DRN-2176024

## The complaint

Mr S says Morses Club PLC ("Morses") irresponsibly lent to him. Mr S says the loans were too easy to obtain and they have had a catastrophic impact on his credit file.

## What happened

This complaint is about six home collected credit loans provided to Mr S between July 2014 and February 2018. Mr S's borrowing history is as follows:

| Loan | Date Taken | Date Repaid | Weekly Instalments | Amount | Highest weekly Repayment |
|---|---|---|---|---|---|
| 1 | 11/07/2014 | 24/12/2015 | 50 | £300.00 | £10.50 |
| 2 | 15/01/2016 | 17/11/2016 | 33 | £200.00 | £10.00 |
| 3 | 29/11/2016 | 04/07/2017 | 33 | £300.00 | £15.00 |
| 4 | 04/07/2017 | 12/02/2018 | 33 | £300.00 | £15.00 |
| 5 | 02/12/2017 | 01/11/2018 | 33 | £200.00 | £10 (*£25) |
| 6 | 12/02/2018 | 21/06/2019 | 33 | £300.00 | £15 (*£25) |

*Repayment for overlapping loans.

Our adjudicator reviewed Mr S's complaint and thought that the complaint should be upheld from loan four onwards because the Mr S was becoming reliant on this type of lending.

Morses didn't agree with the adjudicator about loans four and five but it did offer redress for loan six. It said four loans in 36 months was equivalent to taking one loan a year. It also said there were breaks in lending between some of the loans. It undertook detailed affordability checks when loans four and five were provided and verified Mr S's income and expenditure.

We put the offer to Mr S, but she didn't want to accept it.

Another of our adjudicators reconsidered Mr S's complaint. As well as loans four to six being upheld they thought loan three should also be upheld. This was because of the length of time it had taken Mr S to repay loans one and two which should have caused Morses to look further into his financial circumstances and they thought that if it had, it would have found other outstanding short-term lending.

As the complaint remains unresolved, it has been passed to me for a final decision in my role as ombudsman.

## 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 irresponsible lending - including all 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 Mr S could repay the loans in a sustainable manner. These checks could consider several different things, such as how much was being lent, the repayment amounts and the consumer’s income and expenditure. 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 level of income);

- the *greater* the number and frequency of loans, and the longer the period 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 S could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn’t automatically follow this is the case. This is because the relevant regulations define sustainable as being without undue difficulties and 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.

Mr S didn’t comment on the second adjudicator’s opinion that loans one and two shouldn’t be upheld. And Morses has already made an offer for loan six. Because of this, I don’t think there is an ongoing disagreement about these loans. So, I won’t be making a decision about this lending. But the loans were part of the borrowing relationship Mr S had with Morses. So, it is something I will take into account when considering the other loans he took.

I’ve carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr S’s complaint. Having done so, I am partially upholding the complaint. I’ll explain why.

I should first address Morses comment about there being gaps in lending. There was a three-week gap between loan one being repaid and loan two being taken and a twelve-day gap between loan two being repaid and loan three being taken. I don’t agree these gaps were sufficiently long enough for Morses to have reasonably assumed that Mr S had overcome whatever the financial circumstances were that caused him to take this type of lending in the first instance, and particularly bearing in mind the length of the borrowing relationship at the time of the gaps. A break in lending effectively starts the 'clock ticking' again on what we would consider proportionate checks for the business to have carried out. So, I'm treating all of the loans as one chain of lending.

Like the adjudicator I think the length of time it took Mr S to repay loans one and two – when compared to the loan term agreed at the outset – should have alerted it the potential of Mr S having problems managing his money and reconsider whether the lending was sustainable. Loan one was to be repaid over 50 weeks, but it took Mr S 72 weeks to repay it. And loan two was repaid over 43 weeks compared to the agreed term of 33 weeks. The weekly repayments were relatively small so the fact that Mr S struggled to make those weekly repayments should have raised concerns with Morses.

In taking action about its concerns I think Morses should have done more to build a better picture of Mr S's financial circumstances over and above the information it already had about Mr S's income and expenditure by carrying out additional checks. If it had done so, it is most likely to have seen that Mr S also had at least three outstanding loans from other short-term credit providers. I think this was enough to have suggested to Morses that Mrs S was having problems managing his money and wasn't going to be able to sustainably repay loan three.

I've also looked at the overall pattern of Morses' lending history with Mr S, with a view to seeing if there was a point at which Morses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Morses should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr S's case, I think that this point was reached by loan four. I say this because:

- At this point Morses ought to have realised Mr S was not managing to repay his loans sustainably. Mr S had been indebted to Morses for 36 months. So Morses ought to have realised it was more likely than not Mr S was having to borrow further to supplement his income.

- Mr S's first loan was for £300 and loan four was for the same amount. At this point Morses ought to have known that Mr S was not likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need. I also note that at loan five, Mr S started taking out further loans at the same time as the previous loan was still running.

- Mr S wasn't making any real inroads to the amount he owed Morses. Loan six was taken out three and a half years after Mr S's first. And it was for the same amount. Mr S had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.

I think that Mr S lost out because Morses continued to provide borrowing from loan four onwards because:

- these loans had the effect of unfairly prolonging Mr S's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.

- the number of loans and the length of time over which Mr S borrowed was likely to have had negative implications on Mr S's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So, like the adjudicator, I’m also upholding the complaint about loans three to six and Morses should put things right.

## Putting things right

Morses has already made an offer for loan six but for completeness, I’m including it here along with the other upheld loans.

- refund all interest and charges Mr S paid on loans three to six;
- 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†;
- remove any negative information about loan three from Mr S’s credit file;
- the number of loans taken from loan four onwards means any information recorded about them is adverse. So, all entries about loans four to six should be removed from Mr S’s credit file.

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

## My final decision

I’m partially upholding Mr S’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 S to accept or reject my decision before 13 November 2020.

Catherine Langley
**Ombudsman**