

The complaint

Ms H says Morses Club PLC lent to her irresponsibly. She says that she was in financial difficulty when Morses approved the loans. She thinks that it should've seen this and not lent to her.

What happened

This complaint is about seven home collected loans Morses provided to Ms H between December 2014 and March 2019. Some of the information I have been provided about the lending is in the table below.

loan	date taken	instalments	amount	date repaid
1	02/12/2014	34	£200.00	15/10/2015
2	12/02/2015	34	£200.00	31/03/2016
break in lending				
3	20/12/2016	33	£200.00	02/09/2017
4	20/04/2017	33	£200.00	20/10/2017
5	20/10/2017	33	£300.00	26/06/2018
6	26/06/2018	33	£300.00	07/03/2019
7	07/03/2019	33	£500.00	17/01/2020

It's worth noting that there is a break in lending between loans 2 and 3. This break is long enough here (just over 8 months) to say that there are two distinct periods of lending. Loans 1 to 2 and loans 3 to 7.

And both sides have noted, before the lending in the table above, Ms H may have taken a number of loans from a business that Morses later became responsible for. Morses doesn't have full details of this lending and neither does Ms H. So, we haven't been able to consider this earlier lending as part of this complaint.

Our adjudicator partially upheld the complaint. He didn't have enough to say that loans 1 to 5 had been approved irresponsibly. But he thought the lending pattern itself was harmful by loan 6 and so Morses shouldn't have approved loans 6 and 7.

Ms H's representative responded and didn't disagree with 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 Ms H'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 Ms H 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 Ms H's complaint in part and have explained why below.

Ms H didn't disagree with our adjudicator's opinion about loans 1 to 5. Because of this I don't think there is any ongoing disagreement about these loans. So, I won't make a decision about this lending. But, they were part of the borrowing relationship Ms H had with Morses. So, they are something I will take into account when considering the other loans she took. Instead, this decision will focus on whether Morses was right to approve loans 6 and 7.

I haven't recreated individual, proportionate affordability checks for loans 6 and 7 because I don't think that it is necessary to do so. I've looked at the overall pattern of Morses' lending history with Ms H, 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 Ms H's case, I think that this point was reached by loan 6. I say this because:

- In the second period of lending Ms H had taken out four loans within 18 months. And she'd had a lending relationship with Moses for around three and a half years now. This is a long time to be using this type of credit.
- Ms H borrowed £200 right at the start of the lending and in the second period she continued to borrow £200 up to loan 5. But she borrowed £300 for loan 6 and £500 for loan 7. So, her need for this type of credit increased over these last two loans.
- There were no breaks in the lending between loans 3 to 7. So, it seems reasonable to say that Ms H was probably requiring further funds to replace the loan repayments she was making.
- So, at loan 6 Moses ought to have known that Ms H was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need. And Moses ought to have realised Ms H 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 and I think the pattern of lending itself shows harm at loan 6.

I think that Ms H lost out because Moses continued to provide borrowing from loan 6 onwards because:

- These loans had the effect of unfairly prolonging Ms H's indebtedness by allowing her to take expensive credit over an extended period of time.
- The length of time over which Ms H 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, I'm upholding the complaint about loans 6 and 7 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 Ms H from loan 6, 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 H 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 Ms H 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 Ms H would more likely than not have taken up any one of these options. So it wouldn't be fair to now reduce Moses' liability in this case for what I'm satisfied it has done wrong and should put right.

Moses shouldn't have given Ms H loans 6 and 7.

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

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

D) The overall pattern of Ms H's borrowing for loans 6 and 7 means any information recorded about them is adverse, so it should remove these loans entirely from Ms H'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 Ms H 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 Ms H'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 Ms H to accept or reject my decision before 22 April 2022.

Andy Burlinson
Ombudsman