

The complaint

Mr R complains Morses Club PLC (Morses) provided him with loans that he couldn't afford to repay. He says the agent inflated his weekly income by including money he received from over time.

What happened

Mr R took seven loans between November 2019 and June 2021. I've included some of the information we've received about these loans, from Morses in the table below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly repayment
1	£300.00	28/11/2019	29/07/2020	34	£15.00
2	£300.00	10/02/2020	16/10/2020	34	£15.00
3	£300.00	29/07/2020	15/02/2021	34	£15.00
4	£500.00	16/10/2020	29/05/2021	34	£25.00
5	£500.00	03/12/2020	outstanding	53	£17.50
6	£900.00	15/02/2021	outstanding	53	£31.50
7	£800.00	01/06/2021	outstanding	52	£30.00

The weekly repayment column is the cost per week per loan. Where loans overlapped the cost per week would be more. For example, when loans 1 and 2 overlapped Mr R's weekly repayment to Morses was £30.

Morses considered Mr R's and concluded it hadn't made an error when it approved loans 1 – 4. However, Morses did conclude that it ought to have done further checks before approving loans 5 – 7 and so upheld his complaint about these loans.

Morses explained it would remove any outstanding interest from the amount Mr R owed it. Taking into account the repayments Mr R had made towards these loans it still left a capital amount of £1,183.55 which needed to be repaid. It also offered to remove these loans from Mr R's credit file.

Morses also said that this offer – to reduce Mr R's balance was in full and final settlement of the whole complaint. Mr R contacted Morses and he accepted the offer. However, Mr R says the following day, after he accepted the offer, he contacted Morses to retract it.

Unhappy with this response, Mr R referred his complaint to the Financial Ombudsman.

Morses initially said the complaint wasn't one that could be considered because Mr R had accepted the offer in full and final settlement of the complaint. An adjudicator considered this and initially agreed with Morses' conclusions.

However, following this assessment the adjudicator asked for further information from Morses about Mr R's retraction of the offer. At this point, Morses accepted that Mr R had called to retract but he wasn't told that the offer had already been applied to his balance.

Morses decided, at this point that it was happy for the Financial Ombudsman to consider the complaint.

Later, Morses reiterated that the offer made in the final response letter was no longer valid as it had already been carried out.

The complaint was considered by an adjudicator. Firstly, she said she wouldn't look at loans 5 – 7 because the offer Morses had already paid was in line with the Financial Ombudsman's "*guidelines*".

The adjudicator then considered loans 1-4 and she concluded Morses had made a reasonable decision to provide these loans. So, she didn't uphold this part of the complaint.

Morses didn't respond to or acknowledge the adjudicator's assessment.

Mr R didn't agree with the outcome. He said that loans 1 – 4 weren't affordable for him. He also says he had previously provided a copy of a contract which showed he was only due to work 16 hours per week and he was only accepted for these loans because the agent included his overtime payments.

These comments didn't change the adjudicator's mind about the case so as no agreement had been reached, the case has been passed to me for a 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 lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses had to assess the lending to check if Mr R could afford to pay back the amounts he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. Morses's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr R's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest Morses should have done more to establish that any lending was sustainable for Mr R. These factors include:

- Mr R having a low 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 amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Mr R having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mr R coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr R.

Morses was required to establish whether Mr R could *sustainably* repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr R was able to repay his loans sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and in particular, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr R's complaint.

Firstly, I want to be clear that I am not considering loans 5 – 7 because Morses has made an offer that has been accepted and paid. Instead this decision will focus on whether Morses needs to pay any further compensation to Mr R in relation to loans 1 – 4.

Loan 1

This was Mr R's first loan with Morses. Before the loan was approved, Morses took details of his income and expenditure. Morses recorded Mr R's income as being £240 per week with outgoings of £184. Morses was therefore aware that he had around £56 per week in which to make the weekly loan payment of £15.

It also appears, from the information that Morses has provided, that the income was independently checked – through some sort of credit check verification process.

Overall, based on the information that Morses recorded it would've reasonably concluded that Mr R could afford the loan repayment.

