DRN-4005590

The complaint

Mr K says Morses Club PLC irresponsibly lent to him.

What happened

Morses lent Mr K five home credit loan. From the information provided, Mr K's borrowing history is as follows:

Loan	Start Date	End Date	Capital Amount	Interest amount	Term	Repayment amount
1	23/10/2020	29/03/2021	£300.00	£210.00	34	£15.00
2	06/01/2021	06/07/2021	£300.00	£210.00	34	£15.00
3	29/03/2021	18/10/2021	£700.00	£490.00	34	£35.00
4	06/07/2021	10/03/2022	£300.00	£225.00	35	£15.00
5	18/10/2021		£700.00	£525.00	35	£35.00

Our adjudicator partially upheld Mr K's complaint and thought the loans from 6 July 2021 onwards shouldn't have been given. Morses disagreed and the complaint was passed to me.

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 short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

Morses is aware of it obligations as a lender as explained in the regulator's handbook so I don't intend to go into all the details about his duty. In summary, Morses is required to take reasonable steps to ensure that it didn't lend irresponsibly. There isn't a prescriptive level of checks to ensure responsible lending and 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 consumer'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.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr K's complaint. Having done so, I don't think Morses was wrong to lend loans 1 – 3 but it shouldn't have lent loans 4 and 5, I'll explain why.

Loans 1 – 3 were lent during the early stages of the lending relationship. The loan repayments were modest compared to Mr K's income and there wasn't anything from the credit search or his lending history that I think should have prompted Morses to take its checks further. The checks Morses carried out for all three loans suggest Mr K could afford the repayments, so I don't think Morses was wrong to lend.

However, by loan 4, I don't think it was reasonable for Morses to continue to rely on the level of checks it used for the previous loans. Mr had borrowed loans 3 and 4 on the same day he repaid loans 1 and 2. Mr K also took out loan 5 (the highest loan amount) on the same day he repaid loan 3 and hadn't had a break in lending. Mr K had been repaying more than one loan at a time from the start of the borrowing relationship. I think given the above, Morses should have been looking to understand a bit more about Mr K's finances before agreeing to lend loans 4 and 5.

To understand more about Mr K's finances at the time, I've looked at his credit file from around that time and from what I can see, Mr had a default less than a month before loan 4 was granted, he was also repaying at least three other high-cost credit accounts. Also, Mr K had historic defaults on his account which didn't appear to be reducing in balance and so wasn't freeing himself from debt. I don't think Mr K's circumstances improved by loan 5 either.

I appreciate different checks may show different things, but I think it's reasonable to rely on Mr K's credit file in this instance to understand his financial position at the time, given the absence of other evidence/information from Morses. Morses believes its checks showed Mr K could afford the loan repayments, while that was the suggestion its checks showed, Mr K's lending history with Morses should have prompted further checks and had Morses carried out further checks, I think it would likely have found Mr K was struggling financially and wouldn't have lent loans 4 and 5.

Morses has lent when it shouldn't have, and it needs to put things right.

Putting things right **–** what Morses needs to do;

- remove all interest, fees and charges added to loans 4 and 5. Add up the total amount of money Mr K received as a result of having been given loans 4 and 5. The repayments Mr K made should be deducted from this amount.
  a) If this results in Mr K having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †

  b) If any capital balance remains outstanding, then Morses should attempt to arrange an affordable and suitable payment plan with Mr K.

- remove any negative information about loans 4 and 5 from Mr K's credit file once the capital has been fully repaid.

† HM Revenue & Customs requires Morses to take off tax from this interest. Morses must give Mr K a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I'm partially upholding Mr K's complaint. Morses Club PLC should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 30 June 2023.

Oyetola Oduola
Ombudsman