

The complaint

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

What happened

Ms H's representative carried out some research before making the complaint on Ms H's behalf and has told us it is satisfied she had six loans.

Using information from Morses, and from Ms H's representative, here is a table of the approved loans and it combines all the information together. Morses referred to them as loans 20 to 24 for the period 2012 to 2016. Then the loan in 2019 it has referred to as loan 1.

I have renumbered them and I have placed the Morses numbering in brackets.

loan	Term	Approved	Repaid	Amount	Repayment weekly
1 (20)	SFS 78 Week Loan Shopacheck	11 Dec 2012	16 Jun 2014	£500	£12.50
2 (21)	SFS 78 Week Loan Shopacheck	16 Apr 2013	27 Oct 2014	£600	£15 (plus loan 1 = £27.50)
3 (22)	SFS 50 Week Loan	28 Oct 2014	02 Oct 2015	£450	£15.75
4 (23)	50 Week Loan MCL	02 Oct 2015	08 Sep 2016	£450	£15.75
5 (24)	52 Week Loan	08 Sep 2016	14 Sep 2017	£450	£15.75
Gap of around 20 months					
6 (1)	33 Week Loan	09 May 2019	02 Jan 2020	£200	£10

Morses' final response letter did not uphold Ms H's complaint and after it had been referred to the Financial Ombudsman Service it was reviewed. One of our adjudicators wrote a formal opinion in which he said that loans 23 and 24 ought not to have been approved due to harm done by the repeat lending.

So, using my numbering that means that our adjudicator upheld loans 4 and 5. Morses objected to the outcome for loans 4 and 5 and has given us additional information not available to our adjudicator.

Ms H's representative did not respond to the adjudicator's view and had sent us no supporting documentation for her complaint.

The unresolved complaint was passed to me to decide and on 24 October 2022 I issued a provisional decision giving reasons why I did think that part of Ms H's complaint ought to be upheld – that part relating to loan 5.

I gave time for both parties to respond – 7 November 2022 and I appreciate that date has not arrived yet. But both parties have responded already and so it makes sense to resolve the complaint by issuing my final decision now.

For ease of reference I have set out the provisional findings in the next section of this decision and they are deliberately in smaller type to differentiate them from this decision. It forms part of this decision.

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 H 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 H'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 H. These factors include:

- Ms H 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 H having a large number of 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 H 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 H. Our adjudicator considered this to be the case for Ms H for loans 4 and 5.

Morses was required to establish whether Ms H 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 H 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.

My provisional decision findings dated 24 October 2022

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

Loans 1 to 5

Ms H's representative has not responded and so from that it seems likely that Ms H has no issue with the outcome for loans 1 and 2 and 3 and so I have not re-addressed them here.

According to repayment records Morses has sent to us, nearly all the loans (for the loan 1 to 5 period) were paid on time or a week over the term, and so that suggests there was nothing to prompt concern.

And the only loan where the repayment records suggest that there may have been the capital from the new loan being used to repay some of the previous loan was when Ms H took loan 5. About £20 was left to repay on loan 4.

However, Morses has referred to there being three arrears letters sent to Ms H during the period of lending for loans 1 to 5. But we have no detail on the dates.

Morses responded to say that for loan 4 Ms H's weekly income was £240 and for loan 5 it was £178 and it said those income figures were confirmed. Although the 'front sheet' (the Morses' income and expenditure record) we had received from Morses did not include these figures I have accepted them as correct, but as this is a provisional decision Morses may wish to send us the documents to substantiate this. Our adjudicator did not have these figures when he came to his view.

Morses also said that it knew Ms H's expenditure figures but we have not received those for loans 4 or 5.

But, proceeding on what Morses says, it has calculated that Ms H had a disposable income of £140 for loan 4 and a disposable income of £103 for loan 5. So, it says it used 11.2% of her uncommitted and available income for the Morses loan 4 and it was 15.2% for loan 5. Morses did not consider these excessive.

I have proceeded on the assumption that the figures for loan 5 were much the same as those given to us for loan 4.

Using the fresh information we have from Morses about loan 4, and proceeding on the assumption it is correct, then I do not consider that the figures we have for loan 4 suggest that Ms H's situation with taking that loan was harmful in some way. I think that it seems she was able to afford that loan on the income and expenditure figures I have been given and so provisionally – on current evidence – I plan not to uphold loan 4.

