DRN-3362839

The complaint

Mr C says Morses Club PLC irresponsibly lent to him.

What happened

This complaint is about a home credit loan lent in February 2021, the loan was for £400 with 34 weekly instalments of £20. Mr C fully repaid the loan in March 2021.

Our adjudicator upheld Mr C's complaint and thought the loan shouldn't have been given. Morses disagreed and the complaint was 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.

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 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 C 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 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.

Morses was required to establish whether Mr C could sustainably repay his loan – not just whether the loan payments were affordable on a strict pounds and pence calculation.

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 C's complaint.

Morses has provided evidence to show that it asked Mr C about his income and expenses and also searched his credit file. Morses hasn't provided the full results of its credit search. Based on the checks it carried out, Mr C had sufficient disposable income to repay the loan.

Morses disagrees with the adjudicator's view that Mr C was due to repay a significant portion of his weekly income towards repaying the loan as a reason to uphold it says even with that portion of Mr C's weekly income going towards repaying the loan, he still had sufficient disposable income.

Mr C has provided a full copy of his credit report, I appreciate different checks could show different things but as Morses has been unable to provide the full results of its checks, I think it's reasonable to rely on the details of the credit file Mr C provided as information Morses would likely have seen.

Mr C's credit report shows that he had two other high cost short term loans, the weekly repayment of these was around £60. Mr C also has three credit cards with a combined outstanding balance of £1,695 and a combined limit of £2,000. Taking these debts into account and the repayment for this loan, I think Morses ought to have known Mr C would likely struggle to repay the loan over the term.

Morses has said Mr C repaid the loan early which suggests it was affordable, in my view, I think that on its own raises questions about how Mr C was managing his finances. I can see from the credit report that Mr C took a loan in the month before this loan and another loan in the month after he repaid this loan. In that time, he was using all three of his credit cards including taking out cash advances on them.

So while on the face of it, it seemed as though Mr C could afford this loan, I think Morses would have seen that he was probably reliant on credit and further lending shouldn't have occurred here and so it needs to put things right.

Putting things right

- refund all interest and charges Mr C paid on the loan

- 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 loan from Mr C's credit file;

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

My final decision

For the reasons given above, I'm upholding Mr C's complaint. Morses Club PLC should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 30 August 2022.

Oyetola Oduola
Ombudsman