

## The complaint

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

## What happened

Mr M was approved for five loans and using Morses' information here is a brief loan table.

Loan	Start Date	End Date	Capital Amount	Interest amount	Term	Repayment amount
1	25/11/2016	28/06/2017	£300.00	£195.00	33	£15.00
2	14/04/2017	12/04/2018	£300.00	£195.00	33	£15.00
3	28/06/2017	29/06/2018	£300.00	£195.00	33	£15.00
4	12/04/2018	13/12/2018	£300.00	£195.00	33	£15.00
5	29/06/2018	07/02/2019	£300.00	£195.00	33	£15.00

Where the loans overlap then the repayment amounts are the two figures for each row combined. For instance, Loans 1 and 2 together was costing Mr M £30 each week.

After Mr M had complained, Morses issued its final response letter (FRL) in which it gave reasons as to why it considered it had done all it should have before lending and so did not uphold Mr M's complaint.

After Mr M had referred his complaint to the Financial Ombudsman Service, one of our adjudicators looked at it. She felt that the credit file details for Mr M which Morses had obtained before loan 1 was approved demonstrated he was not managing his money. He had received a County Court Judgment (CCJ) 12 months before loan 1 in November 2015 which did not appear to have been settled. And Mr M had received a default just a few months before the first loan was approved. So, our adjudicator thought that Morses should not have lent to Mr M at all.

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 Mr M 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 Moses 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 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.

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.

I've decided to uphold Mr M's complaint and have explained why below.

Moses says that it verified Mr M's income. And it's 'front sheet' which is the record of the information Mr M told it and what Moses obtained before lending shows the details. I can see from that record that the inputted information varied depending on the loan applied for. For instance, rental costs of £110 or £120 a week were inputted onto the record for loans 3 and 5 but not loans 1, 2 or 4. Whereas utility bill costs were on the information sheet for each loan and so that does not suggest that Mr M had moved out of his home in between loans as he continued to pay those costs.

Added to which, as Moses had obtained a credit search report and that credit search did show that Mr M had outstanding debt issues, then I do find it unusual that Moses had recorded nothing as costs for 'other credit' other than for loan 5. Whereas for loan 5, no sum was inputted for 'groceries'. There seems to have been some fluidity in the figures and the amounts recorded. And checking the application forms I can see that it was the same agent signing on behalf of Moses each time. Home credit is a product where the agent does attend at the applicant's house, usually, and often gets to know the applicant. And so, I find these anomalies in the figures concerning.

Starting with loan 1, and reviewing the credit file search results which Moses has sent to us, it is clear that Mr M had an outstanding CCJ from just a year before and had several delinquent accounts plus a recent defaulted account, and he was well above his limits in relation to his credit in general. The examples I use from that report are these entries –

*Current balances on all revolving credit accounts as a % of current limits 344%*

*Total value of all current defaults £4122*

*Total value of all current delinquents £4122*

So, with that information I would have expected Moses to have obtained additional information. Instead, the Moses agent appears to have accepted that Mr M's outgoings for loan 1 were £80 which were £30 a week for utilities (no rent recorded) and £50 a week for groceries. I find this unlikely and so I think proceeding on that low level of information when Mr M's credit file was poor does not lead me to think that proportionate or reasonable checks were carried out before lending.

Ideally I would have received additional information from Mr M so that I could see what Moses likely would have obtained in relation to expenditure figures had it done so before approving loan 1. I do not have any but I do not think it's unreasonable for me to look to the other information that the agent obtained later in the lending relationship to give me an idea of what it was Mr M usually spent his money on. And from that I have deduced that he likely had rent of £110 or £120 a week, he likely had media costs and council tax, and possibly some childcare. And it's likely he had other costs associated with the outstanding debts.

So, I consider that the true disposable income figure was much less than the figure recorded at loan 1, and that with the credit results indicate to me that it was not right to lend to Mr M.

My view for loan 2 is much the same as that of loan 1 and for loan 3 although Mr M's income had increased according to the records I have been given, so have his outgoings. And by loan 3 Mr M would have been paying for two Moses loans.

Mr M applied for loan 3 when he was about two months into loan 2 and some of the new loan 3 was used to repay loan 1. And by the time Mr M was applying for loan 3 he already had demonstrated a poor repayment history for loans 1 and 2, certainly an erratic one. And so, the payment history would not likely have led to Moses being confident in his ability to pay going forward especially considering the credit history it had about Mr M.

So, I do not think that Moses should have lent to Mr M for loans 1 to 3 based on the information it already knew.

Reviewing the repayment history further, from around August 2017 to January 2018 Mr M was hardly paying anything at all for loans 2 and 3 combined. And so there ought to have been a time when Moses assisted Mr M and not simply offered more loans. But in April 2018 Mr M was granted more loans. Moses records show that those two loans (2 and 3) took 52 weeks to pay off (using other loans from Moses) whereas they were scheduled to take 33 weeks.

I haven't recreated individual, proportionate affordability checks for loans 4 and 5 because I don't think that it is necessary to do so. I've looked at the overall pattern of Moses' lending history with Mr M, 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 Mr M's case, I think that this point was reached by loan 4. I say this because:

- At this point he had been indebted to Moses for about 17 months.

- Mr M's first loan was for £300 and he consistently asked for £300 (including at loan 4) but the difference lay in the fact he needed the new loans to repay the older ones.
- At this point Moses ought to have known that Mr M was likely borrowing to meet an ongoing and increasing need. And this indicates his problems may have been worsening.
- So, because of these factors, Moses ought to have realised it was more likely than not Mr M's indebtedness was unsustainable.
- From loan 4 onwards Mr M was provided with a new loan a very short time after he settled his previous loan.
- Mr M wasn't making any real inroads to the amount he owed Moses. Loan 5 was taken out around 18 months after Mr M's first. Mr M had paid large amounts of interest to, in effect, service a debt to Moses over an extended period.

I appreciate that Moses 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 Mr M lost out because Moses continued to provide borrowing from loan 4 onwards because:

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

So, overall, I'm also upholding the complaint about all Mr M's and Moses should put things right.

### **Putting things right**

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it not lent to Mr M at all, 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 M may have simply left matters there, not attempting to obtain the funds from elsewhere. 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 M 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 Mr M 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.

Moses shouldn't have given any of the loans to Mr M.

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

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

D) For loans 1 to 3 Morses should amend Mr M's credit file to remove any adverse payment information.

The overall pattern of Mr M's borrowing for loans 4 and 5 means any information recorded about them is adverse, so it should remove these loans entirely from Mr M'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 Mr M a certificate showing how much tax Morses has deducted, if he asks for one

### **My final decision**

My final decision is that I uphold Mr M's complaint and I direct that Morses Club PLC does as I have indicated in the 'putting things right' part of the decision.

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

Rachael Williams  
**Ombudsman**