

The complaint

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

What happened

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

Loan	Date Taken	Date Repaid	Weekly Instalments	Amount	Max. Weekly Repayment
1	15/12/2016	04/07/2017	33	£100.00	£5.00
2	04/07/2017	19/12/2017	33	£100.00	£5.00
3	19/12/2017	07/08/2018	33	£100.00	£5.00
	Short gap				
4	22/11/2018	27/06/2019	33	£100.00	£5.00
5	27/06/2019	12/12/2019	33	£200.00	£10.00
6	12/12/2019	11/03/2021	34	£200.00	£10.00

After Ms D complained, Morses sent her its final response letter (FRL) in which it gave reasons why it did not uphold her complaint.

One of our adjudicators looked at the complaint and thought that Morses should put things right for Ms D for loans 5 and 6. He thought that Ms D, having been in debt to Morses for two and a half years, with no significant gaps and only a relatively small break in lending in 2018, meant that the pattern of lending was unsustainable.

Morses disagreed and gave several reasons as to why it thought differently, all of which I have reviewed and considered carefully.

The unresolved complaint was passed to me to decide. Ms D appeared to agree with our adjudicator's view and so the loans in dispute appear to be loans 5 and 6. I have reviewed those within the context of the overall lending relationship.

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 high cost, short-term and home credit lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses had to assess the lending to check if Ms D could afford to pay back the amounts she'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Morses' checks could have considered a number of different things, such as how much was being lent, the size of the repayments, and Ms D's income and expenditure.

I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Morses should have done more to establish that any lending was sustainable for Ms D. These factors include:

- Ms D having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Ms D having many loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Ms D coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Ms D. Our adjudicator considered this to be the case for Ms D.

Morses was required to establish whether Ms D could sustainably repay the loans – not just whether she technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Ms D was able to repay her loans sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Ms D's complaint.

Gap in lending

I am aware of the three and a half month gap in the lending between loans 3 and 4. This is not such a significant gap that I consider it was enough to break the lending chain. And so, I am approaching this complaint as though it was a continuous lending relationship from loan 1 to loan 6.

However, I have reviewed what that gap means when considered as part of the overall lending relationship and the reason given by our adjudicator as to why he gave a view that loans 5 and 6 ought to be upheld for Ms D. I have expanded on this later in the decision.

Evidential points

I must acknowledge that we have very little in the form of evidence from Ms D. I've considered all that I have carefully. Her representative has said that it has no more evidence available to send us and has asked us to proceed on what we have.

Ms D's representative has sent to us a table listing a series of other loans and the dates she had them with other lenders between December 2015 and November 2018. But there's no verification to back this up and so I attach little evidential weight to that list.

Morses has sent us a copy of a credit search it carried out in December 2016 – before loan 1. The credit search set of results did indicate Ms D had had some sort of 'insolvency record' but it was not clear what that was.

Our adjudicator asked Ms D if she had any kind of issue in the past such as bankruptcy, an Individual Voluntary Arrangement (IVA) or a formal debt management plan, and her reply was 'no'. So, I am unclear as to what that record in the results may have been. Ms D has denied having any insolvency issue in the past. So, I cannot really factor this into my deliberations as it's not clear what it may have been, if anything.

I've reviewed all the points Morses said in response to our adjudicator's view and the last part it says that Ms D had

'...made us aware that her son pays her rent and council tax in full, she had no insurance or transport costs, and that she had recently made savings on the cost of her utilities and media services.'

In relation to this last assertion by Morses, I've no evidence to back this up and so I attach little weight to it.

My findings on the evidence I have

Morses has said it did only one credit search – I referred to it earlier - and that was at the beginning of the relationship. What that set of results does show is that Ms D had only three credit accounts of which 1 was active. From the records that looks to have been a bank account. Morses would have seen that she had very little in the way of other credit in December 2016.

The short break in the lending from August 2018 does lead me to think that Ms D was not likely dependent on Morses' loans and I think this for two reasons: one is that from December 2016 when Ms D took loan 1 to December 2017 when she applied for and took loan 3, I do not consider it a long enough time or that the loan applications were for large enough loan amounts to lead me to think that Ms D had become dependent on that credit.

And the second reason is that when Ms D reapplied to Morses for loan 4 in November 2018, because it had been eleven months since she had taken loan 3 and over three months since she had repaid loan 3, then I am not persuaded that Ms D was reliant on the Morses credit to the extent that Morses ought to have realised it and ceased lending. To this extent I do not agree with our adjudicator's view.

Having said all that, I noticed that Ms D's declared income to Morses halved when she applied to it for loan 3.

Morses has sent to us what it calls its 'frontsheet' and has explained:

'Income and expenditure information can be located on the Front Sheet on the right hand side, this includes the customers income, priority bills and any other expenditure information.'

Here is a duplicate of the table of figures from that frontsheet Morses has sent to us on the income and expenditure values it relied on when making the decisions to lend.

LOAN	INCOME	EXPENDITURE	DISPOSABLE INCOME
1	£252.00	£168.00	£84.00
2	£230.00	£183.00	£47.00
3	£116.00	£84.00	£32.00
4	£113.54	£85.50	£28.04
5	£119.04	£75.00	£44.04
6	£119.04	£83.00	£36.04

I think that large income reduction, plus the fact that Ms D was, in my view, within a low income bracket (£116 a week) when she applied to Morses for loan 3, leads me to think that Morses ought to have checked further.

Additional checks may have taken several forms, but certainly seeking to discover why her income had halved would have been a high priority in my view. As Ms D has made it clear she has nothing else to send me then in the absence of anything else then I have reviewed what I have from Morses.

The weekly expenditure figures for Ms D for loan 5 included groceries, utilities and media costs and a £5 repayment to Morses which I can see from the Statements of Account sent to me for Ms D's loans, related to the loan 4 repayments. It was much the same for loan 6 but this time the Morses repayment was listed as £10. From this it seems that the disposable income for Ms D after taking loan 5 was £39.04 each week. And for Loan 6, £36.04.

Using what I have, then my view is that in June and December 2019, for an applicant such as Ms D to have had an income each week of £119 was low and the disposable income (with no rent declared in these figures) of £39 and £36 respectively were low figures. The capital sums Ms D was requesting for loans 5 and 6 were for double what she had asked for in the past and were twice as much each week - £10 a week rather than £5 a week. And although these may be viewed as relatively small repayment sums, still I consider that for Ms D, on a low income, there were not insignificant. She had been in debt to Morses for a long period overall by the time she applied to it for loan 5. Ms D's available money to spend was a low amount, and one I'd consider to be unsustainable for the 33 and 34 week terms which were around eight months each.

Simply using the figures Morses has presented to me as being the information it had when it was making the lending decisions, leads me to consider that the lending was irresponsible.

I uphold Ms D's complaint about loans 5 and 6

Putting things right

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it stopped lending to Ms D at loan 5, 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 D 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 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 Ms D 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 D 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.

Morses shouldn't have given Ms D loans 5 and 6.

- A) Morses should add together the total of the repayments made by Ms D 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 D which were considered as part of "A", calculated from the date Ms D originally made the payments, to the date the complaint is settled.
- C) Morses should pay Ms D the total of "A" plus "B".
- D) Morses needs to amend the adverse payment information that may have been entered onto Ms D's credit file in respect of loans 5 and 6.

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

My final decision

My final decision is that I uphold Ms D's complaint in part and I direct that Morses Club PLC does as I have outlined in the 'putting things right' part of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 1 August 2022.

Rachael Williams
Ombudsman