

The complaint

Mr M (through a representative) has complained that Morses Club PLC provided him with loans he couldn't afford to repay.

What happened

Mr M took four home credit loans which Morses are responsible for between June 2013 and July 2015. A summary of his borrowing, based on the information provided to us from Morses can be found below:

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly cost per loan
1	£300.00	14/06/2013	18/04/2014	50	£10.50
2	£500.00	18/04/2014	04/09/2014	50	£17.50
3	£500.00	24/12/2014	07/09/2015	50	£17.50
4	£500.00	29/07/2015	03/11/2015	34	£25.00

Mores has told this service that loans 1 – 3 were provided by Shopacheck and the final loan as provided by Morses. But based on our understanding Morses is responsible for all the loans listed above.

One of our adjudicators looked at Mr M's complaint. He didn't uphold the complaint about loans 1 - 3. But he did think by loan 4 that Mr M was committed to spending a significant portion of his come repaying loan 4. So, he upheld the complaint about this loan.

Mr M appears to have agreed with the adjudicator's opinion.

Morses disagreed with the adjudicator and it provided an example of a previous decision, which is said demonstrated why this case shouldn't have been upheld.

As no agreement could be reached the complaint has been passed to me for a decision.

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.

I've also taken into account the law, any relevant regulatory rules and good industry practice at the time the loan was provided.

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 M 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 Moses should fairly and reasonably have done more to establish that any lending was sustainable for Mr M. These factors include:

- the lower a consumer'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.

I think that it is important for me to start by saying that Moses was required to establish whether Mr M could sustainably repay his 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 relevant regulations define 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 do so without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all mean for Mr M's complaint.

Loans 1 - 3

The adjudicator didn't uphold Mr M's complaint about these loans, and Mr M doesn't appear to disagree with the outcome. So, I won't comment further about these loans, or the level of individual checks Moses completed before approving them, as I don't think there is any ongoing disagreement about it.

But I have kept these loans in mind when thinking about Mr M's overall lending relationship with Moses.

Loan 4

The adjudicator upheld Mr M's complaint about this loan, because in his view, Mr M was committed to paying Moses a significant portion of his declared income and that led this loan being unsustainable for him. Taking into account the individual circumstances of the case, I agree with the adjudicator and I've explained why below.

When loan 4 was approved, Mr M seems to have declared a drop in his weekly income compared to loan 3. His income had dropped from around £300 per week to £250 per week. His weekly outgoings also significantly dropped, from £150 for loan 3 to £67.50 for loan 4.

And of that £67.50 - £17.50 of that sum were repayments Mr M was committed to paying Morse for loan 3.

So, by loan 4, Morse was aware, based on what Mr M declared, that his income was being squeezed, and actually, I don't think £50 a week for living costs is likely to be reasonable, when some months before he declared a sum which was three times that sum. And I've seen no indication that his circumstances had changed. So, it's likely his living costs were significantly more than Morse recorded.

I also can't ignore the fact that Mr M's indebtedness wasn't decreasing, loans 2 – 4 were all for the same capital value. In addition to this, Morse was aware Mr M had been indebted for the majority of the previous 25 months. And loan 4 was extending that indebtedness for an additional 34 weeks. At the same time as having the largest weekly repayments due.

So Morse, knew with a smaller weekly income Mr M was committed was paying £25 per week – each week for 33 weeks. But, loan 3 was still outstanding, and while Morse appears to have factored in the repayments for loan 3 in Mr M's affordability assessment, he was committing to paying £42.50 each week for a significant period of time.

So, there was a picture of Mr M's overall indebtedness not decreasing and his weekly repayments were now at the largest they had been during the entire lending relationship. When, at the same time Morse was aware his income had dropped.

Morse ought to have realised that Mr M there was a significant risk that he wasn't going to be able to fully meet his existing commitments in a sustainable manner. Which has led me to conclude that Mr M wouldn't be able to sustainably make his weekly repayments for his fourth loan.

Putting things right

In deciding what redress Morse should fairly pay in this case I've thought about what might have happened had it not provided 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 Mr M may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them 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 Mr M 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 M would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Morse's liability in this case for what I'm satisfied it has done wrong and should put right.

Morses should:

- refund all interest and charges Mr M paid on loan 4;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement* and
- remove any negative information about loan 4 from Mr M's credit file.

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

My final decision

For the reasons I've explained above, I'm upholding Mr M's complaint in part.

Morses Club PLC should put things right as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 10 November 2021.

Robert Walker
Ombudsman