

The complaint

Mr W says Morses Club PLC lent to him irresponsibly. He says that it has failed to carry out proportionate checks. If it had done proper checks it would've seen that he couldn't afford the loan repayments and it shouldn't have lent to him.

What happened

This complaint is about four home collected loan Morses provided to Mr W between September 2018 and May 2020.

loan	date taken	amount	weekly instalments	date repaid
1	10/09/2018	£400	33	02/04/2019
2	02/04/2019	£400	33	13/08/2019
3	06/08/2019	£700	52	26/05/2020
4	26/05/2020	£700	53	28/05/2021

Our adjudicator partially upheld the complaint. He didn't think that Morses has irresponsibly lent when it approved loans 1 to 3. But he did think that it shouldn't have approved loan 4. This is because he thought the lending pattern itself looked harmful by this point.

Morses disagreed with the adjudicator's opinion. It said that Mr W didn't usually have more than one loan running at the same time, the loans looked affordable and his payment history was very good.

Mr W didn't disagree with 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 W 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 Moses 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 W's complaint in part, and I've explained why below.

Mr W 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 W had with Moses. So, they are something I will take into account when considering loan 4.

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 Moses' lending history with Mr W, 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 Mr W's case, I think that this point was reached by loan 4. I say this because:

- Mr W had taken out four loans within 20 months. And Mr W was making a commitment for another year. This is a long time to be using this high cost credit.
- And at this loan Mr W was committed to making repayments of £25 a week which seems like a reasonably high amount over this length of time.
- Mr W's first loan was for £400 and loan 4 was for £700. This was a significant increase.
- Right from the start Mr W was provided with a new loan within a very short time of settling a previous one. Added to this, whilst Mr W's loan repayments didn't overlap, he does usually use the new lending to repay his existing loans.
- Overall, it seems to me that this lending pattern at loan four shows that Mr W wasn't really managing to keep on top of the loans, and he was borrowing reasonably high amounts again to make ends meet.

- So, at this point Moses ought to have realised Mr W was not managing to repay his loans sustainably. Moses ought to have known that Mr W was not likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need.

I think that Mr W lost out because Moses provided loan 4 because:

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

So, I'm also upholding the complaint about loan 4 and Moses should put things right.

Putting things right

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it not approved loan 4. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mr W 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 W 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 W would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Moses' liability in this case for what I'm satisfied it has done wrong and should put right.

Moses shouldn't have given Mr W loan 4.

A) Moses should add together the total of the repayments made by Mr W 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) Moses should calculate 8% simple interest* on the individual payments made by Mr W which were considered as part of "A", calculated from the date Mr W originally made the payments, to the date the complaint is settled.

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

D) The overall pattern of Mr W's borrowing at loan 4 means any information recorded about it is adverse, so it should remove this loan entirely from Mr W's credit file. If Moses has sold any of the loans Moses should ask the debt purchaser to do the same.

*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Mr W 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 W'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 W to accept or reject my decision before 14 January 2022.

Andy Burlinson
Ombudsman