

The complaint

Ms F says Morses Club PLC lent to her irresponsibly. Ms F says that she had other lending when Morses approved the loans. And so, it was problematic for her to make the loan repayments. She thinks Morses shouldn't have lent because of this.

What happened

This complaint is about five home collected loans Morses provided to Ms F between March 2017 and August 2019. Some of the information I have been provided about the lending is in the table below.

loan	date taken	amount	instalments	date repaid
1	17/03/2017	£300	33	08/12/2017
2	14/12/2017	£300	33	02/08/2018
3	02/08/2018	£700	52	28/09/2018
4	02/08/2018	£300	33	23/11/2018
5	15/08/2019	£1,000	33	01/05/2020

Our adjudicator partially upheld the complaint. He thought that from loan 3 onwards there were signs that Ms F was reliant on the lending. And so Morses shouldn't have approved loans 3 to 5.

Morses disagreed with the adjudicator's opinion. It said that three loans in 17 months wasn't excessive. The loans looked affordable and the information Morses had about Ms F was reasonable and verified by a credit reference agency where possible. Ms F repaid the loans on time, other than being late with the repayments to loan 1 by a few weeks.

Ms F didn't disagree with what the adjudicator said.

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 F 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 F's complaint in part and have explained why below.

Ms F didn't disagree with our adjudicator's opinion about loans 1 and 2. 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 Ms F had with Morses. And they are something I will take into account when considering the other loans she took.

I haven't recreated individual, proportionate affordability checks for loans 3 to 5 because I don't think that it is necessary to do so. But I've looked at the overall pattern of Morses' lending history with Ms F, with a view to seeing if there was a point at which Morses should reasonably have seen that further lending was problematic, or otherwise harmful. And so Morses should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Ms F's case, I think that this point was reached by loan 3. I say this because:

- At this point Ms F had been indebted to Morses for around a year and a half. This is a reasonably long time to be using high cost credit.
- Ms F's first loan was for £300. But loan 3 was for £700 and Ms F also started loan 4 at the same time, which was for a further £300. This is a significant increase in the amounts borrowed.
- And loan 3 was a commitment for another year of repayments. So, at this point Morses ought to have known that Ms F was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need.

- Morses also ought to have been concerned that Ms F's indebtedness was unsustainable. And overall, I think the above factors indicate that Ms F was now in difficulty.
- Ms F didn't make any real inroads to the amount she owed Morses. Loan 5 was taken out over two years after Ms F's first. And it was for a larger amount. Ms F had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.
- And I do accept that the information Morses had showed that the loans may have been affordable. But I think the lending pattern, in particular the step change in the borrowing at loans 3 and 4, indicates financial problems. And Morses was wrong to not take more notice of this.

I think that Ms F lost out because Morses continued to provide borrowing from loan 3 onwards because:

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

So, I'm also upholding the complaint about loans 3 and 4 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 F from 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 Ms F 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 F 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 F 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 F loans 3 to 5.

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

C) Morses should pay Ms F the total of “A” plus “B”.

D) The overall pattern of Ms F’s borrowing for loans 3 to 5 means any information recorded about them is adverse, so it should remove these loans entirely from Ms F’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 F 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 F’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 F to accept or reject my decision before 17 December 2021.

Andy Burlinson
Ombudsman