However, for loan 5, there are two elements which arise with the fresh information from Morses. One is that this was a significant drop in income from £240 a week to £178 a week for loan 4 and that ought to have alerted Morses to a problem. And secondly, I consider that £178 a week income is particularly low and so additional care and further checks ought to have been undertaken.

But in addition to this I do consider that the percentage of income used to repay loan 4 was high at 15.2% and in my view provides me with evidence of Ms H likely to have found that hard especially on such a low income.

And by this stage, loan 5, Ms H had been borrowing from Morses for almost four years and for loan 5 there had been a significant drop in income.

Borrowing consecutively for many months and without any breaks highlights the fact that Mrs H was likely to be having trouble making ends meet. I think that by loan 5 Morses ought to have realised that she was filling a hole left by the repayments for the earlier loans. And the repetitive nature of the lending was otherwise unsustainable. I say this because she had been indebted to Morses for almost four years. This was an unreasonably long time to be using high cost credit in itself. But at loan 5 Ms H was making a commitment to make repayments for a further 50 weeks.

I think that Ms H lost out because Morses provided loan 5:

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

So, I'm upholding the complaint about loan 5 on the basis that the relationship had been long and repetitive and was unsustainable for Ms H. Morses should put things right.

Loan 6

Loan 6 was applied for after a 20 month break and I do consider it reasonable for Morses to have treated Ms H as if she was a new customer. In fact, it seems that it did as she was allocated a fresh customer number in May 2019.

We have more details about Ms H for the loan 6 application, Her income was recorded as being £185.85 a week and her outgoings as £75 a week. This is a low income again at £185 a week and so additional care ought to have been given to this loan application. However, it was for a relatively modest sum of £200 over a relatively modest term of 33 weeks, and as I have already explained I do consider it reasonable for Morses to have treated her as a new customer.

Morses had carried out a credit search in May 2019 and the results have been sent to us. It was aware she had been a previous customer of theirs. And it had information which showed that her defaults from accounts around 45 months before applying for loan 6 related to home shopping accounts (£3,069) and seemed to be historic debt.

The records also told it that Ms H's total balances on active accounts excluding mortgages and home shopping was £3,805. While that is not comfortable it would not be considered particularly high and so on balance I doubt that Morses would have been too concerned.

On balance, Morses are used to lending to customers with adverse information on their credit files and without any additional evidence from Ms H, and using the information Morses had at the time it chose to lend in May 2019, I think the checks were proportionate. The lending decision was reasonable. And it appears Ms H ceased borrowing after loan 6.

I plan not to uphold loan 6.

How did both parties respond to these provisional findings?

Ms H's representative has said that it will accept the loan 5 uphold if, when reviewing it for the final decision, my mind is not altered by any additional information I receive. But Ms H has not sent me anything new or made any further submissions.

Morses has confirmed the details I have relied on in my earlier provisional decision in relation to loans 4 and 5 by sending to me copies of the handwritten applications from October 2015 and September 2016 (loans 4 and 5). Morses made no additional points. So, I am satisfied that the figures provided by Morses and on which I based my provisional findings were those known by Morses at the time.

As no additional submissions or new evidence has been sent to me then I see no reason to depart from the conclusion I came to in my provisional decision and for the same reasons I uphold loan 5.

Putting things right

In deciding what redress Moses should fairly pay in this case I've thought about what might have happened had it stopped lending to Ms H at loan 5 in lending chain 1, 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 H 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 Ms H 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 H 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 Ms H loan 5.

- Moses should add together the total of the repayments made by Ms H 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.
- Moses should calculate 8% simple interest* on the individual payments made by Ms H which were considered as part of "A", calculated from the date Ms H originally made the payments, to the date the complaint is settled.
- Moses should pay Ms H the total of "A" plus "B".
- The overall pattern of Ms H's borrowing for loan 5 means any information recorded about it is adverse, so it should remove them entirely from Ms H's credit file.

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

My final decision

My final decision is that I uphold Ms H's complaint in part and I direct that Moses Club PLC does as I have outlined above in the 'putting things right' section of the decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 2 December 2022.

Rachael Williams
Ombudsman