

complaint

Mr K complains that WDFC UK Limited (trading as Wonga) gave him loans that he couldn't afford and trapped him into a spiral of debt.

background

Mr K took out a total of 12 loans with Wonga between May 2016 and June 2017. The amounts he borrowed varied.

Mr K says that Wonga was irresponsible and reckless when it lent to him because he was in a cycle of debt and he had to continue borrowing to make ends meet.

Our adjudicator recommended that the complaint should be upheld in part. In brief, he didn't think the checks Wonga had carried out before making any of the loans, except the first three, went far enough given the amount borrowed and Mr K's declared income together with his borrowing history. But he thought that better checks wouldn't have made any difference to the decision to give Mr K loan 4.

But the adjudicator thought that if Wonga had carried out proportionate checks for all the loans from loan 5 onwards, it would have realised that Mr K's existing financial commitments and his borrowing behaviour was such that loans 5-12 should not have been given to Mr K. So he recommended that it refund all interest and charges that Mr K paid on those loans, with interest on the refund, and that it remove any negative information about those loans from Mr K's credit file.

Wonga didn't reply to the adjudicator's view and later said it hadn't seen a copy of it. The view was re-sent the day after this request. Again, Wonga didn't reply and has recently said it hasn't seen the view after the complaint had been passed to me to decide. Wonga was notified on 10 April 2017 that the complaint was awaiting an ombudsman decision and it hasn't responded further.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. The view has been sent to Wonga twice and it has delayed in responding to this service. It has said that the loans were responsibly lent and so I think it is fair that I go on to consider this complaint on the basis of the information I have.

Wonga was required to lend responsibly. It needed to make checks to see whether Mr K could afford to pay back each loan before it lent to him. Those checks needed to be proportionate to things such as the amount Mr K was borrowing, the length of the agreements and his borrowing history. But there was no set list of checks Wonga had to do.

Before it lent, Wonga carried out a credit check, and asked Mr K for details of his income. Mr K said he was earning £2000. Wonga asked Mr K about his outgoings for most of the loans and he said they were £150.

On the basis of these figures the first three loans looked affordable. At this point in the lending chain there was nothing to suggest that Mr K couldn't afford to pay back what he

was borrowing. I agree with the adjudicator that the checks for the first three loans went far enough.

At the point of the fourth loan, Mr K had been borrowing regularly each month. At this stage I think Wonga should have asked Mr K specifically about any short term lending he may have had to check he wasn't reliant on this sort of credit. But if it had asked Mr K I don't think it would have made a difference to the decision to lend to him. I say this because even with Mr K's other short term lending and his regular outgoings he could still afford the repayment on this loan.

By the time Mr K applied for loan 5, I think a pattern had emerged. And this ought to have prompted Wonga to look more carefully at his circumstances before agreeing to lend further. By this stage, I think Wonga should have asked more detailed questions to establish why Mr K had to borrow repeatedly given his declared level of income and outgoings.

I think that Wonga should have been getting a detailed picture of Mr K's finances and not just relying on what he said. By this point there is a pattern of borrowing which indicates a reliance on short term credit. Although there were some gaps in the lending I don't think they are significant. I think by this point Wonga should have asked for evidence about Mr K's income and outgoings for example by asking to see his bank statements. I'm satisfied that if Wonga had asked suitably detailed questions and asked for evidence about Mr K's financial circumstances before making the loans, it would have realised that for some of the loans he had minimal disposable income, after his normal monthly living expenses and existing loan repayments were taken into account. In addition, Wonga would have seen that Mr K was gambling regularly. So he wouldn't be able to afford to repay these loans in a sustainable way without borrowing further. In the circumstances, I don't think Wonga should have made loans 5-12.

I've looked at Mr K's bank statements for the period in which he was borrowing the above loans from Wonga. They show that in those months he was borrowing amounts from other short-term lenders, in addition to making repayments on longer-term financial commitments and gambling. It is clear from the statements that Mr K was in a cycle of debt and the borrowing was unsustainable.

As it received repeated applications from Mr K, I think the onus on Wonga to carry out more detailed checks became greater. And I'm satisfied that if it had asked Mr K about his monthly expenditure and other outgoings and credit, it would have realised that he was trapped in a spiral of borrowing and gambling, and was only managing to meet his repayments by taking out multiple loans. Wonga should have realised that this was unsustainable, and that Mr K wasn't in a position to service his debt. So I think it was irresponsible to lend loans 5 to 12. Mr K wasn't able to repay loan 12 which further suggests that the lending was unaffordable.

Mr K has had the benefit of the money so I think it is only fair that he pays it back but I agree with the adjudicator that Wonga should refund all interest and charges from loans 5 to 12 and remove any negative information about these loans from Mr K's credit file.

putting things right

To put things right WDFC UK Limited (trading as Wonga) should:

- refund all interest and charges that Mr K paid on loans 5-12;

- pay interest on those refunds at 8% simple* per year from the dates of payment to the date of settlement;
- write off any interest and charges that Mr K hasn't paid;
- deduct any capital still owing from the compensation due;
- remove any adverse information about the refunded loans from Mr K's credit file.

*HM Revenue & Customs requires Wonga to take off tax from this interest. Wonga must give Mr K a certificate showing how much tax it's taken off if he asks for one.

my final decision

My decision is that I uphold this complaint in part. I require WDFC UK Limited (trading as Wonga) to put things right by doing as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 4 June 2018.

Emma Boothroyd
ombudsman