DRN-3203023

The complaint

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

What happened

Using information from Morses, here is a brief table showing the approved loans.

loan	***date taken***	***date repaid***	***amount borrowed***	***term***	***weekly rate***
1	20/08/2015	17/03/2016	£100	34w	£5
2	17/03/2016	04/10/2016	£200	33w	£10
3	04/10/2016	06/02/2017	£300	33w	£15
Gap in borrowing of 11 months					
4	09/01/2018	17/08/2018	£610	33w	£30.50
5	17/08/2018	27/09/2018	£610	33w	£30.50
6	01/11/2018	21/10/2019	£600	52w	£21
7	21/10/2019	27/10/2020	£600	53w	£21

Ms M's representative has said that there is no evidence to suggest Morses carried out the correct checks to determine if Ms M could sustain the level of borrowing. Morses' offered new loans, rolled over loans and increased indebtedness levels throughout the lending period. And '*By behaving in this way, the lender did not attempt to consider the pattern of borrowing, which indicated a cycle of debt and an increasing reliance on credit. Therefore, having no consideration for the longer term impact of the borrowing of the customers.'*

One of our adjudicators looked at the complaint and did refer to the break between loans 3 and 4. Our adjudicator thought that the loan 4 repayment figure of over £30 a week represented a large proportion of Ms M's income (around 17%) as she was on a low income, and so thought that Morses should put things right for that loan and loans 5 and 6.

For loan 7 our adjudicator considered that by this time Ms M had been indebted to Morses for a long time and so the lending ought to have ceased at that point.

Morses disagreed. It pointed out that there was an eleven month gap after loan 3 that broke the chain of lending and a gap between loans 5 and 6 of 35 days.

Morses pointed out that Ms M had one loan at a time (no overlapping loans), each loan was paid back on time or early '…*and the percentage of the customer available and uncommitted income taken up by the loan repayments was never more than 26%, which we feel is affordable.'*

Morses said that Ms M often spoke to them and never mentioned having any financial difficulty and she'd recommend Morses to other people.

Our adjudicator responded and endorsed his first view with a second view.

The unresolved complaint was passed to me to decide. I issued a provisional decision as my reasoning differed and it gave Ms M's representative time to send additional evidence if they wanted to. My provisional findings from 4 May 2022 are duplicated in the next section of this decision and in smaller type to differentiate them.

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 Ms M 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 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.

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 are unlikely to be able to make their repayments without borrowing further.

My provisional findings dated 4 May 2022

I've decided to uphold Ms M's complaint in part and have explained why below.

Ms M's representative was silent in relation to the outcome of the complaint, so I have looked at all the loans.

Firstly, I agree that the 11 month break in lending did mean that loan 4 was the start of a new lending chain. Having said that I realise that Morses submissions to us have included all the information for all

7 loans and in one table and so it seems that they likely knew some of the background about loans 1 to 3 when considering loan 4.

Here is a second table showing some information about Ms M's declared income and expenditure. I have formulated the second table for ease of reference when explaining the reasoning in my decision.

Loan	Declared income	Declared expenditure	Description of expenditure spend	Calculated weekly disposable income
1	£320	£140	Rent, bills, food/transport	£180
2	£320	£170	Bills, food/transport, other	£150
3	£170 benefits	£50	groceries	£120
Gap in borrowing				
4	£176 benefits	£60	groceries	£116
5	£250	£120	utilities, media, council tax, groceries	£130
6	£191	£86	utilities, council tax and groceries	£105
7	£182	£85	Utilities, media, insurance, other credit, groceries & transport	£97

This table is to assist me to demonstrate the very different levels of detail Morses obtained from Ms M, the variation of the information she gave it, and the varying income levels. Morses' records do indicate that it knew Ms M's income for loans 1 and 2 were from a salary and for loans 3 and 4 were from benefits.

