

The complaint

Miss R says Morses Club Plc irresponsibly lent to her.

What happened

This complaint is about two home credit loans given to Miss R by Morses Club. Miss R took out the first loan for £400 in October 2017. It was due to be repaid in weekly repayments of £20 over 33 weeks. The second loan was taken in March 2018 for £600 and this was again due to be repaid in weekly instalments of £21 over 52 weeks.

Our adjudicator considered the complaint and didn't uphold it. She felt that Morses Club had completed proportionate checks and based on what Miss R had declared, it was reasonable for it to lend to her.

Miss R was unhappy with the adjudicator's assessment and asked for an ombudsman to consider the complaint. Her complaint has therefore been passed to me to consider.

I issued a provisional decision setting out why I felt this complaint should be upheld.

In my provisional decision I said:

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 short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Morses Club 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 Miss R 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 Club should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- *the lower a consumer'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.

I think that it is important for me to start by saying that Morses Club was required to establish whether Miss R could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the relevant regulations define 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 carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss R's complaint. Having done so I plan to uphold this complaint.

Before agreeing Miss R's first loan I can see Morses Club took details of her income which it's said it verified with a payslip. Morses Club also took details of her self-declared expenditure and completed a credit search. Miss R declared an income of £400 per week and expenditure of £14 per week on groceries and no other expenditure. I've noted the application asked Miss R to declare her expenditure from a number of different sources including various different types of existing credit (mortgage, credit cards, other home credit, loans and other credit) and general expenditure such as rent, council tax, utilities etc. I think £14 per week is a quite a low amount for Morses Club to accept as an accurate reflection of Miss R's total weekly expenditure. So, I think Morses Club should've questioned this further at the time.

In any event, from looking at the credit search results Morses Club has provided, it's clear it had further information to doubt the expenditure declarations Miss R provided. These results show that just prior to agreeing loan one, Miss R had over £30,000 outstanding in existing credit. This included "loans and instalment credit", "revolving credit and budget accounts" and home credit. I therefore don't think it was reasonable for Morses Club to rely on Miss R's self-declared expenditure, particularly as the results of it's own checks showed Miss R had a substantial amount of existing debt. So, I don't think Morses Club completed proportionate checks before agreeing to lend loan one.

Based on the information Morses Club had available before agreeing loan one, I think it's arguable that this demonstrated Miss R didn't have capacity to take on additional borrowing. However, Miss R has also provided further information about her financial circumstances at the time. Miss R has provided a copy of her bank statements dated just after she took out loan one. These show that Miss R was spending almost as much as she was earning on existing credit commitments, including other high cost credit providers, before her other regular expenditure is even considered. And I think it's unlikely that her circumstances would've changed significantly in the month prior to her taking out this loan. So, I think this reinforces what Morses Club should've seen from her credit search results – that Miss R was already so heavily indebted that she didn't have capacity to take on additional borrowing and that she couldn't have sustainably afforded to repay this loan. And so I don't think Morses Club should've agreed loan one.

Turning to loan two, I also don't think this should've been agreed for largely the same reasons. Miss R declared an income of £387 per week and expenditure of £120 per week. This consisted of £100 per week on groceries and £20 per week for her previous loan with Morses Club. Again this shows a lack of other expenditure and I think Morses Club should've questioned this. It's not entirely clear if Morses Club completed another credit search at this point, there's some information to suggest it may have but I haven't been provided with a copy of these results.

In any event, the earlier credit search was around five months earlier and based on this information alone, it's again arguable that Morses Club was on notice that Miss R didn't have capacity to take on additional borrowing. So, I don't think it completed proportionate checks before agreeing Miss R's second loan.

Based on the information I have about Miss R's wider financial circumstances at the time loan two was given, I can see that she was still heavily indebted and was still using large amounts of her income to repay existing credit commitments. So again, I don't think Miss R could've sustainably afforded to repay this loan.

I asked both parties to provide me with anything further they wanted me to consider before reaching a final decision.

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 short-term lending - including all of the relevant rules, guidance and good industry practice - on our website. I have again kept this in mind when considering this complaint.

In response to my provisional decision Miss R confirmed she agreed with the decision. Morses Club didn't provide a response.

As neither party has provided anything new for me to consider, I see no reason to depart from the conclusions I reached in my provisional decision. So it follows that I uphold this complaint in full.

Putting things right

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had Morses not lent to Miss R. Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Miss R may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them and this particular lender. 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 Miss R 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 Miss R would more likely than not have taken up any one of these options. So it wouldn't be fair to now reduce Morses Club's liability in this case for what I'm satisfied it has done wrong and should put right. So I think Morses Club should put things right in the following ways:

- refund all interest and charges Miss R paid on both loans;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about the loans from Miss R's credit file;

† HM Revenue & Customs requires Morses Club to take off tax from this interest. Morses Club must give Miss R a certificate showing how much tax it's taken off if she asks for one.

I understand Morses Club has since sold Miss R's debt to a third party. Morses Club should buy the debt back to achieve the compensation I've detailed above. If this isn't possible, Morses Club needs to calculate the equivalent sum required in line with above and pay the sum to the third party debt purchaser.

My final decision

I uphold Miss R's complaint against Morses Club Plc and direct it to pay the compensation I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 14 January 2022.



Claire Lisle
Ombudsman