

complaint

Mr L complains that WDFC UK Limited (trading as Wonga.com) didn't carry out proper affordability checks and irresponsibly granted him unaffordable payday loans. He says he was trapped in a spiral of debt. He wants the charges and interest refunded and his credit file amended.

background

Wonga said in its final response that it considered the information available at the time. And before approving a loan it would carry out a credit reference agency check. Mr L achieved an acceptable underwriting score and the loans were approved. There wasn't any indication they were unaffordable. It'd told him of each loan's terms, charges and interest.

Our adjudicator felt this complaint should be upheld. She said:

- Wonga was required to ensure its loans were affordable. It wasn't obliged to carry out any particular checks but they should've been proportionate to the amounts it was lending.
- Mr L took out 31 payday loans with Wonga between October 2012 and September 2014.
- The first loan was for £299. Wonga asked about Mr L's income but hasn't shown what his outgoings were. It was reasonable for it to rely on what Mr L said and this loan appears given reasonably. The second loan was for less and credit checks didn't show any cause for concern.
- But the third loan was requested two days after the second was repaid. It was for significantly more than the previous one and the repayment was a third of Mr L's income. This should've alerted Wonga to a potential affordability issue as he was possibly paying off one loan by borrowing another.
- From the third loan Wonga should've carried out more affordability checks. Instead it continued lending amounts of up to £1,096. If Wonga had asked, for example, to see his bank statements it would've seen he was repaying other payday loans, was gambling and frequently and heavily using his overdraft. His spending was more than his income. Wonga didn't lend responsibly from the third loan onwards.
- So, Wonga should refund all interest and charges from the third loan onwards plus pay interest. It should also remove adverse entries about these loans from his credit file.

Wonga doesn't agree. It says it was entitled to rely on the credit reference agency checks it carried out and the information Mr L provided. It isn't required to see bank statements. There were gaps in the loans. All loans were paid off and there wasn't a suggestion of financial difficulty. The amounts borrowed varied from £100 to over £1,000. The pattern of borrowing doesn't suggest reliance on these loans. Even so it's offered to refund the interest and charges on some larger loans plus pay interest. This amounts to a refund of £2,310.74. It will also amend Mr L's credit file.

Mr L hasn't accepted this offer. He says despite the amounts of the loans varying there's still a pattern of dependency and financial struggle. He says most of the loans weren't affordable. The offer isn't enough.

my findings

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

I agree with the adjudicator's conclusions for the same reasons.

Whatever level of checks Wonga carried out at the time of each loan application I think Mr L's account history should've also quickly alerted it to the fact that he may have been in financial difficulty, the loans may have been unaffordable and particularly that he was becoming reliant on short term lending.

I agree with the adjudicator that it would've been reasonable for Wonga to have reached this conclusion at the time of the third loan. At this time I think it should've reasonably done more checks and asked some more questions. If it'd done so, for example by looking at Mr L's bank statements, it would've realised that he was in difficulties, was using other payday lenders and the loans weren't likely affordable for him. And particularly, even though the loan amounts varied and weren't all back to back, he was becoming reliant on them.

Taking everything into account I don't think Wonga's shown its lending from loan three onwards was affordable or responsible. I note Wonga's most recent offer but I don't think it goes far enough.

Overall I think the adjudicator's recommendations are a fair and reasonable resolution of this complaint. And I don't see any reason to change the proposed outcome in this case.

my final decision

I uphold this complaint and I require WDFC UK Limited (trading as Wonga.com):

1. To refund all interest and charges on all loans from loan 3 onwards plus pay simple interest at the rate of 8% a year from the date each such sum was paid until the date of settlement; and
2. To remove these loans from Mr L's credit file.

Wonga must pay the redress within 28 days of the date on which we tell it Mr L accepts my final decision. If it pays later than this it must also pay interest on the redress from the date of my final decision to the date of payment at 8% a year simple.

If Wonga considers that it's required by HM Revenue & Customs to withhold income tax from any interest paid, it should tell Mr L 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 L to accept or reject my decision before 21 March 2017.

Stephen Cooper
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