DRN-4083954

The complaint

Mr G says Morses Club PLC irresponsibly lent to him.

What happened

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

Loan number	Start date	Loan amount (£)	Repayment (£)
1	12 April 2019	300	15
2	10 October 2019	600	30
3	16 June 2020	600	30
4	10 February 2021	600	30
5	3 June 2021	500	18.75

Our adjudicator upheld part of Mr G's complaint and thought loans 4 and 5onwards shouldn't have been given. Morses disagreed, it said the pattern doesn't suggest Mr G was dependent on credit and its checks showed he had sufficient disposable income to repay the loans.

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.

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 needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out borrower focused proportionate checks to make sure Mr G could repay the loans. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, 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 think that it is important for me to start by saying that Morses was required to establish whether Mr G could repay his loans over the term, and without undue difficulties – not just whether the loan payments were affordable on a strict pounds and pence calculation.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr G's complaint. I agree with the adjudicator that it wasn't unreasonable to lend loans 1-3. I say this because I think given the early stage of the lending relationship, Morses' checks went far enough. The result of those checks show Mr G had sufficient disposable income to repay those loans. So, I don't think Morses was wrong to lend those loans.

I've also looked at the overall pattern here and I think by loan 4, Morses should have realised that it shouldn't have provided any further loans. I say this because:

- At this point Mr G had been borrowing from Morses for around 21 months. While Morses argues that there were gaps in the lending, I don't think 5 weeks between loans 2 and 3 and 2 days between loans 3 and 4 would reasonably show that Mr G wasn't dependent on this type of credit. Those breaks weren't long enough to have given Morses reasonable cause to believe Mr G's circumstances may have changed.

- Mr G's first loan was for £300 and loan 4 was for £600, double the amount of the first loan.

- Although loan 5 was for less than loan 4, it was higher than loan 1 and I think Mr G's borrowing was generally around the same amount and wasn't decreasing significantly throughout the borrowing relationship.

I think Mr G was disadvantaged by the continued lending as these loans had the effect of unfairly prolonging Mr G's indebtedness by allowing him take expensive credit intended for short-term use over an extended period of time.

Putting things right

- refund all interest and charges Mr G paid on loans 4 and 5;

- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;

- All entries about loans 4 and 5 should be removed from Mr G's credit file as any information recorded about them is adverse.

† HM Revenue & Customs requires Morses to take off tax from this interest. Morses must give Mr G 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 G'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 G to accept or reject my decision before 1 June 2023.

Oyetola Oduola
Ombudsman