complaint

Mr M complains that WDFC UK Limited (trading as Wonga) gave him loans that he couldn't afford to repay.

background

The background to this complaint was set out in the provisional decision that I issued last month. An extract from this is attached and forms part of this final decision, so I will not repeat that information here.

In my provisional decision I set out why I was minded to uphold most of the complaint. I invited both parties to let me have any further comments and evidence. Both Mr M and Wonga have said they accept my provisional findings.

my findings

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

Given that both Wonga and Mr M have accepted my provisional findings I see no reason to alter them. So I remain of the opinion that if Wonga had done what I consider to be proportionate checks it would have seen, from loan 3 onwards, how poor Mr M's financial situation was. And, as a responsible lender, it wouldn't have agreed to give those loans to him. Wonga needs to pay Mr M some compensation.

putting things right

I don't think Wonga should have agreed to lend to Mr M after, and including, the loan that he took on 1 July 2015 (loan 3). So for each of those loans Wonga should;

- Refund any interest and charges applied to the loans.
- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*.
- Remove any adverse information recorded on Mr M's credit file in relation to the loans.

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

my final decision

My final decision is that I uphold Mr M's complaint and direct WDFC UK Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 13 July 2018.

Paul Reilly
ombudsman

EXTRACT FROM PROVISIONAL DECISION

complaint

Mr M complains that WDFC UK Limited (trading as Wonga) gave him loans that he couldn't afford to repay.

background

Mr M was given 11 loans by Wonga between March 2015 and January 2016. He also took six other loans from Wonga in 2011, but has told us that he doesn't want to complain about those loans. All of Mr M's loans from Wonga have been repaid in full, and a summary of his borrowing in 2015 and 2016 is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount (incl Top-ups)
1	21/03/2015	27/03/2015	£ 400
2	10/04/2015	27/04/2015	£ 450
3	01/07/2015	27/07/2015	£ 450
4	31/07/2015	27/08/2015	£ 450
5	29/08/2015	25/09/2015	£ 450
6	27/09/2015	27/10/2015	£ 450
7	31/10/2015	27/11/2015	£ 450
8	29/11/2015	23/12/2015	£ 450
9	28/12/2015	07/01/2016	£ 480
10	12/01/2016	27/01/2016	£ 300
11	28/01/2016	16/02/2016	£ 480

Mr M's complaint has been assessed by one of our adjudicators. She didn't think that Wonga had done enough checks before agreeing any of the loans. And she thought better checks would have shown Wonga that Mr M couldn't afford to repay them. So she asked Wonga to pay Mr M some compensation.

Wonga didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide.

my provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. I've also taken into account the law, any relevant regulatory rules and good industry practice at the time the loans were offered.

Wonga was required to lend responsibly. It needed to make checks to see whether Mr M 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 M was borrowing, and his lending history, but there was no set list of checks Wonga had to do.

The Financial Conduct Authority was the regulator at the time Mr M borrowed from Wonga. Its regulations for lenders are set out in its consumer credit sourcebook (generally referred to as "CONC"). These regulations require lenders to take "*reasonable steps to assess the customer's ability to meet repayments under a regulated credit agreement in a sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences."* They define 'sustainable' as being able to make repayments without undue difficulty. And explain that this means borrowers should be able to make their repayments on time and out of their income and savings without having to borrow to meet these repayments.

So, the fact that Mr M managed to repay the loans in full and on time, doesn't necessarily mean the loans were affordable for him and that he managed to repay them in *a sustainable manner.* In other words I can't assume that because Mr M managed to repay his loans that he was able to do so out of his normal means without having to borrow further.

Wonga has told us about the checks it did before lending to Mr M. Before each loan it asked him for details of his income. And before loans 7 to 11 it asked him for details of his normal expenditure too.

The amounts that Mr M needed to repay on each of his loans were significant compared to the income he declared to Wonga. Most of the time his repayments were taking up over a third of his normal income. And he was borrowing frequently from Wonga – he took 11 loans in the space of just over nine months. So I think from the very start, Wonga should have wanted to understand Mr M's financial situation in some detail, and from the time of loan 3 I think Wonga should have been independently verifying Mr M's true financial situation. So I don't think the checks Wonga did before any of the loans were sufficient.

But although I don't think the checks Wonga did before any of the loans were sufficient, that in itself doesn't mean that Mr M's complaint should succeed. I'd also need to be persuaded that what I consider to be proportionate checks would have shown Wonga that Mr M couldn't sustainably afford the loans. So I've looked at Mr M's bank statements, and what he's told us about his financial situation, to see what better checks would have shown Wonga.

Before the first two loans I think it would have been reasonable for Wonga to base its affordability assessment on what Mr M declared about his income and expenditure – I don't think it would have been proportionate to independently check that information. But Wonga didn't ask Mr M about his expenditure so I don't know for certain what he'd have said at that time.

But Wonga did ask Mr M about his expenditure around seven months later. And the answers he gave at that time, and when he took the following four loans, were consistent. Mr M has told us that his financial position got worse as the loans went on. So I think if Wonga had asked Mr M about his expenditure at the time of loans 1 and 2 it's likely he'd have said his disposable income was at least as large as he declared later on. He told Wonga that he had £845 left over each month.

So I currently think if it had done proportionate checks Wonga would have concluded that loan 1 was affordable. When Mr M asked for his second loan I think Wonga's checks should have gone even further. As well as asking him about his normal expenditure I think Wonga should have been asking Mr M for details of any other short term loans he was already committed to repaying. But from what I've seen he didn't have any other short term loans at that time. So I currently think Wonga would have concluded from proportionate checks that loan 2 was affordable too.

But as I said earlier, I think Wonga should have been independently checking Mr M's finances from loan 3 onwards. Had it done so it would have seen that Mr M needed to repay almost £600 to another short term lender just a few weeks later. And it would have seen that Mr M was spending very heavily on what appear to be online gambling transactions – in the month of June 2015 alone he spent over £5,000.

And Mr M’s finances didn’t improve over the rest of the time that he was borrowing from Wonga – in fact they got much worse. Mr M continued to gamble heavily spending several thousand pounds each month. And to help fund this spending he borrowed in ever increasing amounts from a range of other short term lenders, as well as from Wonga.

If Wonga had done what I consider to be proportionate checks it would have seen, from loan 3 onwards, how poor Mr M’s financial situation was. And, as a responsible lender, it wouldn’t have agreed to give these loans to Mr M. So Wonga needs to pay Mr M some compensation.