

## The complaint

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

## What happened

Using information Morses has provided, here is a brief table of the approved loans.

<i>loan</i>	<i>date taken</i>	<i>date repaid</i>	<i>amount borrowed</i>	<i>term</i>	<i>weekly rate</i>
1	29/03/2018	06/12/2018	£300	33w	£15
2	06/12/2018	30/06/2020	£500	33w	£25
3	25/04/2019	outstanding	£600	52w	£21

One of our adjudicators looked at the complaint and thought that Morses ought to have realised that Mr S was having trouble managing his money by the time he applied to it for loan 3. So, she thought that Morses should put things right for Mr S for loan 3.

Morses disagreed and made several points to give reasons as to why – all of which I have reviewed.

The unresolved complaint 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 Mr S 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're unlikely to be able to make their repayments without borrowing further.

Mr S has indicated that he agrees with our adjudicator's view from which I take it that loans 1 and 2 are undisputed. So, I consider the outcome on those – non-upholds – stands and I have not reviewed them. I consider loans 1 and 2 resolved.

I've decided to uphold Mr S' complaint in part (loan 3) and I have explained why below.

The information Moses had about Mr S's income and expenditure is duplicated here:

<i>income</i>	<i>expenditure</i>	<i>disposable income</i>
£191.20	£69.10	£122.10
£190.62	£67.38	£123.24
£387.25	£156.75	£230.50

When Mr S approached Moses for loan 3 he had been indebted to it for over a year and looking at the statements of account for loan 2 I have seen that his repayments were erratic. They commenced in December 2018 and the payments had started to falter in April 2019, and again in June 2019. Soon after that it looked like Mr S was on a repayment plan. He had been paying £5 a week and then he regularly paid £5.43 each week from 25 July 2019 for many months.

And it was in April 2019 that Mr S applied to Moses for loan 3, for a larger amount and for a 52 week term whereas his others had been for 33 weeks. And this was overlapping with Loan 2 which, as I have already pointed out, was beginning to have erratic repayments.

Even if that was not enough, Moses had carried out a credit search before loan 1 and having reviewed that there was enough on there to lead me to think that further checks ought to have been carried out before an overlapping and larger loan 3 was approved.

And I say this because when the credit search was carried out some time before Mr S took

loan 3, it showed that the total balances on all active accounts had been over £11,000 of which £3,300 had been on other home-credit loans. And for those other home credit loans the credit search showed that Mr S had been paying £202 a month. So his situation was not great when he was applying for loan 1. At least I would have expected Moses to have checked this again or asked Mr S further details about his finances to satisfy it of the creditworthiness assessment it was required to carry out.

Moses has pointed out to us since receiving the adjudicator's view that Mr S's income had increased for loan 3. And Moses has said that Mr S had told them that he shared his bills with his partner and had no rent or council tax to pay as the council paid.

I appreciate that but that situation was the same for each of the applications. It was a piece of information which had altered in loan 3. And still from the repayment records it seems Mr S was not coping with the loan 2 repayments and already had a lot of home credit debt.

Using Moses own records I could see that his repayments for loan 2 had already started to become shaky before he applied for loan 3.

Overall, I think Moses had enough to realise that he was not likely able to repay loans 2 and 3 together and that does appear to have been borne out. Mr S appears to have entered a repayment plan with loan 2, and for loan 3 in 2019 he quickly stopped paying £21 a week, reduced to £5 and then from 25 July 2019 seemed to be on a repayment plan of £4.57.

I uphold Mr S' complaint in part.

### **Putting things right**

Moses shouldn't have given Mr S loan 3.

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it stopped lending to Mr S from loan 3, 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 S 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 S 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 S 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.

If Moses has sold the outstanding debts Moses should buy these back if it is able to do so and then take the following steps. If Moses is not able to buy the debts back it should liaise with the new debt owner to achieve the results outlined below.

- A) Morses should add together the total of the repayments made by Mr S towards interest, fees and charges on all upheld loans without an outstanding balance, not including anything Morses have already refunded.
- B) Morses should calculate 8% simple interest\* on the individual payments made by Mr S which were considered as part of "A", calculated from the date he originally made the payments, to the date the complaint is settled.
- C) Morses should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Mr S as though they had been repayments of the principal on all outstanding loans. If this results in Mr S having made overpayments then Morses should refund these overpayments with 8% simple interest\* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Morses should then refund the amounts calculated in "A" and "B" and move to step "E".
- D) If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Mr S.

However if there is still an outstanding balance then Morses should try to agree an affordable repayment plan with him. Morses shouldn't pursue outstanding balances made up of principal Morses have already written-off.

- E) Morses should remove any adverse payment information about loan 3 from Mr S' credit file.

\*HMRC requires Morses to take off tax from this interest. If Mr S asks Morses for a certificate showing how much tax Morses has taken off, Morses should provide this. If it intends to use the refund to reduce an amount Mr S owes, Morses must do this after tax.

### **My final decision**

My final decision is that I uphold Mr S' complaint and I direct that Morses Club PLC does as I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 5 October 2022.

Rachael Williams  
**Ombudsman**