

The complaint

Mrs L, through her representative, complains that Morses Club PLC lent to her irresponsibly.

What happened

Using records supplied by Morses, here is a brief table of the approved loans for Mrs L.

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Weekly Repayment
1	09/10/2015	04/05/2016	33	£100.00	£5.00
2	08/02/2016	25/08/2016	33	£200.00	£15.00
3	25/08/2016	15/03/2017	33	£300.00	£15.00
4	15/03/2017	01/11/2017	33	£400.00	£20.00

Mrs L's representative has explained that Mrs L was in financial difficulties and had little income. It says that Mrs L's situation was:

'Her monthly income was £600 and her expenses mounted up to £550, which left our client with £50. This left her with barely enough funds to meet her needs, much less cover the weekly loan amortizations on multiple loans.'

One of our adjudicators looked at the complaint and thought that by loan 4 Morses ought to have ceased lending to Mrs L. Morses disagreed and gave some reasons as to why, all of which I have reviewed.

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 Mrs L could repay the loans in a sustainable manner.

These checks could consider a number of 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 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 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 Mrs L's circumstances at loan 4 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 Mrs L's complaint in part and have explained why below.

Mrs L 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 deciding about this lending. But they were part of the borrowing relationship Mrs L had with Morses and relevant for that reason.

Morses' records show that it knew she was a widow and she had told Morses she was claiming her pension. Mrs L had declared for loans 1 to 3 respectively a variable income of £170 a week, £206 and £155 a week. For loan 4 it had recorded her weekly income as £170. And for loan 4 it had recorded she spent money each week on childcare which does not appear to fit with her date of birth or her circumstances as a retired widow.

So, these points, plus the varied declarations on expenditure (which ranged from £60 to £107), and the rather odd declaration relating to childcare ought to have prompted some additional verification by the time Morses received her fourth application. In addition, as loan 4 was for £400, which was four times the amount she had asked for at loan 1, then I think that ought to have prompted some additional questions by Morses as well.

I haven't recreated individual, proportionate affordability checks for the last loan 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 L, 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 Mrs L's case, I think that this point was reached by loan 4. I say this because of the reasons I've outlined above as the details it had for Mrs L showed she was a low earner and the figures did not necessarily match up.

I also think that by the time Mrs L was applying for loan 4 she had been indebted to Morses for about 18 months with a particularly low income and one which was not likely to be augmented by a partner as she was a widow, and not likely to increase as the nature of pensions is that they are static. Mrs L had been constantly in debt for almost 18 months without any significant gaps in borrowing which should have been a concern to Morses.

In addition:

- Mrs L's first loan was for £100 and loan 4 was for £400. And there had been an incremental increase in the intervening loan amounts as the months went by.
- At this point – loan 4 - Morses ought to have known that Mrs L was likely borrowing to meet an ongoing and increasing need. And this indicates her problems may have been worsening. So, because of these factors, Morses ought to have realised it was more likely than not Mrs L's indebtedness was unsustainable.
- Mrs L wasn't making any real inroads to the amount she owed Morses. Loan 4 was taken out around 18 months after Mrs L's first loan. And it was for four times the amount. Mrs L 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 Mrs L lost out because Morses continued to provide borrowing at loan 4 because:

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

So, overall, I'm also upholding the complaint about loan 4 and Morses should put things right for her.

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 Mrs L at loan 4, 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 L 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 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 Mrs L 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 L 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 L loan 4 and ought to do as follows:

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

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

D) The overall pattern of Mrs L's borrowing for loan 4 means any information recorded about it is adverse, so it should remove these loans entirely from Mrs L'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 L a certificate showing how much tax Morses has deducted, if she asks for one.

My final decision

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

Rachael Williams
Ombudsman