

complaint

Mr M complains that WDFC UK Limited, trading as Wonga, gave him loans he couldn't afford to repay. He asks that Wonga refunds interest and charges and pays compensation for the way it handled the situation when he couldn't repay the loans.

background

Mr M took out 21 loans with Wonga between March 2013 and April 2016. Mr M says Wonga gave him a succession of loans. He says it knew the borrowing wasn't sustainable.

The adjudicator recommended that the complaint should be upheld, saying:

- Wonga said it did credit checks and asked Mr M for his income and expenditure.
- The loans were for amounts between £60 and £400. Mr M's income was £1,300 in 2013 and £1,500 in 2015. Given Mr M's income and the amounts of the loans, the checks made by Wonga for the first loans were proportionate. But Mr M took out a number of loans with Wonga and other lenders. This should have prompted further checks when Mr M asked for the fourth loan.
- If Wonga had carried out proper checks, it would have seen that Mr M was dependant on short term loans.

The adjudicator recommended that Wonga refunds interest and charges on the fourth and all later loans, plus 8% interest, and remove any negative information about these loans from Mr M's credit files.

Wonga didn't agree. It said it was entitled to rely on information from Mr M and its credit checks. This information didn't suggest his applications should have been automatically declined. Wonga said Mr M's loans didn't increase consistently, which would normally be the case when a customer is dependant on them. It said its checks were proportionate for the amount of the loans relative to Mr M's income.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Mr M took out the first two loans, each for £100, in March and April 2013. He told Wonga his monthly income was £1,300. Wonga says it did a credit check, which didn't suggest the loans were unaffordable. I think, given the amount of the loans and Mr M's stated income, these checks were proportionate.

Mr M took out a third loan, in late July 2013, for £300. He took out a fourth loan, for £200, in early August 2013. I think that at this point, given the amount of these loans, their proximity and Mr M's monthly income, further checks should have been made. I think Wonga should have asked for information about Mr M's expenditure to assess whether the fourth loan was affordable.

Mr M's bank statements for that period show monthly income of about £1,300. His essential monthly spending (such as housing, insurance, telecommunications contracts, water bills

and TV licence) was just over £800. Mr M's bank statements show payments to gambling businesses (about £850 in July 2013). Mr M had direct debits returned unpaid in late August. I don't think the fourth loan was affordable. Wonga gave Mr M another loan, for £100, in late August and I think this was also unaffordable.

Mr M took out another five loans in 2013. Most were topped up – one of them four times. Mr M took out eight loans in 2014, all for £450 (including a number of tops ups). I think Mr M's pattern of borrowing suggests he'd become reliant on short term loans. I think this, and the information Wonga would have had about Mr M's expenditure if it had carried out proper checks before the fourth loan, should have prompted Wonga to make further checks. It seems likely Mr M had difficulty repaying the loan he took out in September 2014: he incurred a default charge and repaid the loan in January 2015. While there was then a gap before Mr W took out the next loans (£100 in June 2015 and £500 in April 2016), given what it knew about Mr M, I think Wonga should have asked for more information about his income and expenditure to assess whether these loans were affordable.

After reading Mr M's bank statements, I don't think his circumstances improved significantly from August 2013. He had direct debits returned and unplanned overdraft fees during 2014. There were payments from his account to gambling businesses and, from mid 2014, to a number of other payday lenders. I think if Wonga has looked more carefully at Mr M's income and expenditure, it would have seen that the loans weren't affordable.

I think it's fair and reasonable that Wonga refunds any interest and charges applied to the fourth and later loans, with interest at 8% simple per year. It should deduct the refund from any capital outstanding and pay Mr M any balance.

If an unpaid balance remains after the refund, Mr M should repay this as he's had use of the money. If his financial circumstances make this difficult, he should contact Wonga about agreeing a suitable repayment plan. Wonga should remove any adverse information about the fourth and later loans from Mr M's credit file.

my final decision

My decision is that I uphold this complaint. I order WDFC UK Limited to:

- refund all interest and charges applied to the fourth and later loans plus pay interest at 8% simple per year from the date each sum was paid until the date of settlement. This should be offset against any outstanding capital sum; and
- remove any adverse information about the fourth and later loans from Mr M's credit files.

WDFC UK Limited must pay the compensation within 28 days of the date on which we tell it Mr M accepts my final decision.

If WDFC UK Limited considers that it's required by HM Revenue & Customs to withhold income tax from the 8% interest, it should tell Mr M how much it's taken off. It should also give him a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 30 January 2017.

Ruth Stevenson
ombudsman