

The complaint

Mr B says Morses Club PLC lent to him irresponsibly. Mr B says that he was in a 'debt spiral' and so he couldn't afford the Morses loans. He thinks that Morses should've seen this and not lent to him.

What happened

This complaint is about four home collected loans Morses provided to Mr B between April 2013 and May 2017. Some of the information I have been provided about the lending is in the table below.

loan	date taken	amount	instalments	date repaid
1	20/04/2013	£800	50	17/04/2014
2	17/04/2014	£1,300	50	11/09/2015
3	07/07/2016	£600	52	12/05/2017
4	12/05/2017	£1,000	52	05/04/2018

Mr B has borrowed a significant amount of other home credit loans with a business that Morses took over in 2014. I don't have details about the amounts, terms and dates of these loans, but I understand there were 11 of them. Neither party has any further information about the other lending. But I think it is likely Morses would have had some indication of the earlier lending from 2014 onwards.

Our adjudicator partially upheld the complaint. He didn't think that Morses had lent irresponsibly when it approved loans 1 to 3. But he thought that the pattern of lending itself showed that Mr B was likely to be reliant on these loans by loan 4.

Morses disagreed with the adjudicator's opinion. It said that it didn't think that four loans over a four year period was excessive and there was a longer break in the lending between loans 2 and 3. The checks Morses did showed that this lending was affordable as Mr B had a significant income and sensible outgoings. Loans 3 and 4 were repaid early.

Mr B didn't add anything to 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 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 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 Mr B's complaint in part and have explained why below.

Mr B didn't disagree with our adjudicator's opinion about loans 1 to 3. 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 Mr B had with Morses. So, they are something I will take into account when considering the other loans he took.

I haven't recreated individual, proportionate affordability checks for loan 4 because I don't think that it is necessary to do so. I've looked at the overall pattern of Morses' lending history with Mr B, 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 Mr B's case, I think that this point was likely to have been reached by loan 4. I say this because:

- Mr B had been indebted to Morses for 28 months, which is a reasonably long time in itself. But Morses would also have been aware that Mr B had been taking similar loans for longer than this. And that the Morses loans were likely to be continuation of this earlier lending.

- So Morses ought to have known that Mr B was not likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need. Morses ought to have realised it was likely that Mr B's indebtedness was unsustainable.
- Mr B wasn't making any real inroads to the amount he owed Morses. Loan 4 was taken out just over four years after Mr B's first. And he had likely been borrowing in a similar way a significant time before this. Mr B had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.
- It's likely that this lending became unsustainable a significant time before loan 4. But I don't have enough information to reasonably say if, or when, this was.
- And I do take on board that there was break in the lending between loans 3 and 4. But it looks like Mr B had been using this type of loan for a significant period of time. So, I think it was unlikely to be reasonable for Morses to think his circumstances had improved within this break. And Mr B had been a customer of Morses for around four years overall.
- And I don't think what Morses recorded about his income and expenditure affects this. Mr B was clearly reliant on the lending despite this.

I think that Mr B lost out because Morses continued to provided loan 4 because:

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

I'm upholding the complaint about loan 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 not approved loan 4, 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 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 he 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' liability in this case for what I'm satisfied it has done wrong and should put right.

Morses shouldn't have given Mr B loan 4.

A) Morses should add together the total of the repayments made by Mr B towards interest, fees and charges on this loan, 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 Mr B which were considered as part of "A", calculated from the date Mr B originally made the payments, to the date the complaint is settled.

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

D) The overall pattern of Mr B's borrowing for by loan 4 means any information recorded about it is adverse, so it should remove this loan entirely from Mr B's credit file.

*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Mr B a certificate showing how much tax Morses has deducted, if he asks for one.

My final decision

For the reasons I've explained, I partly uphold Mr B'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 Mr B to accept or reject my decision before 20 December 2021.

Andy Burlinson
Ombudsman