

## The complaint

Ms W, through her representative, complains that Morses Club PLC lent to her irresponsibly.

## What happened

Using information Morses has provided, here is a brief table of the approved loans.

Loan	Start Date	End Date	Capital Amount	Interest amount	Term	Repayment amount	Weeks Live
1	14/11/2019	19/06/2020	£250.00	£175.00	34	£12.50	31
2	13/03/2020	02/10/2020	£250.00	£175.00	34	£12.50	29
3	19/10/2020	11/06/2021	£700.00	£490.00	34	£35.00	33
4	15/06/2021	16/02/2022	£700.00	£525.00	35	£35.00	35

Ms W complained and Morses responded to say that it had carried out checks and it considered Ms W could afford the loans when she applied for them.

Ms W disagreed and referred her complaint to the Financial Ombudsman Service. One of our adjudicators looked at it and thought that Morses ought not to have approved loan 4 for Ms W.

Morses disagreed and gave reasons why, and the unresolved complaint was passed to me to decide.

## 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 Ms W 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. 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 Ms W's complaint in part and have explained why below.

Ms W didn't disagree with our adjudicator's opinion about loans 1 to 3. 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 Ms W had with Morses. 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 loan 4 because I don't think that it is necessary to do so. I've looked at the overall pattern of Morses' lending history with Ms W, 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 circumstances of Ms W's case, I think that this point was reached by loan 4. I say this because:

- At this point she had been indebted to Morses for around 19 months.
- Ms W's first loan was for £250 and having reviewed the credit search Morses had carried out for her at that stage, then it knew from the beginning that she had defaulted and delinquent accounts. The most recent default being relatively close in time to when Ms W applied for loan 1. And so, I think that by the time 19 months had passed and Ms W's loan requests had increased from £250 to £700 for the second time, knowing what it did know about Ms W then I think it ought to have appreciated Ms W was likely borrowing to meet an ongoing and increasing need. And this indicated her problems may have been worsening.
- So, because of these factors, Morses ought to have realised it was more likely than not Ms W's indebtedness was unsustainable.
- Ms W regularly was provided with a new loan a very short time after she had settled

her previous loans

- Ms W wasn't making any real inroads to the amount he owed Morses. Loan 6 was taken out about 19 months after Ms W's first. And it was for a larger amount. Ms W had paid large amounts of interest to, in effect, service a debt to Morses over an extended period.
- I appreciate that Morses feels that the checks it did were enough to show the lending was affordable. But I think the lending pattern itself shows the loans weren't sustainable.

I think that Ms W lost out because Morses continued to provide borrowing at loan 4 because:

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

So, overall, I'm also upholding the complaint about loan 4 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 W at loan 4, 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 W may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between her 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 Ms W 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 Ms W 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 Ms W loan 4.

A) Morses should add together the total of the repayments made by Ms W towards interest, fees and charges on loan 4, 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 Ms W which were considered as part of "A", calculated from the date Ms W originally made the payments, to the date the complaint is settled.

C) Morses should pay Ms W the total of "A" plus "B".

D) The overall pattern of Ms W's borrowing for loan 4 meant any information recorded about it is adverse, so it should remove it entirely from Ms W's credit file.

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

### **My final decision**

My final decision is that I uphold Ms W's complaint in part and I direct that Morses Club PLC does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 28 December 2022.

Rachael Williams  
**Ombudsman**