2015 and September 2019. The loans were due to be repaid weekly. I understand that Mr J was unable to fully repay loan 6 and it has been passed to a third-party collection organisation.

And there was a break in the lending between loans 2 and 3. So there were two distinct periods of lending, these are loans 1 to 2 and then loans 3 to 6. Some of the information I have been provided about the lending is in the table below.

loan	start date	amount	term	end date
1	28/08/15	£400	34	06/05/16
2	06/05/16	£500	33	30/03/17
break in lending				
3	16/02/18	£500	33	07/09/18
4	07/09/18	£500	33	12/06/19
5	12/06/19	£500	33	06/08/19
6	27/09/19	£600	33	06/08/20

Our adjudicator partially upheld the complaint. He didn't think that Morses was acting incorrectly when it approved loans 1 to 5. But he thought that the lending pattern itself showed the lending was unsustainable by loan 6.

Mr J didn't comment on the adjudicator's opinion.

Morses disagreed with the adjudicator's opinion. It said it didn't think that four loans in 19 months was excessive. And the information that it took at the time of sale showed that the loans were affordable for Mr J. There were breaks in lending between loans 2 and 3, and loans 5 and 6.

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 J 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 Mr J's complaint in part and I've explained why below.

Mr J didn't disagree with our adjudicator's opinion about loans 1 to 5. Because of this I don't think there is any ongoing disagreement about these loans. So, I won't be making a decision about this lending. But they were part of the borrowing relationship Mr J had with Morses. So, they are something I will take into account when considering the other loans he took.

I haven't recreated an individual proportionate affordability check for loan 6 because I don't think that it is necessary to do so. I've looked at the overall pattern of Morses' lending history with Mr J, 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 Mr J's case, I think that this point was reached by loan 6. I say this because:

- At this point Morses ought to have realised Mr J was not managing to repay his loans sustainably. Mr J had had been indebted to Morses, in this period of lending (loans 3 to 6), for just under 18 months. And the total lending relationship had now existed for about four years.

- Loan 3 was for £500 and loan 6 was for £600. So, it was the latest in a fairly long line of relatively high amounts. At this point Moses ought to have known that Mr J was likely borrowing to meet an ongoing need.
- From loan 3 onwards Mr J was provided with a new loan within a short time of settling a previous one. I don't think the relatively short break between loans 5 and 6 is enough to consider it a new period of lending.
- So, because of the above factors, Moses ought to have realised it was more likely than not Mr J's indebtedness was now unsustainable
- Mr J had paid large amounts of interest to, in effect, service a debt to Moses over an extended period.

I think that Mr J lost out because Moses provided loan 6 because:

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

So, I'm upholding the complaint about loan 6 and Moses should put things right.

### **Putting things right**

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it not approved loan 6, as I'm satisfied it shouldn't have.

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

For example, having been declined this lending Mr J 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 he may not have had with others. If this wasn't a viable option, he may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, he 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 he had done that, the information that would have been available to such a lender and how he 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 J 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 J would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Moses' liability in this case for what I'm satisfied it has done wrong and should put right.

Moses shouldn't have given Mr J loan 6.

If Moses has sold the outstanding debt Moses should buy these back if it is able to do so and then take the following steps. If Moses is not able to buy the debt back then Moses 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 J 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 J which were considered as part of "A", calculated from the date Mr J 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 J as though they had been repayments of the principal on all outstanding loans. If this results in Mr J 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 J. However, if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with Mr J. Morses shouldn't pursue outstanding balances made up of principal Morses has already written-off.

E) The overall pattern of Mr J's borrowing for loan 6 means any information recorded about it is adverse, so it should remove these loans entirely from Mr J's credit file. Morses does not have to remove loan 6 from Mr J's credit file until it has been repaid, but Morses should still remove any adverse information recorded about this loan.

\*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Mr J 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 J'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 J to accept or reject my decision before 16 November 2021.

Andy Burlinson  
**Ombudsman**