

## The complaint

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

## What happened

Using information from Morses, here is a brief loan table of the approved loans for Ms C.

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	19/05/2016	20/12/2016	33	£200.00	£10.00
2	20/12/2016	06/06/2017	33	£300.00	£15.00
3	06/06/2017	12/12/2017	33	£400.00	£20.00
4	12/12/2017	24/04/2018	33	£250.00	£12.50
5	24/04/2018	28/03/2019	33	£400.00	£20.00
6	30/08/2018	26/10/2021	52	£400.00	£34.00

One of our adjudicators looked at the complaint after it had been referred to the Financial Ombudsman Service and thought that Ms C's complaint should be upheld in relation to Loans 4 to 6.

Morses disagreed and 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.

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 C could repay the loans in a sustainable manner.

These checks could take into account 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.

Ms C has not responded to the adjudicator's view and so I am unclear as to her opinion on the outcome of the complaint.

Our adjudicator did not think that Moses had done anything wrong for loans 1 to 3. And having reviewed them, I have evidence from Moses to indicate that Ms C had enough disposable income to cover the repayment amounts for these loans.

I have reviewed the application form (handwritten) for loan 1 which indicates that she had told Moses she had £145 a week disposable income. And I have received a copy of the credit search results Moses obtained in May 2016. That set of results, on the face of them, they show little. I doubt that Moses would have been placed on alert that Ms C was likely not able to repay loan 1.

As for loans 2 and 3, it would still have been proportionate in that early stage of the lending relationship for Moses to have relied on the information Ms C had told them. I have seen the spreadsheet which recorded her income (from benefits) and her expenditure and loans 2 and 3 looked to have been affordable. I know that Ms C is submitting they were not affordable but she has sent no additional information about her finances at the time and so I cannot review what I do not have.

As for the other three loans, our adjudicator upheld them and I have decided to uphold the complaint in relation to loans 4 to 6.

#### *Loan 4*

I have reviewed all that Moses has said and I appreciate its points. I have seen from the records I have been given that for loans 1, 2 and 3 Ms C had said to Moses she was paying down another loan (£15 a week and £5 a week), then I think that by loan 4 more ought to have been done. Loan 4 was used to repay loan 3 which showed a repeat behaviour for her. And by the time she applied for loan 4 Ms C had been in debt with Moses for around 19 months.

Moses says that it carried out further checks but I do not consider '*...reviewing her income and any available evidence*' was enough before approving the fourth loan when Ms C had been in debt to Moses for around 19 months. Her income was from benefits and I have seen from the repayment records that she had rolled her previous debt into the new loans each time.

The credit search Moses has sent to us was carried out in May 2016 was out of date by the time that Ms C applied to it for loan 4 in December 2017. They did not show that Ms C had been paying down another loan as she had told Moses she was doing. And I obtained that information from the handwritten application for loan 1 in May 2016. Ms C had repeated the fact that she had other loans to pay off in the applications for loans 2 and 3 as well.

Moses has said it only carried out a credit search at loan 1 and in my view there was nothing to prevent Moses from checking this point about the other loan or loans she said she was paying off by doing a further credit search or asking her about them.

And so, I looked for information that Moses may have discovered if it had carried out the further checks for loan 4.

I know from our own records that Ms C had obtained other loans with another home credit provider. She had been borrowing from the other lender since 2013 and in May 2014 had obtained two loans from it in quick succession in May and June 2014, but these were not paid off until December 2019. They ought to have been a 41 week loan and a 32 week loan (respectively) at £10 a week each (£20 combined) and so they ought to have been repaid around March or April 2015. So, when Ms C was asking Moses for its loan 4 in December 2017, Ms C was already in arrears on the other lender's two loans by two and a half years.

So, I think that better checks before approving loan 4 would likely have revealed this about Ms C and her other loan commitments which, in my view, likely would have led Moses not to lend to Ms C for loan 4. Despite this it did lend to her.

I uphold Ms C's complaint about loan 4.

#### *Loans 5 and 6*

I haven't recreated individual, proportionate affordability checks for loans 5 and 6 because I don't think that it is necessary to do so.

I've looked at the overall pattern of Moses' lending history with Ms C, with a view to seeing if there was a point at which Moses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Moses should have realised that it shouldn't have provided any further loans.

Given the circumstances of Ms C's case, I think that this point was reached by loan 5.

I say this because:

- at this point she had been indebted to Morses for almost two years.
- Ms C's first loan was for £200 and loan 5 was for £400. So, the amount Ms C was borrowing had doubled as well as her being indebted to Morses for a significant time.
- at this point Morses ought to have known that Ms C was likely borrowing to meet an ongoing and increasing need. And this indicates her problems may have been worsening.
- so, because of these factors, Morses ought to have realised it was more likely than not Ms C's indebtedness was unsustainable.
- from loan 5 onwards Ms C was provided with a new loan a very short time after she settled her previous loan.
- Ms C wasn't making any real inroads to the amount she owed Morses. Loan 6 was taken out over two years after Ms C's first and loan 6 was applied for when she still owed Morses a significant amount of money on Loan 5. And loan 6 was for a larger amount than loan 1. Ms C had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I appreciate that Morses feels that the checks it did were enough to show the lending was affordable. But I think the lending pattern itself shows the loans weren't sustainable.

I think that Ms C lost out because Morses continued to provide borrowing from loan 5 onwards because:

- these loans had the effect of unfairly prolonging Ms C's indebtedness by allowing her to take expensive credit over an extended period of time.
- the length of time over which Ms C borrowed was likely to have had negative implications on Ms C's ability to access mainstream credit and so kept her in the market for these high-cost loans.

So, overall, I'm also upholding the complaint about loans 4 ( as previously explained) together with loans 5 and 6 and Morses should put things right.

#### *Other points raised by Morses*

Morses has quoted a customer satisfaction note it had in which Ms C had told her Morses representative she was happy with everything. But that was just before loan 6 was approved and I do not attach much weight to a comment where the customer is applying for more cash. So, it does not persuade me that Ms C's complaint ought not to be upheld.

Morses is right that she was not under an obligation to settle her loans early, and she could have closed her loans at the end of a loan term, but she did not. And its likely she was reliant on the money by the time she was applying for 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 C from loan 4, 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 C 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 C 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 C 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 C loans 4 to 6.

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

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

D) For loan 4, Morses should amend Ms C's credit file to remove adverse payment information.

The overall pattern of Ms C's borrowing for loans 5 and 6 means any information recorded about them is adverse, so it should remove these loans entirely from Ms C'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 C 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 C'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 C to accept or reject my decision before 27 September 2022.

Rachael Williams  
**Ombudsman**