

The complaint

Mr M, through his representative, complains that Morses Club PLC, lent to him irresponsibly.

What happened

Information supplied by Morses has been presented to us as a loan table commencing with 'Loan 7'.

Morses has explained that it acquired some Shopacheck financial services accounts. It said that it only acquired open accounts at the point of acquisition in March 2014. In Mr M's circumstances, Morses appears to be saying that loans 1 to 6 are loans about which it does not hold information and were most likely closed, settled or sold before March 2014. So, loans 1 to 6 likely are accounts which remain the responsibility of Welcome Finance now in administration with KPMG.

Morses does take responsibility for Loan 7, and its confirmed that Loans 8 to 14 were sold to Mr M by Morses.

Loan No:	Date Taken	Date Repaid	Weekly Instalments	Loan Amount	Highest Weekly Repayment
7	20/01/2015	04/12/2015	100	£794.00	£11.12
8	09/12/2015	14/06/2016	33	£500.00	£25.00
9	14/06/2016	22/12/2016	33	£500.00	£25.00
10	22/12/2016	10/08/2017	33	£500.00	£25.00
11	10/08/2017	26/04/2018	33	£500.00	£25.00
12	26/04/2018	19/12/2018	33	£700.00	£35.00
13	19/12/2018	20/08/2019	33	£705.00	£35.25
14	20/08/2019	01/06/2020	33	£800.00	£40.00

One of our adjudicators looked at the complaint and thought that Morses should put things right for Mr M from loan 10. Morses agreed that it ought not to have lent to Mr M in relation to loans 12 to 14, but it disputes loans 10 and 11.

This resolution outcome – loans 12 to 14 – was sent to Mr M's representative. It has acknowledged receiving it but has not come back to give us Mr M's view on it. Morses has requested that this be reviewed by an ombudsman and so 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 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 M 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. Our adjudicator thought that this applied to Mr M's circumstances from loan 10 and I'll come back to this later in the decision.

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 M's complaint in part and have explained why below.

Neither Morses nor Mr M have been able to supply us with any information about the loans approved for Mr M before loan 7. And so, I'm not able to make any finding on those but the fact that there were several loans in the lead up to approving loan 7 (£794 loan over 100 weeks – almost two years) is relevant when considering Mr M's complaint. In my view Morses would have been aware of these earlier credit commitments.

Mr M didn't disagree with our adjudicator's opinion about loans 7 to 9. 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 M 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 loans 10 to 14 because I don't think that it is necessary to do so. And Morses has agreed with our adjudicator's resolution outcome for loans 12 to 14 and therefore they are not in dispute. That means that my decision need only be about loans 10 and 11 as they appear to be the ones about which Morses disagree.

I've looked at the overall pattern of Morses' lending history with Mr M, 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 circumstances of Mr M's case, I think that this point was reached by loan 10. I say this because:

- At this point he had been indebted to Morses for over two years and likely much longer than that as loans 1 to 6, although we don't have details, likely were approved in the year (or years) before the loan 7 approval in January 2015. The consecutive pattern had led Mr M to be constantly in debt for almost two years without any significant gaps in borrowing which should have been a concern to Morses; and
- Mr M's first loan that we know of was for almost £800 and loan 14 was for £800. And there had been an incremental increase in the intervening loan amounts as the years went by. Mr M had been indebted to Morses for a significant time.
- At this point – loan 10 - Morses ought to have known that Mr M was likely borrowing to meet an ongoing and increasing need. And this indicates his problems may have been worsening. So, because of these factors, Morses ought to have realised it was more likely than not Mr M's indebtedness was unsustainable.
- From loan 10 onwards Mr M was provided with a new loan a very short time after he settled his previous loan.
- Mr M wasn't making any real inroads to the amount he owed Morses. Loan 14 was taken out over four years (likely longer) after Mr M's first that we know of. And it was for a similar amount. Mr M had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I appreciate that Morses feels that the checks it did were enough to show the lending was affordable. But I think the lending pattern itself shows the loans weren't sustainable. I think that Mr M lost out because Morses continued to provide borrowing from loan 10 onwards because:

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

So, overall, I'm also upholding the complaint about loans 10 to 14 (of which Morses has agreed about loans 12 to 14) and Morses should put things right. For completeness I've included all the loans about which Morses should put things right into the next section.

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 Mr M from loan 10, 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 Mr M 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 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 Mr M 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 M 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 M loans 10 to 14 and ought to do as follows:

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

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

D) The overall pattern of Mr M's borrowing for loans 10 to 14 means any information recorded about them is adverse, so it should remove these loans entirely from Mr M'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 Mr M a certificate showing how much tax Morses has deducted, if they ask for one.

My final decision

My final decision is that I uphold Mr M'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 Mr M to accept or reject my decision before 17 January 2022.

Rachael Williams
Ombudsman