

The complaint

Mrs N complains that Morses Club PLC trading as Morses Club was irresponsible in its lending to her.

What happened

Mrs N was provided with 10 loans by Morses Club between April 2013 and November 2017, details of these are below. There is a suggestion that Mrs N may have taken out loans prior to this with a company that Morses Club acquired in 2014 but evidence of these hasn't been provided and so the decision relates to the table of loans below.

| Loan | Date Taken | Date Repaid | Instalments | Amount |
|------|------------|-------------|-------------|---------|
| 1 | 04/10/2013 | 14/11/2014 | 32 | £450.00 |
| 2 | 20/11/2014 | 08/05/2015 | 34 | £200.00 |
| 3 | 23/01/2015 | 30/06/2015 | 34 | £150.00 |
| 4 | 08/05/2015 | 30/06/2015 | 34 | £200.00 |
| 5 | 17/07/2015 | 19/12/2015 | 34 | £300.00 |
| 6 | 05/11/2015 | 19/12/2015 | 33 | £100.00 |
| 7 | 07/01/2016 | 27/05/2016 | 33 | £300.00 |
| 8 | 10/03/2016 | 27/05/2016 | 33 | £200.00 |
| 9 | 24/08/2016 | 28/02/2017 | 33 | £400.00 |
| 10 | 07/11/2017 | Sold | 33 | £300.00 |

Mrs N says that the loans weren't affordable, and she had to borrow more in order to make the repayments. She says her income was only checked before the first loan and she was encouraged to get more credit even though she had said she was struggling financially. She says she was told to change the details in her application to ensure the loan was approved and she wasn't given time to review the documentation.

Morses Club issued a final response letter in March 2021. It said affordability checks were carried out before each loan was provided and that based on these the loans were affordable.

Mrs N didn't agree and referred her complaint to this service.

Our adjudicator partially upheld this complaint. She noted there was a break of around eight months between loan 9 being repaid and loan 10 provided but didn't think this was enough to say a new lending chain had been started. Our adjudicator said she didn't have enough evidence to say that loans 1 to 3 shouldn't have been provided but she upheld this complaint in regard to loans 4 to 10.

Morses Club responded to our adjudicator's view with a counteroffer to refund the interest and charges on loans 4 to 8 and to remove these from Mrs N's credit file.

Mrs N didn't accept Morses Club's offer and this case has been referred to me, an ombudsman, 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.

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. I have considered these when making my decision.

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 Mrs N could sustainably afford the repayments. 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 unaffordable.

Based on the information provided, Mrs N was provided with ten loans by Morses Club over a four and a half year period. Some loans were provided while existing loans were still outstanding and where there were gaps in the lending these were very short (less than a month) other than between the repayment of loan 8 and the provision of loan 9 when there was a gap of around three months and the repayment of loan 9 and the provision of loan 10 when there was a gap of around eight months.

Before the loans were provided, Morses Club has said affordability checks were carried out. I have limited information about these but without further evidence I do not find I have enough to say that the early loans, that is loans 1 to 3 shouldn't have been provided.

Loan 4 was Mrs N's fourth loan in around 19 months and was provided while loan 3 was outstanding and on the same day that loan 2 was repaid. Although the loan was for a lower amount than the first loan provided to Mrs N, as a previous loan was still outstanding the total amount of debt at the time, while lower, wasn't such that it would suggest Mrs N was reducing her reliance on the lending. As Mrs N had been borrowing from Morses Club for a substantial time by this point and given her lending history, I think the pattern of lending itself shows that the loans from here were not sustainably affordable for Mrs N.

Morses Club accepted our adjudicator's view in regard to loans 4 to 8 and provided an offer reflecting this. However, it noted the gaps in the lending between loans 8 and 9 and loans 9

and 10. It said that the eight month gap between loans 9 and 10 was long enough for Mrs N's situation to change drastically and noted her application for loan 10 indicated that Mrs N was making sensible outgoings, had no other creditors, and a stable income. I have considered Morses Club's.

The gap in borrowing between the repayment of loan 8 and the provision of loan 9 was only three months. Given how long Mrs N had been borrowing from Morses Club I do not find this was enough to say there had been a break in the lending chain.

The gap in lending between the repayment of loan 9 and the provision of loan 10 was around eight months and I have taken this into account. However, in this case, given Mrs N had been borrowing from Morses Club for over four years by the time of loan 10, I do not find the gap in the borrowing was significant such that it would have been reasonable for Morses Club to conclude this was any indication that Mrs N's finances had moved on from whatever situation had required her previous loans. Therefore, in this case I think it reasonable to consider all of the loans as part of the same lending chain. Based on the comments above I do not find it was reasonable that loans 4 to 10 were provided.

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 Mrs N after 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 Mrs N 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 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 Mrs N 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 N 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.

My final decision is that I uphold this complaint in regard to loans 4 to 10, Morses Club PLC should:

- refund all interest and charges that Mrs N paid on loans 4 to 10;
- pay interest of 8% simple a year on all refunds from the date of payment to the date of settlement*;
- the overall pattern of borrowing means that any information recorded about loans 4 to 10 is adverse. So all entries about loans 4 to 10 should be removed from Mrs N's credit file.

* HM Revenue & Customs requires Morses Club to take off tax from this interest. Morses Club must give Mrs N a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I partially uphold this complaint. Morses Club PLC should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs N to accept or reject my decision before 17 December 2021.

Jane Archer
Ombudsman