

The complaint

Ms G, through her representative, complains that Morses Club PLC lent to her irresponsibly.

What happened

Using information received from Morses, here is a brief loan table.

Loan	Start Date	End Date	Capital Amount	Interest amount	Term	Repayment amount	Weeks Live
1	23/10/2019	06/05/2020	£300.00	£210.00	34	£15.00	28
2	22/01/2020	02/07/2020	£300.00	£210.00	34	£15.00	23
3	07/07/2020	06/07/2021	£800.00	£560.00	34	£40.00	52

One of our adjudicators looked at the complaint and did not think that Morses had done anything wrong for loans 1 and 2. But he thought that Loan 3 should not have been approved by Morses for Ms G.

Morses responded to agree in relation to the first two loans. But for loan 3 it disagreed. It did not think that there was evidence to show that the loan 3 repayment of £40 a week was such a high percentage of her income that there was a significant risk that Ms G would not be able to meet the repayments. Morses said that it had verified her income externally with credit reference agencies, it had recorded her household outgoings as well as her other credit commitments, and Morses said that left her with a disposable income of £81 a week. So, the £40 a week was less than half of that figure.

Morses also took issue with the percentage figure our adjudicator had used – 16% of her weekly income – and Morses said it did not consider that ‘excessive’.

Morses said that Ms G had maintained a good payment history on loans 1 and 2 and did not think it could have done more before approving loan 3.

The complaint remained unresolved and was passed to me to decide.

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 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 Ms G could repay the loans in a sustainable manner.

These checks could consider several different things, such as how much was being lent, the

repayment amounts and the consumer's income and expenditure. 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 but I do not consider this to apply for Ms G's case.

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 Ms G's complaint in part and have explained why below.

Ms G received our adjudicator's view and the response through her representative was that she did not disagree with our adjudicator's opinion about loans 1 and 2. Because of this I don't think there is any ongoing disagreement about these loans. And Moses has agreed too about loans 1 and 2. I won't be making a decision about this lending as I do not need to, but they were part of the borrowing relationship Ms G had with Moses and they are loans I will take into account when considering the other loan she took.

I have read Moses' submissions and reviewed the information it took from Ms G. A significant factual change between loans 1 and 2 and when Ms G applied for loan 3 was that her declared income had halved. And I have seen this from Moses' own records submitted to us.

Here is a duplication of part of their records:

Loan	CRA Income Checked	Income	Expenditure	Disposable Income	Net Weekly Outgoing	Net Disposable Income
1	£517.55	£517.55	£340.00	£177.55	£340.00	£177.55

2	£502.77	£502.77	£370.00	£132.77	£370.00	£132.77
3	£250.00	£250.00	£169.00	£81.00	£169.00	£81.00

I note that Ms G had told Moses she had lost her job in November 2020 but that was several months after loan 3 was approved. So, I don't consider that relevant when considering Ms G's circumstances around the approval date for loan 3 as the job loss, if correct, post-dated the loan approval. So, I have not taken that information into account.

Reviewing figures provided by Moses, that same spreadsheet indicates that her weekly outgoings had reduced as well as her income. That same spreadsheet showed that Moses' recording of Ms G's rent cost had reduced considerably from £105 a week for loan 1 to £150 a week for loan 2 to £40 a week for loan 3.

I note that Moses has described using Office of National Statistics (ONS) figures for some of the entries: *'...we used figures from the Office of National Statistics (ONS) and pre-populated minimum figures for expenditure which included rent, council tax, utilities, insurance, transport, groceries, media and childcare.'*

Moses has said it had taken steps to verify her income and had seen her credit commitment history using the credit reference agency data. Copies of those results have been sent to me.

Moses has said it has *'not been provided with any evidence which shows Ms G was unable to sustainably meet their weekly repayments; however if this is presented we will be happy to review.'*

Having read all Moses details and submissions to us to defend the complaint, my view is that on the one hand, Moses said it verified Ms G's income and felt comfortable using ONS figures for her rent and other outgoings. And on the other hand, Moses is saying it has seen no evidence Ms G couldn't meet her repayments.

Moses did not seem to think it was required to ask her about that sudden and significant drop in income (it said it had verified) when she was applying to it for an £800 loan (loan 3). That was much higher than the previous two loans she had been approved for.

And if it used ONS statistics for Ms G's rent at £40 a week when her other submissions had been £105 or £150 a week then I think the responsible approach would have been to have used her own previous submissions on the rental cost rather than ONS figures. Rent rarely reduces by such a degree. And at the very least Moses ought to have asked her about that rental cost even if it felt on confident ground about her income – having verified it. And using the lower of the previous rental cost figures of £105 a week, that would have increased her outgoings by about £65 a week which would have reduced her disposable income to around £15 or £16 a week which was either too low to repay loan 3 and/or was too low to be the 'left over' income Ms G had each week.

So, I don't think that Moses did enough before lending.

Our adjudicator indicated that in his view the amount of Ms G's income being spent on the Moses loan had increased to around 16% and this was likely because the repayments had increased to £40 a week and her income had dropped a great deal. That alone, for me is not a reason to uphold the complaint about loan 3.

But that 16% of income being used to repay the Morses loan 3, combined with the inadequacy of Morses acting on the information it had been given which were very different figures for income and rental costs that for the previous two loans, leads me to think that – on its own figures – it ought to have appreciated that Ms G could not stretch to £40 a week to repay loan 3.

I uphold Ms G's complaint about Loan 3.

Putting things right

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it stopped lending to Ms G at 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 Ms G may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between her and this lender which they may not have had with others. If this wasn't a viable option, they may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, they 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 Ms G in a compliant way at this time.

Having thought about all these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Ms G 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 Ms G loan 3.

Having seen the Statement of Account, Ms G seems to have paid this off.

A) Morses should add together the total of the repayments made by Ms G towards interest, fees and charges on loan 3, 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 Ms G which were considered as part of "A", calculated from the date Ms G originally made the payments, to the date the complaint is settled.

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

D) Morses should remove any adverse payment information from Ms G's credit file about loan 3. If Morses has sold any of the loans Morses should ask the debt purchaser to do the same.

*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Ms G a certificate showing how much tax Morses has deducted if she asks for one.

My final decision

My final decision is that I uphold Ms G's complaint in part and I direct that Morses Club PLC does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 4 April 2022.

Rachael Williams
Ombudsman