

The complaint

Miss C complains that Morses Club PLC lent to her irresponsibly and without carrying out proper affordability checks.

What happened

Between April 2016 and October 2017 Morses Club approved five loans for Miss C. However, the dispute about the first four loans has been resolved, so this decision will only be considering loan five.

Loan five was given in October 2017 for £500 and was scheduled to be repaid at approximately £25 per week over a term of 33 weeks. Miss C was unable to maintain the repayments and ultimately Morses Club sold the debt to a third party.

When assessing the application, Morses Club asked Miss C about her financial circumstances.

The adjudicator thought that Morses Club shouldn't have given Miss C this loan, as by that stage she was clearly in a harmful pattern of borrowing. Morses Club didn't accept that view, highlighting that Miss C's disposable income was more than enough to make the repayments affordable for her. So, the case has been passed to me for review and 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.

Having done so, I'm going to uphold this complaint broadly for the same reasons as those of the adjudicator.

Morses Club is aware of its obligations under the rules and regulations in place at the time of this lending decision, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Miss C would be able to repay the borrowing applied for in a sustainable way.

Morses Club asked Miss C about her income and expenditure (I&E) and possibly got confirmation of her benefit income when considering her loan application. Like the adjudicator, I'm satisfied that its checks went far enough to demonstrate that the lending was not affordable and sustainable for her, based on everything it already knew.

The adjudicator highlighted several points of concern about the pattern of lending in place by the time of this loan. Those include the frequency of borrowing, and absence of any gaps between loans; increase in amounts being borrowed; and length of the lending relationship. I share all these concerns and agree that, taken together, they very strongly suggest that the borrower is effectively dependent on high-cost credit.

Morses Club does not accept that, highlighting how its assessment showed that Miss C had a healthy disposable income of £161 per week. Therefore the £25 repayment ought to have been comfortable for her.

I have looked carefully at the evidence and the I&E completed by Morses Club does not make sense, and Morses Club's total reliance on it in defence of this complaint is not at all persuasive.

Miss C's income was noted as being approximately £291 per week, and her expenditure £130. That was composed of £70 for utilities and £60 for groceries. In themselves, those look to be at least reasonable, and even generous, amounts. However, Morses Club appears to have accepted that Miss C had zero weekly expenditure for anything else – such as rent, other debts, or childcare. That is particularly concerning as it would seem she had previously declared expenditure in those categories, in amounts that would have exceeded her supposed disposable income at this point.

Eighteen months earlier, when Morses Club granted loan one to Miss C, its credit check revealed that she had nearly £3,500 worth of unsecured debt. Six months earlier, when it granted loan four to her, Morses Club seems to have operated on the basis that Miss C needed £50 per week in order to service other debts. However, without carrying out a further credit check, at the point of loan five, it was happy to accept she had no other debt at all.

Taken with the pattern of lending already discussed, I would have expected a responsible lender to have looked at the I&E it was completing for this loan and see its implausibility and huge shortcomings.

It therefore follows that the evidence in this case leads me to uphold the complaint on the basis that Morses Club's assessments did not demonstrate that the borrowing was affordable and sustainable for Miss C. The only reasonable conclusion it could have reached was that any further lending was most likely harmful to her, and it should therefore not have granted this loan.

Putting things right

In deciding what redress Morses Club should fairly pay in this case I've thought about what might have happened had it stopped lending to Miss C at loan five, 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 Miss C may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them 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 Miss C in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Miss C would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Morses Club's liability in this case for what I'm satisfied it has done wrong and should put right.

Morses Club should buy the debt back, assuming it has in fact sold it, and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below:

A) Morses Club must remove all interest, fees and charges from the loan, and treat any repayments made by Miss C as though they had been repayments of the principal on the loan.

B) If this results in Miss C having made overpayments then it must refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the payments were made, to the date the complaint is settled.

C) Should there still be an outstanding balance following the actions set out in "A", then Morses Club should agree a suitable repayment plan with Miss C.

D) The overall pattern of Miss C's borrowing for loan five means any information recorded about it is adverse, so Morses Club must remove this loan entirely from her credit file. Morses Club does not have to remove loan five from Miss C's credit file until it has been repaid, but it must still remove any adverse information recorded about this loan.

*HM Revenue & Customs requires Morses Club to deduct tax from this interest. It should give Miss C a certificate showing how much tax it's deducted, if she asks for one.

My final decision

For the reasons I've explained, I uphold this complaint and direct Morses Club PLC to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 29 September 2023.

Siobhan McBride

Ombudsman