

The complaint

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

What happened

Mr M took seven loans and using the records Morses has, here is a brief table.

Loan	Start Date	End Date	Capital Amount	Interest amount	Term	Repayment amount	Weeks Live
1	01/12/2017	10/07/2018	£300.00	£195.00	33	£15.00	32
2	10/07/2018	23/01/2019	£300.00	£195.00	33	£15.00	28
3	23/01/2019	11/07/2019	£300.00	£195.00	33	£15.00	24
4	11/07/2019	11/12/2019	£300.00	£195.00	33	£15.00	22
5	11/12/2019	29/07/2020	£300.00	£210.00	34	£15.00	33
Three month gap							
6	22/10/2020	05/05/2021	£300.00	£210.00	34	£15.00	28
7	05/05/2021	31/12/2021	£300.00	£225.00	35	£15.00	34

Morses responded to Mr M's complaint by issuing a final response letter in May 2022. It did not uphold his complaint.

Mr M referred it to the Financial Ombudsman Service and one of our adjudicators looked at it. He had noticed the three month gap in the lending but did not think that it broke the chain of loans approved for Mr M and so he treated it as one loan chain.

Our adjudicator's view was that by loan 4 the pattern of lending itself showed that the loans from that point were unsustainable – so Morses ought to have ceased to lend at loan 4 – his outcome was to uphold the complaint for loans 4 - 7.

Morses disagreed and gave several reasons as to why, which are summarised here:

- Loans 6 and 7 relate to a brand new account and Morses did treat Mr M as a new customer after the break
- £300 loans were relatively low value
- The loan repayments remained the same at £15 a week
- Mr M had a good repayment history
- Morses did an income and expenditure assessment (I&E) for each loan
- It was able to either verify Mr M's incomes or check them through Credit Reference Agencies (CRA)
- For the loans taken after 2019 it used Office of National Statistics (ONS) data
- It looked at Mr M's credit commitments using the credit search results
- Morses sent to us screenshots of Mr M's comments to the agents when applying for the loans. All of these I have reviewed

- Morses said: *'each affordability assessment showed he had sufficient uncommitted and available income to meet his repayments to Morses Club and we never used more than half.'*
- Morses said Mr M had the choice whether to take a series of loans or cease after a loan.
- It has not seen any evidence to show that Mr M was using other funds to meet his repayments and so causing him to borrow again.

Mr M's representative has acknowledged the fact the case was being passed to an ombudsman for review. It has, in the past, said that it cannot send to us any further information about Mr M's finances.

The unresolved complaint was passed to me to decide and on 8 December 2022 I issued a provisional decision giving reasons why I considered that part of the complaint ought to be upheld, but for different loans (loans 2 to 7) and for different reasons to those given by our adjudicator.

I gave both parties time to respond. I duplicate here (in smaller type) my provisional findings and then go on to finalise the decision.

My provisional decision dated 8 December 2022

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 Mr M could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Morses' checks could have considered several different things, such as how much was being lent, the size of the repayments, and Mr M'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 Mr M. These factors include:

- Mr M 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);
- Mr M 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);
- Mr M 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 Mr M. Our adjudicator considered this to be the case for Mr M from Loan 4.

Morses was required to establish whether Mr M could sustainably repay the loans – not just whether he technically had enough money to make her repayments. Having enough money to make the repayments could of course be an indicator that Mr M was able to repay his 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 Mr M's complaint.

Pattern of lending

I do not agree that the three month gap caused a break in the lending. I do not know why Mr M reapplied to Morses with a fresh customer number, but that largely is irrelevant. I note that he did and that Morses treated him as a new customer. But I think it's highly likely that Morses was aware, or ought to have been aware, that Mr M had just paid off a loan with it three months earlier. And so, I consider that after having had Mr M as its customer for two and a half years, that a three month gap would not lead to a break in the customer relations and a break in the loan chain.

However, I do not consider that a three month break likely reveals a reliance on the loans as our adjudicator has indicated for loans 6 and 7. It seems more likely that it would be reasonable for Morses to consider Mr M as *not* being reliant on its credit after a three month break. And so, I have reconsidered the complaint afresh.

I am issuing a provisional decision as I plan to uphold Mr M's complaint in part and I explain going forward. And here is the information Morses has provided from its I&E assessment sheets.

Loan	Income	Expenditure	Disposable Income	Total Other Credit	##
1	£180.00	£131.00	£49.00	£18.00	10.00%
2	£151.31	£107.63	£43.68*	£40.00	26.44%
3	£261.61	£184.11	£77.50*	£117.97	45.09%
4	£224.91	£169.84	£55.07	£36.97	16.44%
5	£224.91	£188.87	£36.04*	£118.00	52.47%
6	£303.16	£244.54	£58.62	£90	29.69%
7	£188.50	£124.72	£63.78*	£71	37.67%

*these asterixis mark the loan application details where there were no figures included in the I&E for groceries. Which leads me to conclude that these disposable income figures would have been lower realistically after Mr M had paid for some food.

##The final two columns are taken from the Morses records sent to us and it must have discovered the other credit commitment costs from its research. Morses has not been able to send to us the credit search results for loans 1 to 5. It has sent us a set of search results dated October 2020 which dovetails with loan 6. And in that document it states that Mr M's total monthly payments on all accounts (excluding mortgages) and active was £416 which would translate to be around £96 a week and it has recorded £90 a week for '*total other credit*' which seems to have been about right.

And that was calculated to have been 29.69% of his weekly income of £303.16 for loan 6. Therefore, applying that logic to the other figures in the columns it seems that the last column is the credit commitment cost to Mr M as a percentage of his weekly income before the Morses loan was added in.

Looking at those columns I consider that

- Mr M was on a low income most of the time and
- the percentages for loans 2 to 7 were too high for a low wage person for them to be sustainable with the Morses loans as well, and
- the Morses loans were consistently £15 a week but on top of significant other credit.

So, although I do not have the credit search records for loans 1 to 5, it seems that Moses knew these details and it had taken the time to make these calculations. And the information from the credit search done in October 2020 dovetails with the calculations. Loan 7 appears to have been applied for when Mr M had experienced a significant reduction in wage level from just over £303 to £188.50.

I have read the screenshots sent to us by Moses for Mr M. It seems that he was receiving reduced household outgoings and was well supported by his wife. Still, I consider that for loans 2 to 7 the percentage Mr M was already spending on credit costs were too high, he had a relatively low to modest income and these figures were before the Moses loan repayments were added in to the I&E assessment.

Overall, I consider that loans 2 to 7 ought not to have been approved for Mr M.

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.

Mr M's representative has responded to say that Mr M agrees with my provisional decision and Moses has told us that it has nothing else to add.

Considering I have no further evidence or submissions from either party then I see no reason to depart from the provisional findings and the outcome. Those are repeated here and form part of the final decision.

For the reasons given I uphold the complaint in relation to loans 2 to 7.

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 Mr M at loan 2, 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 – 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 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 Mr M loans 2 to 7.

A) Moses 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) Any adverse payment information recorded about loans 2 to 7 should be removed from Mr M's credit file.

*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 in part and I direct that Morses Club PLC does as I have outlined above 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 26 January 2023.

Rachael Williams
Ombudsman