

The complaint

Mr S, represented by a third party, complains that Morses Club PLC was irresponsible in its lending to him.

What happened

Mr S was provided with four home credit loans by Morses Club between January 2017 and May 2018.

Loan	Start Date	End Date	Amount	Term (weeks)	Weekly repayment
1	31/01/2017	26/05/2017	£300	33	£15
2	26/05/2017	09/11/2017	£500	33	£25
3	09/11/2017	24/05/2018	£700	33	£35
4	24/05/2018	28/08/2018	£1,000	33	£50

Mr S says that adequate checks weren't carried out before the loans were provided and had they been, Morses Club would have realised the loans weren't affordable.

Morses Club issued a final response letter in April 2021. It said that affordability checks were carried out with the agent and that based on the information it received the loan repayments were affordable.

Mr S didn't agree with Morses Club's response and referred his complaint to this service.

Our adjudicator partially upheld this complaint. He didn't think he had enough to say that loans 1 to 3 shouldn't have been provided. But by loan 4 he said that Mr S had shown signs that he was struggling to repay his previous loans. He said that Mr S was taking on new loans to repay the existing loan with each loan being for a larger amount.

Morses Club didn't agree that loan 4 had been mis-sold. It said it wasn't unusual for the loan amounts to increase over time and that it wouldn't lend £1,000 on a first loan. It said the increased amount lent reflected the increase in Mr S' disposable income which rose from £120 to £250 per week. It said it verified Mr S' income with the credit reference agency before loan 4 was provided. It said each loan was repaid early and Mr S didn't let it know at the time that he was in financial difficulty.

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 short-term lending - including the key relevant rules, guidance and good industry practice - on our website.

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 the repayments were sustainably affordable for Mr S. 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).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unaffordable.

Before the loans were provided information about Mr S' income and expenses was gathered. I understand given the type of lending this happened with an agent. The income and expenses spreadsheet provided by Morses Club records evidence as being provided for Mr S' wages in regard to loans 1 to 3. I haven't seen the evidence verifying Mr S' income but I note the information Mr S has provided about his income at the time is in line with the amounts declared.

Information was also gathered about Mr S' expenditure and based on Morses Club's figures I accept that loans 1 to 3 appeared affordable. While Mr S provided different expenses figures when raising his complaint, I think it was reasonable before loans 1 to 3 to rely on the information provided at the time the loans were granted.

Overall, I think the checks carried out before the first three loans were provided were proportionate given the size of the loans, Mr S' declared income, and his repayment history. As the checks didn't raise concerns about the affordability of the loans I do not find I have enough to say that loans 1 to 3 shouldn't have been provided.

Our adjudicator didn't think that loan 4 should have been provided. Morses Club has said that the increase in lending was reasonable given the increase in Mr S' disposable income. However, by loan 4, Mr S had been borrowing from Morses Club for around 16 months with no breaks. While each loan was repaid early a new loan was taken out at the same time for a larger amount. I think by loan 4 the timing of the loans (no breaks) and the increase in Mr S' indebtedness (from £300 for the first loan to £1,000 for loan 4) should have raised concerns that Mr S wasn't managing his money and had become reliant on the loans. Therefore, I do not find it was reasonable to consider loan 4 as sustainably affordable for Mr S and so I uphold this complaint in regard to loan 4.

Putting things right

In deciding what redress Morses Club should fairly pay in this case I've thought about what might have happened had it stopped lending to Mr S after loan 3, 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 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 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 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 S 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 S 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.

My final decision is that I uphold this complaint in regard to loan 4. Morses Club PLC should:

- refund all interest and charges that Mr S paid on loan 4 along with interest of 8% simple a year on all refunds from the date of payment to the date of settlement*;
- the overall pattern of Mr S' borrowing by loan 4 means any information recorded about it is adverse, so all entries about loan 4 should be removed from Mr S' credit file.

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

My final decision

My final decision is that I partially uphold this loan. Morses Club PLC should take the actions set out above in settlement of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 17 December 2021.

Jane Archer
Ombudsman