Morses carried out a credit check in August 2015 before loan 1 and has not done one since. Looking at that credit history it did appear that Ms M had a history of poor repayment of earlier loans and she had several 'defaults' but dating back almost four years. So, this was relevant in my view but not necessarily a reason not to lend. Added to which loans 1 and 2 were relatively low value and Ms M's income was at a good level at £320 a week.

So, I consider that the checks Morses carried out for loans 1 and 2 were proportionate and I am planning not to uphold Ms M's complaint about loans 1 and 2.

Loan 3 was for £300 – so it represented a tripling of the loan value from loan 1 and yet Ms M told Morses her income had halved and she was receiving benefits. And I consider it odd that Ms M's only declared expenditure was for 'groceries'. And so, I would have expected some additional enquiries to have been made.

Ms M has not given figures for rent or bills and I'd consider that unusual enough for Morses to have recognised that her declaration may not have been complete, and/or that there may be an explanation for suddenly not having to pay rent or bills. Morses did not make those additional enquiries to satisfy itself of her income and expenditure figures.

But as I have no information from Ms M about her financial situation in October 2016 then I cannot make any further findings about her circumstances. On current evidence I am planning not to uphold Ms M's complaint about loan 3.

Loan 4 was applied for after a gap which I agree does break the lending chain. So, the checks Morses carried out likely were proportionate as usually it was satisfactory for it to rely on what Ms M had told them. However, this was a large loan for a home credit company from an applicant it would be treating as a new customer after the gap in lending. And it has noted that Ms M's income was from benefits and not a high figure either. Plus, all that Ms M has declared as 'expenditure' was 'groceries' and so I think that Morses ought to have been alive to the fact it needed to know more before approving a relatively large loan for a person on a relatively low income.

And I take our adjudicator's point that over 17% of Ms M's total weekly income was being taken up to repay this loan and it was too high a proportion. So, I am planning to uphold Ms M's complaint about loan 4.

Each of the applications for loans 5, 6 and 7 have resulted in differing income levels, expenditure figures and expenditure amounts. I have set these out in the second table earlier in this decision. Yet Ms M was returning regularly for the same level of loan and Morses had not checked any of the varying details it had received. Morses' own records demonstrate to me that additional enquiries should have been made. Additional checks ought to have been carried out but as I have no information from Ms M about her situation when she applied for loan 5 then I do not plan to uphold loan 5.

I note the 35 day gap between loans 5 and 6 but this does not break the lending chain because it was too short a period.

For loans 6 and 7, the reason the repayment figure drops to around £21 a week was because the loan terms were increased to 52 weeks which only means that Ms M was further indebted to Morses for longer. And I note that Ms M's income levels had dropped again.

The credit search Morses had carried out in August 2015 was too historic to be of value at this point.

Certainly full financial reviews ought to have been carried out by the time Ms M returned for loans 6 and 7 but on current evidence I have no information about Ms M's financial situation in November 2018 and October 2019 and I cannot make any further findings about her circumstances. On current evidence I am planning not to uphold Ms M's complaint about loans 6 and 7.

How did the parties respond?

Both Ms M and Morses have agreed with the outcome in my provisional decision. So, I repeat all the provisional findings here and for the same reasons given I uphold Ms M's complaint about loan 4.

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 given Ms M loan 4, as I'm satisfied it ought not to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Ms M may have simply left matters there, not attempting to obtain the funds from elsewhere. Ms M 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 M 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 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.

I direct that Morses shouldn't have given Ms M loan 4.

- Morses should add together the total of the repayments made by Ms 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.

- Morses should calculate 8% simple interest* on the individual payments made by Ms M which were considered as part of "A", calculated from the date Ms M originally made the payments, to the date the complaint is settled.

- Morses should pay Ms M the total of "A" plus "B".

- Any adverse payment information about loan 4 ought to be amended on Ms M's credit file.

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

My final decision

I uphold Ms M's complaint about Loan 4 and I direct that Morses Club PLC does as I have directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 10 June 2022.

Rachael Williams
Ombudsman