

## complaint

Miss B says Morses Club PLC lent to her irresponsibly. She says she was encouraged to take on more debt just to keep things going and she struggled to make the repayments. She thinks Morses knew she was in difficulty and so it shouldn't have lent to her.

## background

This complaint is about six home credit loans Morses provided to Miss B between August 2016 and April 2018.

loan number	date started	amount borrowed	term (weeks)	date ended
1	18/03/2016	£150.00	20	11/08/2016
2	23/08/2016	£200.00	20	09/01/2017
3	29/11/2016	£500.00	52	21/11/2017
4	10/02/2016	£300.00	33	05/10/2017
5	21/11/2017	£500.00	52	21/01/2019
6	16/04/2018	£500.00	52	outstanding

Our adjudicator partially upheld the complaint. She thought that Morses shouldn't have approved loans 5 and 6. Miss B agreed with the assessment.

Morses disagreed with the adjudicator's opinion. It said that:

- It undertook detailed income, expenditure and credit checks before lending each time. The loans were affordable for her.
- Miss B had a good repayment history and it was evident that she could afford the loan repayments.
- It did not consider that it had overcommitted Miss B, or that it had lent irresponsibly to her.

So, as no agreement has been reached, the complaint has been passed to me to issue a final decision.

## my findings

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 and high cost credit - 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 proportionate checks to make sure Miss B could repay the loans in a sustainable manner.

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 Moses should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer'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.

And the loan payments being affordable on a strict pounds and pence calculation might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. The industry regulator defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss B's complaint. I've decided to uphold Miss B's complaint in part and have explained why below.

Miss B has accepted our adjudicators opinion about loans 1 to 4. Because of this I don't think there is any ongoing disagreement about these loans. So I won't be making a decision about this lending. But they were part of the borrowing relationship Miss B had with Moses. So they are something I will take into account when considering the other loans she took.

I haven't recreated individual, proportionate affordability checks for loans 5 and 6 because I don't think that it is necessary to do so. I've looked at the overall pattern of Moses' lending history with Miss B, with a view to seeing if there was a point at which Moses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Moses should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Miss B's case, I think that this point was reached by loan 5. I say this because:

- At this point Moses ought to have realised Miss B was not managing to repay her loans sustainably. Miss B had been indebted to Moses for around 20 months. So Moses ought to have realised it was more likely than not Miss B was having to borrow further to cover the hole making the earlier loan repayments was leaving in her finances and that Miss B's indebtedness was unsustainable.
- Miss B's first loan was for £150 and loan 5 was for £500. This also shows that Miss B's need for credit was increasing over time and was more likely that not becoming unsustainable.

- There were no breaks in the lending from the start and Miss B started new loans typically to repay the outstanding balance on the loans she already had.
- And it follows from the above that Miss B wasn't making any real inroads to the amount she owed Morse. This was increasing over time. Loan 6 was taken out over two years after Miss B's first loan. And it was for a larger amount. Miss B had paid interest to, in effect, service a debt to Morse over an extended period.

I think that Miss B lost out because Morse continued to provide borrowing from loan 5 onwards because:

- these loans had the effect of unfairly prolonging Miss B's indebtedness by allowing her to take expensive credit over an extended period of time.
- the length of time over which Miss B borrowed was likely to have had negative implications on Miss B's ability to access mainstream credit and so kept her in the market for these high-cost loans.

So I'm also upholding the complaint about loans 5 and 6 and Morse should put things right.

#### **putting things right – what Morse needs to do**

- refund all interest and charges Miss B paid on loans 5 and 6;
- 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\*;
- the number of loans taken from loan 5 onwards means any information recorded about them is adverse. So all entries from loan 5 onwards should be removed from Miss B's credit file.

If Miss B still owes Morse any of the principal balance she borrowed on her final loan Morse should remove all the interest and charges applied to the outstanding balance. Morse should then re-work the account as if all payments made by Miss B went towards the principal. But importantly, Morse needs to make sure that Miss B doesn't repay more than the principal amount borrowed.

If after doing this Miss B hasn't repaid the principal she borrowed Morse can deduct this from the remainder of the compensation. If, Miss B has already paid enough to repay the principal then any overpayment should be refunded to her with 8% simple\* interest from the date of payment to the date of settlement

And if Morse no longer owns this debt, and it wants to make a deduction due to the amount owed, then it should buy it back. If it doesn't then it isn't entitled to make any deductions for it from the amount it needs to pay Miss B.

\*HM Revenue & Customs requires Morse to take off tax from this interest. Morse must give Miss B a certificate showing how much tax it's taken off if she asks for one.

**my final decision**

For the reasons I've explained, I partly uphold Miss B's complaint.

Morses Club PLC should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I am required to ask Miss B to accept or reject my decision before 4 June 2020

Andy Burlinson  
**ombudsman**