

The complaint

Mrs W says Morses Club PLC lent to her irresponsibly. Mrs W says she was in a 'debt spiral' and so she couldn't afford the loan repayments. She thinks that Morses should've seen this and not lent to her.

What happened

This complaint is about five home collected loans Morses provided to Mrs W between December 2017 and December 2019. Some of the information Morses has provided about the lending is in the table below.

| loan | date taken | amount | instalments | date repaid |
|------|------------|--------|-------------|-------------|
| 1 | 01/12/2017 | £400 | 33 | 25/05/2018 |
| 2 | 25/05/2018 | £400 | 33 | 05/10/2018 |
| 3 | 06/12/2018 | £600 | 33 | 31/05/2019 |
| 4 | 31/05/2019 | £600 | 33 | 06/12/2019 |
| 5 | 06/12/2019 | £600 | 34 | 31/07/2020 |

Our adjudicator partially upheld the complaint. She said that she didn't think that Morses had lent irresponsibly for loans 1 to 4. But she did think that it shouldn't have approved loan 5 as it was likely Ms W was reliant on the lending by this point.

Mrs W didn't comment on what the adjudicator said.

Morses disagreed with the adjudicator's opinion. It didn't think that five loans in two years was excessive. And the checks it did showed that Mrs W could afford the loan repayments. She had a good repayment history.

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 Mrs 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 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 Mrs W's complaint in part and have explained why below.

Mrs W 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 be making a decision about this lending. But they were part of the borrowing relationship Mrs W had with Morses. So, they are something I will take into account when considering the other loans she took.

I haven't recreated an individual, proportionate affordability check 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 Mrs W, 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 Mrs W's case, I think that this point was reached by loan 5. I say this because:

- Mrs W had been indebted to Morses for two years. And she was making a commitment to make repayments for another seven months. I think this is a long time for Mrs W to be using high cost credit, given what Morses knew about her circumstances.
- Mrs W's first loan was for £400 and loan 5 was for £600. And Mrs W was provided with a new loan very shortly after settling her previous one.
- This suggests that Mrs W was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing, and increasing, need. I don't think there is a pattern of decreasing or managed debt here. And it's likely she would continue to need to borrow going forward.

- And so, it's not that relevant that the information Morses had showed that the loans may be affordable, as the pattern itself now looked harmful.
- So Morses ought to have realised Mrs W was not managing to repay her loans sustainably. And Mrs W had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I think that Mrs W lost out because Morses approved borrowing from loan 5 because:

- these loans had the effect of unfairly prolonging Mrs W's indebtedness by allowing her to take expensive credit over an extended period of time.
- the length of time over which Mrs W 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. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mrs W 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 Mrs 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 Mrs W 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 Mrs W loan 5.

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

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

D) The overall pattern of Mrs W's borrowing at loan 5 means any information recorded about it is adverse, so it should remove these loans entirely from Mrs W's credit file.

*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Mrs W 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 Mrs 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 Mrs W to accept or reject my decision before 7 January 2021.

Andy Burlinson
Ombudsman