

## The complaint

Mr J says Morses Club PLC lent to him irresponsibly. He says that he was in financial difficulty when the loans were arranged. He thinks if Morses had made better checks it would've seen this and not lent to him.

## What happened

This complaint is about four home collected loans Morses provided to Mr J between September 2018 and December 2019. Some of the information I have been provided about the lending is in the table below.

loan	date taken	amount	instalments	repayment	date repaid
1	19/09/2018	£300	33	£15	09/05/2019
2	30/01/2019	£200	33	£25	19/09/2019
3	09/05/2019	£500	33	£35	27/12/2019
4	27/12/2019	£500	34	£25	20/08/2020

The repayments are the combined amounts Mr J paid if more than one loan was running at once.

Our adjudicator partially upheld the complaint. She didn't think that Morses was wrong to have approved loans 1 and 2. But she thought that the repayments for loan 3 (when it was added to loan 2) were too high a proportion of Mr J's income and so Morses shouldn't have approved loans 3 and 4.

Morses agreed that it shouldn't have approved loan 3 for the same reasons the adjudicator said. But it still thought that it was right to have approved loan 4. This was because Mr J's income had increased, and he was only paying for this one loan, and so it was now affordable.

Mr J agreed with the adjudicator's opinion and so he didn't accept the offer that Morses made following the adjudicator's opinion.

As no agreement has been reached the complaint has been passed to me.

## 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 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 Mr J 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 Morses 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 decided to uphold Mr J's complaint in part, and I've explained why below.

Mr J accepted our adjudicator's opinion not to uphold loans 1 and 2. And Morses has agreed that it shouldn't have approved loan 3. Because of this, I don't think there is any ongoing disagreement about these loans. And I've included the offer Morses has made about loan 3 in my 'putting things right' section below. In this decision I'll concentrate on whether Morses should have approved loan 4.

Our adjudicator upheld loan 3. This is because Mr J's income was recorded as being £150 a week. And whilst Mr J's recorded expenditure was recorded as £72 a week, the combined loan repayments of £35 a week were still too much to pay as a proportion of this income. This is now agreed.

At loan 4 Mr J's income had risen to £250 a week - and it had also been higher than £150 for loans 1 and 2. And Mr J's expenditure had risen to just over £90 a week. Mr J had paid off loan 3 by the time he started loan 4. As Mr J seems to have some spare income when it approved loan 4, I can see why Morses thinks it was right to approve the loan.

But, as I've said above, the pounds and pence affordability of a loan is only part of the consideration here. Mr J's income seems to have been variable, as was his expenditure. So, I'm not persuaded that these 'snapshots' give the full picture. Added to this, at loan 4, Mr J had now been borrowing for 15 months without a break and the amounts he borrowed had generally increased. This, to me, points to a sustained and increasing need for this type of credit. Which makes it unlikely that loan 4 was sustainable.

So, having thought about everything, I don't think that Morses should have approved loan 4.

### **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 Mr J from loan 3, 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 Mr J may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between him and this particular lender which he may not have had with others. If this wasn't a viable option, he may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, he 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 he had done that, the information that would have been available to such a lender and how he 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 Mr J 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 Mr J 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 shouldn't have given Mr J loans 3 and 4.

A) Morses should add together the total of the repayments made by Mr J towards interest, fees and charges on these loans, including payments made to a third party where applicable, but not including anything it has already refunded.

B) Morses should calculate 8% simple interest\* on the individual payments made by Mr J which were considered as part of "A", calculated from the date Mr J originally made the payments, to the date the complaint is settled.

C) Morses should pay Mr J the total of "A" plus "B".

D) Morses should remove any adverse information it has recorded on Mr J's credit file in relation to loans 3 and 4.

\*HM Revenue & Customs requires Morses to deduct tax from this interest. Morses should give Mr J a certificate showing how much tax Morses has deducted, if he asks for one.

### **My final decision**

For the reasons I've explained, I partly uphold Mr J'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'm required to ask Mr J to accept or reject my decision before 22 April 2022.

Andy Burlinson  
**Ombudsman**