

## The complaint

Ms I complains that Morses Club PLC lent to her irresponsibly.

## What happened

This complaint is about seven home credit loans Morses provided to Ms I between March 2017 and December 2019. Here is a brief Loan Table of the approved loans.

Loan	Approved	Amount (total to pay rounded)	Term in weeks	Rate each week	Repaid
1	9 March 2017	£100 (£150)	20	£7.50	28 July 2017
2	28 July 2017	£200 (£330)	33	£10	16 March 2018
3	2 Jan 2018	£250 (£413)	33	£12.50	24 August 2018
4	5 June 2018	£250 (£413)	33	£12.50	24 Jan 2019
5	6 December 2018	£200 (£330)	33	£10	26 July 2019
6	9 May 2019	£200 (£330)	33	£10	17 December 2019
7	17 Dec 2019	£250 (£425)	34	£12.50	14 May 2020

Our adjudicator partially upheld the complaint. She thought that Morses shouldn't have approved loans 5 to 7. Ms I 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. It has received no evidence that the loans were unsustainable.
- Ms I had a good repayment history and it was evident that she could afford the loan repayments.
- It did not consider that it had overcommitted Ms I, or that it had lent irresponsibly to her.
- the information it said it held within the income and expenditure, the way Ms I conducted her accounts and the amounts lent it was unable to agree loans 5 to 7 were unsustainable,

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

We've set out our general approach to complaints about short-term and high cost credit - including all the relevant rules, guidance and good industry practice - on our website. These include home credit lending situations such as that approved by Moses too.

Moses 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 Ms I could repay the loans in a sustainable manner.

These checks could consider 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 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.

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

Ms I has not objected to our adjudicator's 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 any findings in relation to Loans 1 to 4. But they were part of the borrowing relationship Ms I had with Moses and 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 to 7 because I don't think that it is necessary to do so. I've looked at the overall pattern of Moses' lending history with Ms I, 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 circumstances of Ms I's case, I think that this point was reached by loan 5. I say this because at this point Moses ought to have realised Ms I was not managing to repay her

loans sustainably. Ms I had been indebted to Morses for around 20 months. So Morses ought to have realised it was more likely than not Ms I was having to borrow further to cover the hole making the earlier loan repayments was leaving in her finances and that Ms I's indebtedness was unsustainable.

Morses points to the income and expenditure figures and says that those figures it calculated show that Ms I had enough disposable weekly income to cover the loan repayments. But by the time the twenty month mark had arrived and Ms I was still coming back for more loans, it ought to have realised she was not able to manage on her income and constantly needed more.

Morses has said it verified Ms I's income externally with credit reference agencies. I have not been told at what point in time this was done. And the sentence reveals an income verification not a full credit search. And I have not received any records of those verifications or any credit search result information from Morses.

There were no breaks in the lending from the start and Ms I. I don't think Ms I was making any real inroads to the amount she owed Morses. This was increasing over time. Loan 5 was taken out about 20 months after Ms I's first loan. And it was for a larger amount. Ms I had paid interest to, in effect, service a debt to Morses over an extended period.

I think that Ms I lost out because Morses continued to provide borrowing from loan 5 onwards because:

- these loans had the effect of unfairly prolonging Ms I's indebtedness by allowing her to take expensive credit over an extended period; and
- the length of time over which Ms I borrowed was likely to have had negative implications on Ms I'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 to 7 and Morses should put things right.

### **Putting things right**

In deciding what redress Morses should fairly pay in this case I've thought about what might have happened had it stopped lending to Ms I from loan 5, 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 Ms I may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between them and this 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 Ms I in a compliant way at this time.

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

Morses ought to do as follows:

- refund all interest and charges Ms I paid on loans 5 to 7;
- 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 Ms I's credit file.

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

### **My final decision**

My final decision is that I uphold Ms I's complaint in part and Morses Club PLC should do as I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms I to accept or reject my decision before 14 April 2021.

Rachael Williams  
**Ombudsman**