Morses may also have carried out a credit search before this first loan was provided as I understand that it was part of its process. But the results haven't been sent to us and it has said that all the information it has about Mr R's complaint has been provided.

So, I don't know exactly what it saw or even if a credit check was carried out. It is worth saying, that there is no regulatory requirement for a credit search to be carried out before a loan is approved.

However, Mr R has provided some limited screen shots from his credit file, which I have considered. I can see that one of the records defaulted in the November 2019, so the month this loan was advanced. However, due to reporting delays which means it could've taken up to six weeks for the default to show on the credit file, I can't be confident Morses would've been aware of the default at the time it advanced this loan.

So, while there does appear to have been some adverse information reported on Mr R's credit report, I don't think Morses would've likely known about the default and therefore wouldn't have had a reason to have carried out further checks or to have declined this application for credit.

I've thought about what Mr R says about his actual income at the time – that being he had a 16 hour a week contract and he has provided us with screen shots of his contract to support this.

However, the front page of the first screen shot says it was valid from April 2020, which is several months after this loan was granted, so I can't be sure this was the situation that Mr R found himself in November 2019.

There is also nothing else in the information that I've seen that would've led Moses to believe that it needed to go further with its checks – such as verifying the information Mr R had provided.

Given it was still quite early on in the lending relationship, I think it was reasonable for Moses to have relied on the information Mr R provided along with the income and expenditure figures to show he had sufficient disposable income to afford the repayments he was committed to making. So, like the adjudicator I'm not upholding Mr R's complaint about this loan.

Loans 2 – 4

For these loans it seems Moses carried out the same sort of checks as it had done for the first loan.

It recorded Mr R's income as being between £282 and £350 per week and again, Moses says it verified his income through a credit reference agency.

Mr R's weekly outgoings have been recorded as being between £137 and £249 per week. The largest weekly repayment Mr R was due to make to Moses for these loans was when loans 3 and 4 were outstanding and he was due to pay £40. But even taking into account that repayment Moses, based on the information provided would've likely thought Mr R could afford his loan repayments.

It is worth saying, that given the contract of employment Mr R has provided shows that from April 2020 he was only contracted to work 16 hours per week (only affecting loans 3 and 4). Although the contract does open the possibility that Mr R may be able to work further hours and overtime.

Indeed, from what Mr R says that the agent included overtime as part of his weekly income. But no further information has been provided about the overtime for example how frequent it was and the effect of that overtime on Mr R's basic pay.

I don't have evidence either from Moses or Mr R of his actual payslips, but if Mr R was doing overtime on a regular basis then I'd be minded to think it *may* have been reasonable for this to be included as part of Mr R's income. So the fact that as Mr R says, his overtime was included doesn't automatically mean that Moses couldn't rely on it when thinking about his weekly income.

It was also still quite early on the lending relationship and there doesn't appear to have been any obvious repayments problems with the way that Mr R had repaid his loans up to this point and time. I also, don't yet think it had reached the point where Moses needed to start verifying the information that was provided or for Moses to have investigated his circumstances in more detail – such as asking for bank statements, for example.

I do accept, given the increase in Mr R's income as well as his expenditure that for later and future loans that Moses may have wanted to have verified the information that was recorded. However, as I've said above, Moses appear to have already accepted this as it offered to put things right for Mr R for loans 5 – 7 and I understand that it has already carried out these actions. If it hasn't then it should arrange to do so.

I appreciate Mr R will be disappointed by the outcome I've reached for loans 1- 4. But I do hope my explanation has been helpful for him to understand why, in this case I can't uphold the complaint about his first four loans.

An outstanding capital amount does remain due to Morses so Mr R may wish to contact it to discuss a way forward to repay what is owed. But I'd remind Morses of its obligation to treat Mr R fairly and with forbearance – if necessary.

My final decision

For the reasons I've explained above, I'm not upholding Mr R's complaint and Morses Club PLC doesn't have to do anything beyond what it has already done and what was outlined in the final response letter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 1 September 2022.

Robert Walker
Ombudsman