

## The complaint

Ms G says Morses Club PLC lent to her irresponsibly. She says that she was in a 'debt spiral' and so she couldn't easily repay the lending. She thinks that Morses shouldn't have lent to her because of this.

## What happened

This complaint is about five home collected loans Morses provided to Ms G between April 2018 and September 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	05/04/2018	£300	33	15/11/2018
2	03/09/2018	£200	33	25/04/2019
3	15/11/2018	£400	33	07/05/2019
4	07/05/2019	£400	33	04/10/2019
5	25/09/2019	£1,000	52	24/09/2020

Our adjudicator partially upheld the complaint. He said that he didn't think Morses had lent irresponsibly for loans 1 to 4. But he thought that the lending pattern itself showed that Ms G was likely to be reliant on these loans at loan 5. And so Morses shouldn't have approved this loan.

Morses disagreed with the adjudicator's opinion. It said that it didn't think five loans in 17 months was excessive. And whilst the repayments for loan 5 were higher they still looked affordable based on the information Ms G had provided.

Ms G didn't comment on the adjudicator's findings.

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 G 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 partly uphold Ms G's complaint and I've have explained why below.

Ms G didn't disagree with our adjudicator's opinion about loans 1 to 4. Because of this I don't think there is any ongoing disagreement about these loans. So, I won't comment further about this lending save to say I don't think that Morses lent irresponsibly for these loans. And they are part of the borrowing relationship Ms G had with Morses. So, they are something I will take into account when considering loan 5.

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 Morses lending history with Ms G, 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 Ms G's case, I think that this point was reached by loan 5. I say this because:

- Ms G had been indebted to Morses for 17 months. This is a reasonably long time to be using high cost credit in itself. But at loan 5, Ms G was making a commitment to make repayments for a further year. And these repayments were a significant increase on the earlier loans.
- Added to this Ms G was often making repayments to more than one loan. She made repayments to loans 1 and 2 at the same time, and for the rest of the loans she was often making repayments to two loans at a time. And Ms G borrowed relatively frequently. She borrowed £900 in 2018 and £1,400 in 2019.

- Loan 5 is for a much greater amount than the earlier loans. So, it looks to me, taking all of these factors into consideration, that it was more likely than not Ms G was having to borrow further to cover the hole repaying her previous loans had left in her finances.
- And at this point Morses ought to have known that Ms G was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need.
- The above factors make it reasonable to say that it was likely Ms G's indebtedness was now unsustainable at loan 5.

I think that Ms G lost out because Morses provided loan 5 because:

- this loan had the effect of unfairly prolonging Ms G's indebtedness by allowing her to take expensive credit over an extended period of time.
- The number of loans and the length of time over which Ms G 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 upholding the complaint about loan 5 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 not approved loan 5, 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 Ms G 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 G 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 G 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 G loan 5.

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

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

D) The overall pattern of Ms G’s borrowing for loan 5 means any information recorded about it is adverse, so it should remove this loan entirely from Ms G’s credit file. If Morses has sold any of the loans it should ask the debt purchaser to do the same.

\*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Ms G 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 G’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 G to accept or reject my decision before 21 December 2021.

Andy Burlinson

**Ombudsman**