

The complaint

Mrs M says Morses Club PLC lent to her irresponsibly. She says that the Morses loans caused her financial difficulties. Morses should have seen this and not lent to her.

What happened

Our adjudicator thought the complaint should be partially upheld. Morses disagreed with the adjudicator's opinion. The complaint was then passed to me.

I issued my provisional decision saying that Mrs M's complaint should be upheld in part, but for slightly different reasons, and I upheld different loans. A copy of the background to the complaint and my provisional findings are below in italics and smaller font. These form part of this final decision.

This complaint is about six home collected loans Morses provided to Mrs M between November 2013 and February 2016.

loan	date taken	amount	weekly instalments	date repaid
1	22/11/2013	£400	50	03/10/2014
2	01/08/2014	£300	50	12/06/2015
3	03/10/2014	£400	50	20/11/2015
4	12/06/2015	£300	34	01/02/2016
5	20/11/2015	£500	52	01/09/2017
6	01/02/2016	£300	33	01/09/2017

Our adjudicator partially upheld the complaint. She didn't think that Morses had acted inappropriately when it approved loans 1 to 3. But she thought that by loan 4 the lending pattern itself had become harmful. And so Morses shouldn't have approved loans 4 to 6.

Morses agreed with the adjudicator's opinion in part. It didn't think that four loans in 19 months was excessive. And it noted that the loan amounts didn't increase by a significantly. The loans seemed affordable in the main. It did agree that it shouldn't have approved loan 6 and it offered to pay compensation for the sale of this loan.

Mrs M didn't agree with the offer made. Although her concerns seem to centre on the interest rate used rather than which loans the offer covered.

As no agreement has been reached the complaint has been passed to me.

What I've provisionally 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 Mrs 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 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 provisionally decided to uphold Mrs M's complaint in part and have explained why below.

Loans 1 to 3

Morses says that Mrs M had an average weekly income of £500 and she had regular weekly outgoings of £260. So, I think it was reasonable for Morses to have assumed that these loans were affordable for her.

I haven't seen any further information that shows it's likely Morses was made aware of any financial problems Mrs M might've been having, or that the information Mrs M had provided was incorrect. And I haven't seen anything that would've prompted it to investigate Mrs M's circumstances further. So, I think it was reasonable for Morses to rely on the information it obtained.

So overall, in these circumstances, I think the assessments Morses did for loans 1 to 3 were likely to be proportionate. And I think its decision to lend for loans 1 to 3 was reasonable. I'm not intending to uphold Mrs M's complaint about them.

Loan 4

By loan 4 Mrs M had been using this type of lending for around 19 months. And there was no appreciable break in her indebtedness.

So, I think Morses could've realised at that time that Mrs M may have some longer-term

financial problems rather than just using the loans to help with a temporary cash flow problem. Moses should've also become concerned about whether it knew enough about Mrs M's true financial situation. So, I think its checks should've gone further than they did at this point.

But Mrs M hasn't provided any information to show me what Moses would've likely seen if it had made better checks. So, I can't say for certain that it would've seen that these loans weren't affordable for her, or that it shouldn't have lent for any other reason.

Our adjudicator said that the lending pattern itself showed that Mrs M was struggling financially and that she was likely to be reliant on the lending. But the repayments seem reasonable and the loan amounts didn't vary by much. And looking at the account statements Moses has provided it seems that Mrs M wasn't having any obvious problems making her repayments.

I agree that 19 months is a reasonably long time to be using high cost credit. But taking everything else into consideration I don't think this means the lending was unsustainable in this case. So, I don't think it's reasonable to say that Mrs M was reliant on this lending and it wasn't causing her significant problems when Moses approved the loans.

Loans 5 and 6

I can see that Moses now agrees that it shouldn't have approved loan 6 now. I agree with the offer it has made for this loan and I've included it in my putting things right section.

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

Given the particular circumstances of Mrs M's case, I think that this point was reached by loan 5. I say this because:

- Mrs M had been indebted to Moses for two years, which is a long time to be using high cost credit.
- Mrs M's first loan was for £400. Loan 5 was a slight increase on this at £500. And it was a commitment for a further year. At this point Moses ought to have known that Mrs M was not likely borrowing to meet a shorter term need for money but to meet an ongoing need.
- Right from the start Mrs M was provided with a new loan very soon after repaying one. And she often had more than one loan running at the same time.
- At this point Moses ought to have realised Mrs M was not managing to repay her loans sustainably.
- Overall Mrs M had paid large amounts of interest to, in effect, service a debt to Moses over an extended period.

I think that Mrs M lost out because Moses continued to provide borrowing from loan 5 onwards because:

- these loans had the effect of unfairly prolonging Mrs M's indebtedness by allowing her to take expensive credit over an extended period of time.
- the length of time over which Mrs M 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 intending to uphold the complaint about loans 5 and 6 and Moses should put things right.

Morses, and Mrs M, received my provisional decision. Morses didn't have anything to add to it.

Mrs M didn't agree with my provisional decision. She didn't think that Morses had lent responsibly for loans 2 to 4. This was because she says:

- For loans 4, 5 and 6 she used the new loan to repay an existing one. And she was also in arrears at times.
- She didn't earn as much as Morses recorded, she earned far less.
- She asked that Morses provide a repayment history, and documents that it relied on at the time of sale, to show the loans were affordable.

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.

To be clear, Morses doesn't have full information for the loans taken out over six years ago. That is loans 1 to 4. This is not unreasonable given the passage of time. And whilst Mrs M has commented on her circumstances, she also hasn't been able to provide any further information from this far back to support what she says. Again, this isn't unreasonable. That said, I do think I have enough to fairly decide this complaint.

Morses does have a record of the start and end dates of loans 1 to 4. These don't indicate Mrs M had significant repayment problems. She pays these loans largely on time and only has two loans running at once. And I can accept that she did sometimes use new lending to repay an existing loan. Although this looks like it happened over the later loans as the earlier loans ran for the intended term. Given all of this, I think the lending pattern supports my earlier decision that the lending became problematic over loans 5 and 6.

So, in summary, I still think it's likely that Morses checks were proportionate for loans 1 to 3. It may have been that Morses should have made better checks before approving loan 4. But, as I said in my provisional decision, without further evidence about what Mrs M's income or expenditure was at the time, I'm unable to uphold her complaint on this basis.

So, overall, I've reached the same conclusions I reached before, for the same reasons. I think Morses shouldn't have approved loans 5 and 6.

I can see Mrs M feels strongly about her complaint and I'm sure this isn't the answer she was hoping for. Nevertheless, I hope my explanation is helpful.

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 Mrs M from loan 5, 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 Mrs M 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 Mrs 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 Mrs M 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 Mrs M loans 5 and 6.

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

C) Morses should pay Mrs M the total of "A" plus "B".

D) The overall pattern of Mrs M's borrowing for loans 5 and 6 means any information recorded about them is adverse, so it should remove these loans entirely from Mrs M's credit file. If Morses has sold any of the loans Morses should ask the debt purchaser to do the same.

E) Morses should provide a breakdown of the compensation calculation and how the interest refunded relates to what Mrs M has actually paid in interest.

*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Mrs M 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 Mrs M'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 Mrs M to accept or reject my decision before 7 January 2022.

Andy Burlinson
Ombudsman