

The complaint

Ms J, 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 seven approved for Ms J.

Loan	Start date	Capital Amount	Term in weeks	Repayment amount	Repaid date
1	2 April 2016	£200	21	£15.44	9 Sept 2016
2	27 May 2016	£100	20	£7.50	2 Dec 2016
3	9 Sept 2016	£200	20	£15	19 Dec 2016
4	16 Dec 2016	£150	33	£7.50	21 July 2017
5	19 Dec 2016	£200	20	£15	16 June 2017
Four month gap					
6	27 Oct 2017	£350	33	£17.50	25 May 2018
7	25 May 2018	£350	33	£17.50	11 Jan 2019

Morses issued its final response letter (FRL) and did not uphold Ms J's complaint. Her representative referred it to the Financial Ombudsman Service where one of our adjudicators looked at it.

His view was that by loans 6 and 7, Ms J's need for credit had increased, and at loan 7 her income had dropped a great deal. And he considered the repetitive nature of the lending and the lending pattern showed that she hadn't reduced her loan amounts consistently over a reasonable period and from the information we hold we know she had been indebted to Morses for around 2 years in total. Our adjudicator's view was the pattern of lending itself showed that the loans from loan 6 were unsustainable – so he did not think Morses should have given Ms J loans 6 and 7.

Morses disagreed and gave several reasons why, all of which I had read. The unresolved complaint was passed to me to decide. On 25 November 2022 I issued a provisional decision in which I gave reasons why I thought that the complaint ought to be upheld for loan 7 only, mainly because I held a different view on the four month gap in the lending relationship which made a difference to the outcome.

Since then both Ms J's representative and Morses have responded to agree with my provisional decision. And so, I have proceeded to final decision and the provisional findings made are unchanged and form the final determination set out below.

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 J 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 J'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 J. These factors include:

- Ms J 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 J 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 J 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 J. Our adjudicator considered this to be the case for Ms J.

Morses was required to establish whether Ms J 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 J 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 J's complaint.

I agree that the four month gap in lending after loan 5 would not be long enough for me to think that the lending relationship had ceased. Ms J had been borrowing from Morses since April 2016 and by June 2017, when Ms J had paid off loan 5, that would have been 14 months of consecutive loans. So, a four month gap would not be long enough for me to think that when she returned in October 2017 she necessarily needed to be treated as if she were a new customer. The relationship had been well established and four months would not likely lead Morses to think that.

However, I depart from our adjudicator's view when considering whether Morses had been lending to her so often that the repetitive nature meant that the lending had become unsustainable to Ms J. I do not think that a four month gap lends itself to upholding that view.

However, I do think that by loan 6 when Ms J did return and needed a much higher loan than before, additional checks ought to have been carried out.

But, to assess what it is that Morses may have found in relation to Ms J's financial position if it had carried out further checks at loan 6, then I'd need to see additional information from Ms J. But no financial details or documents to support her complaint have been sent to us. Since issuing my provisional decision in which I gave this provisional finding, Ms J has not sent anything further and has agreed with my provisional findings.

And so, using the evidence I have, I do not feel persuaded to uphold Ms J's complaint about loan 6.

As for loan 7, Morses has been clear that its agent did carry out some verification checks on her incomes for loan 6 and loan 7 and so it would have noticed – or ought to have noticed - that her income had dropped from £330 a week to £180 a week. I consider that a significant change.

In addition, the income and expenditure spreadsheet Morses has provided for us shows that at loan 7 Morses knew Ms J was paying £40 a week for other credit and her groceries budget had dropped drastically from £90 a week – a realistic figure – to £40 a week – an unrealistic figure in my view.

The combination of all those factors, about which Morses knew, plus Ms J was needing an additional £350 on the day she was repaying loan 6, leads me to think that Ms J was not likely able to afford a further £17.50 a week. I think that using the groceries figure used at loan 6, together with the new loan repayment of £17.50 a week then Ms J would have been left with about £30 a week which I think is just too tight to be reasonable.

Morses and Ms J have accepted what I said in my provisional decision and so having reconsidered the complaint my view remains the same. I uphold Ms J's complaint about loan 7.

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 J at loan 7, 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 J 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 reconstruct now accurately. 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 J 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 J 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.

I do not think that Morses shouldn't have given Ms J loan 7.

A) Morses should add together the total of the repayments made by Ms J towards interest, fees and charges on loan 7, 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 J which were considered as part of "A", calculated from the date Ms J originally made the payments, to the date the complaint is settled.

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

D) remove adverse payment information about loan 7 from Ms J's credit file.

*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Ms J 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 J's complaint in part and I direct that Morses Club PLC does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 9 January 2023.

Rachael Williams
Ombudsman