

The complaint

Mrs W says Morses Club PLC lent to her irresponsibly. She says that the loans weren't affordable for her and Morses should have seen this and not lent.

What happened

This complaint is about nine home collected loans Morses provided to Mrs W between February 2015 and October 2019. Some of the information I have been provided about the lending is in the table below.

loan	date taken	amount	instalments	date repaid
1	20/02/2015	250	28	29/09/2015
2	20/02/2015	250	28	29/09/2015
3	29/09/2015	500	34	23/05/2016
4	27/05/2016	500	33	18/11/2016
break in lending				
5	13/06/2017	500	33	16/01/2018
6	16/01/2018	500	33	16/08/2018
7	16/08/2018	500	33	21/03/2019
8	21/03/2019	500	33	29/10/2019
9	29/10/2019	500	34	26/06/2020

It's worth noting that there is a break in the lending between loans 4 and 5. This break is long enough here (around 7 months) to say that there are two distinct periods of lending. Loans 1 to 4 and Loans 5 to 9.

And both sides have said, before the lending in the table above, Mrs W had taken a significant number of loans from a business that Morses later became responsible for. Morses doesn't have full details of this lending and neither does Mrs W. So, I haven't been able to consider this lending as part of this complaint.

Our adjudicator partially upheld the complaint. He didn't have enough to say that loans 1 to 7 had been approved irresponsibly. But he thought the lending pattern itself was harmful by loan 8 and so Morses shouldn't have approved loans 8 and 9.

Mrs W accepted what the adjudicator said.

Morses disagreed with the adjudicator's opinion. It said that the lending pattern didn't seem unreasonable for these loans. Added to this, the loans looked to be affordable and were a small proportion of Mrs W's disposable income.

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 I've explained why below.

Mrs W accepted our adjudicator's opinion about loans 1 to 7. 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. This decision will focus on whether Morses was right to approve loans 8 and 9.

I haven't recreated individual, proportionate affordability checks for loans 8 and 9 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 8. I say this because:

- In the second period of lending Mrs W had taken out four loans within 21 months. And she'd had a lending relationship with Moses for around four years now. This is a long time to be using this type of credit.
- Mrs W borrowed £500 right at the start of the lending (loans 1 and 2 were taken together) and in the second period of lending she continued to borrow £500 each time. Even considering the break in lending, loans 8 and 9 were the latest in a fairly long line of higher loan amounts.
- There were no breaks in the lending between loans 5 to 9 so it seems reasonable to say that Ms H was probably needing further funds to replace the money she had spent on her earlier loan repayments.
- So, at loan 8, Moses ought to have known that Mrs W was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need. And Moses ought to have realised Mrs W was not managing to repay her loans sustainably.
- I don't think it's relevant now to consider the size of the loan repayments against her income as I think the pattern of lending itself shows harm at loan 8.

I think that Mrs W lost out because Moses continued to provide borrowing from loan 8 onwards 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, overall, I'm upholding the complaint about loans 8 and 9 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 stopped lending to Mrs W from loan 8, 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 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 loans 8 and 9.

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 for loans 8 and 9 means any information recorded about them is adverse, so it should remove these loans entirely from Mrs W's credit file. 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 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 21 April 2022.

Andy Burlinson
Ombudsman