

The complaint

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

What happened

Mr B was provided with six loans between January 2014 and September 2017.

Loan	Date Taken	Date Repaid	Amount
1	07/01/2014	14/11/2014	£200.00
2	03/09/2015	10/03/2016	£200.00
3	10/03/2016	23/08/2016	£300.00
4	23/08/2016	03/03/2017	£400.00
5	03/03/2017	25/09/2017	£400.00
6	25/09/2017	21/03/2018	£400.00

Morses Club says that affordability checks were undertaken before each loan was provided. It says that based on these checks the loans were affordable.

Our adjudicator noted that there was a break in the lending of around ten months between loans 1 and 2 so they considered loan 2 as the start of a new lending chain. They didn't think they had enough to say that loans 1 to 4 shouldn't have been provided but said that by loan 5 Morses Club should have questioned whether continuing to offer further loans to a customer who appeared to be reliant on this form of lending was unsustainable or otherwise harmful. They thought the pattern of lending from loan 5 showed that the loans from this point were unsustainable.

Morses Club didn't agree with our adjudicator's view. It said Mr B repaid all of his loans and didn't raise any concerns at the time about financial difficulties. It says the loans were relatively small and the repayments accounted for a small portion of Mr B's uncommitted income.

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 all of the 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 that Mr B 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 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 unsustainable.

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

Mr B was provided with the first loan in January 2014 and repaid this in November 2014. He didn't then take another loan with Morses Club until September 2015, around ten months later. I think this gap in the lending at this stage in the relationship was significant and so I agree with our adjudicator that the loans should be treated as two separate lending chains: the first including loan 1; the second including loans 2 to 6.

Before the loans were provided, Morses Club has said that it carried out affordability checks. I have looked at the information provided and note that Morses Club has said that evidence of certain income and expenses was provided. While I haven't seen any verification of the income and expenditure figures, I also do not have evidence to suggest the amounts provided were incorrect. Therefore, in the case of the earlier loans (loan 1 in the first lending chain and loans 2 to 4 in the second lending chain) I think the checks were proportionate and as these suggested the repayments were affordable, I do not find I can say Morses Club was wrong to provide these loans.

By loan 5, Mr B had been borrowing from Morses Club without any breaks for around 18 months. He had taken out four loans in this lending chain with each loan being taken out on the day the previous loan was repaid. The amounts being borrowed had increased from £200 to £400. I think Mr B's pattern of lending at this time should have raised concerns that he had become reliant on this type of borrowing and that the lending wasn't sustainably affordable for him. Because of this I uphold this complaint regarding loans 5 and 6.

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 B after 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 B 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 he 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 B 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 B 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.

As I uphold this complaint in regard to loans 5 and 6, Morses Club should:

- Refund all interest and charges Mr B paid on loans 5 and 6 along with 8% simple interest* on the payments made from the date of payment to the date of settlement.
- The overall pattern of Mr B's borrowing for loans 5 and 6 means any information recorded about the loans is adverse, so Morses Club should remove these loans entirely from Mr B's credit file.

My final decision

My final decision is that I uphold this complaint regarding loans 5 and 6. 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 B to accept or reject my decision before 20 December 2021.

Jane Archer
Ombudsman