

complaint

Mr V complains that WDFC UK Limited, trading as wonga.com, (“Wonga”), did not carry out appropriate affordability checks each time Mr V took out a loan with it. As a result, he has suffered financial difficulties.

background

Mr V took out 17 loans with Wonga between August 2010 and May 2012. Each loan, except the last, was paid off by the due date, but another loan would usually be taken out shortly after. Mr V said that the loans were not affordable. He said that if Wonga had carried out appropriate checks, it would not have lent to him, and he would not have had to pay the interest and charges he paid for the loans. Mr V said that he had payday loans with ten different companies, and that he had defaulted on credit agreements with “normal” lenders. He had a monthly net salary of around £1,280. From this, he paid a monthly mortgage repayment of £506, leaving a disposable monthly income of £774. Mr V said that the loans caused him financial difficulties which meant that he could not pay his priority bills and general living expenses. He had entered into a debt management plan in May 2012, with debts of just over £13,650. He wants Wonga to refund all the interest and charges he has paid on its loans.

The adjudicator concluded that Wonga’s continual lending was unsustainable. She referred to the Office of Fair Trading’s (‘OFT’) Irresponsible Lending Guidance (‘the Guidance’) which gave as an example of an unfair practice:

“Repeatedly refinancing (or ‘rolling over’) a borrower’s existing credit commitment for a short-term credit product in a way that is unsustainable or otherwise harmful.”

She said that Wonga should have seen that Mr V was in financial difficulty and so the complaint should succeed. She recommended that:

- Wonga should refund all interest and charges applied to Mr V’s loan agreements entered into from 20 November 2010;
- Pay 8% simple interest per annum on the amount refunded, from the date of each payment to the date of settlement; and
- Pay £100 compensation to Mr V for the distress caused by this matter.

Wonga disagreed, and responded to say in summary, that:-

- It had carried out appropriate checks each time that Mr V had applied for a loan. It had checked his income and noted that he had disposable income of £774 after payment of his mortgage.
- It checked personal information and noted that Mr V had no dependants.
- It carried out a full credit reference agency search on the first application and checked updated information for later loans. It said that Mr V’s credit file gave no indication that he had a poor credit history. There were no defaults, county court judgments or insolvencies, and there were only two other finance providers’ searches in 12 months.
- It used predictive external data sources to verify the information provided by Mr V.
- It took into account Mr V’s payment history with it and said that all of Mr V’s loans with it were paid on time until the last loan.
- It said that each assessment was reasonable in view of the size and duration of each loan.

- It said that Mr V was under an obligation to tell it if he was suffering financial difficulties, which he did not do until the last loan. But, it accepts that it did not act sympathetically by adding interest of £307.51 to Mr V's account after being told this. It has offered to remove £307.51 from Mr V's account, so reducing the balance to £506.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

At the time of Mr V's loan applications, Wonga was required by the OFT's guidance on irresponsible lending to undertake a reasonable assessment of affordability. It was obliged to consider sufficient information to be able to reasonably assess a borrower's likely ability to be able to meet repayments in a sustainable manner without the borrower incurring (further) financial difficulties and/or experiencing adverse consequences. The guidance sets out a number of things that a lender may wish to consider when assessing affordability.

I have considered the checks that Wonga made when it first agreed to Mr V's loan. I can see that it obtained personal details including details of Mr V's monthly income of £1,280, the name of his employer, and the amount of his mortgage repayments. It also knew that he had a loan of nearly £5,400. It said that it had carried out a credit reference agency search and that there were no defaults on the search.

I have asked Wonga for a copy of its application form so that I can check the information requested from borrowers but it has not sent this to us. In the absence of the application, I have no evidence to show that sufficient information was requested about expenditure and financial commitments. I am not persuaded that an assessment of affordability and ability to meet repayments in a sustainable manner could be made without information about Mr V's expenditure and his other financial commitments.

Wonga assessed that Mr V had disposable income of £774 after payment of his mortgage. But it has clearly not taken into account Mr V's expenditure and the fact that he has three children under 14. It said that it checked Mr V's credit file which gave no indication of a poor credit history. Whilst I have not been provided with a copy of Mr V's credit file, Mr V said that he had numerous missed payments on all his credit accounts. He has mentioned two defaults dated August 2011 and May 2012, but believes he has others.

Wonga has referred to its application in which it sought a confirmation that Mr V could afford to make the loan repayments and it said that Mr V indicated that he was satisfied that he could do so. But in the circumstances of this complaint, I am not persuaded that reliance on this provision along with the other brief details provided by Mr V was sufficient to meet the assessment of affordability envisaged by the OFT.

I note from the information supplied to this service by Mr V that his expenditure regularly exceeded his income, and that he had significant debts. I have seen Mr V's bank statements from 2010 to 2012 and it is clear from these that Mr V's account became overdrawn very shortly after his salary was paid. He had to rely on payday loans from different companies to manage until his next salary payment. I can also see that Mr V entered into a debt management plan in June 2012 made up of debts due to eleven lenders totalling over £13,650.

Whilst Wonga said that all of Mr V's loans were repaid except the last, I can see that Mr V had to regularly obtain payday loans from Wonga and other payday lenders. This was not a sustainable situation. As Wonga did not take into account Mr V's other commitments, his ability to repay and his overall personal and financial situation, I do not consider that it undertook a reasonable assessment of affordability. I am not persuaded that it considered enough information from the very first loan to be able to reasonably assess Mr V's likely ability to be able to meet his repayments in a sustainable manner without him incurring further financial difficulties. So, I consider that Wonga should refund all interest and charges applied to all of Mr V's loan agreements with it. It should also pay 8% interest on the amount refunded and £100 compensation for the distress caused to Mr V by the matter.

my final decision

My decision is that I uphold this complaint. In full and final settlement, I order WDFC UK Limited, trading as wonga.com to:

1. Refund all interest and charges applied to all of Mr V's loan agreements with it;
2. Pay Mr V 8% simple interest per annum on the amount refunded, from the date of each payment to the date of settlement; and
3. Pay Mr V £100 compensation.

If Wonga considers that tax should be deducted from the interest element of my award, it should provide Mr V with the appropriate tax deduction certificate so that he is able to claim a refund, if appropriate.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr V to accept or reject my decision before 20 April 2015.

Roslyn Rawson
ombudsman