

complaint

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

background

Mr B first borrowed from Wonga in January 2011. In total he took 22 loans from Wonga over a period of 14 months, and many of those loans were "topped up" by Mr B taking further borrowing before repaying his earlier loan. Mr B's final loan was taken in March 2012.

Mr B's complaint has been assessed by one of our adjudicators. She thought that Wonga shouldn't have lent to Mr B from his fourth loan onwards. Wonga hasn't responded to that assessment so the complaint has been passed to me to reach a final decision. This is the last stage of our process – if Mr B accepts my decision it is legally binding on both parties.

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'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 B 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 B was borrowing, and his lending history, but there was no set list of checks Wonga had to do.

In its final response to Mr B, Wonga explained that it performed a credit check before each loan was approved. And it says that it also gathered information from him such as his normal monthly income and details of his employment. And it says that it also considered his previous repayment history.

From the information that Wonga has sent us I can see that it recorded details of Mr B's income and employment each time it lent money to him. But Wonga hasn't shown us anything about any of the other checks it says it did. And it isn't enough for a lender to simply perform checks – it also needs to react appropriately to the information those checks produce. And without more details of the results of the checks that Wonga says it did, and taking into account the amounts that Mr B was asking to borrow, I can't safely say that those checks were sufficient.

When Mr B first approached Wonga for a loan, the lender agreed an amount of £200. But given what Mr B said he was earning I think Wonga might have wanted to explore his financial situation in a little more detail – maybe asking him for information about his normal living costs. But I don't think that if Wonga had asked these sorts of questions, the information Mr B is likely to have given the lender would have led it to conclude that it shouldn't lend to Mr B.

And I think the same is true of the next two loans that Mr B took from Wonga. The amounts of these loans increased significantly – taking into account the two top-ups Mr B took, the second loan was ultimately double what Mr B had borrowed on his first. And both Mr B's second and third loans were taken very soon after he'd repaid the loan before. But once more I don't think the information Wonga should have gathered would have caused it to decide not to lend to Mr B.

I have also considered that Mr B says he had a County Court Judgement (CCJ) registered against him in 2009. I don't know if this was something Wonga saw on Mr B's credit file. But in any case I think the CCJ was long enough before he took these loans for it to have not unduly concerned the lender

But by the time of the fourth loan I think Wonga should have noticed a very clear pattern forming – Mr B was continuing to borrow what were relatively large amounts compared to his normal monthly income. And he continued to take new loans very soon after he'd repaid the previous one. So I think Wonga should have been increasingly concerned about whether it knew enough about Mr B's true financial situation to be able to fairly assess whether he could sustainably repay the loans he was asking for.

There were many ways that Wonga could have gathered more information. It could have asked Mr B for things like his pay slips and evidence of his expenditure. Or it could have looked at his bank statements as I have done. And I think if it had done this it would have quickly realised that it shouldn't be lending to Mr B.

At the time he was asking for the loans, Mr B was spending heavily on what appear to be gambling transactions. The effect of this was that he didn't have any money left over each month with which to repay his loans. So, to do so, he was asking Wonga for new advances. And over the 14 months that he was borrowing the amounts escalated rapidly. It is true that there were some smaller loans amongst the lending Mr B took from Wonga. But these always took place in the same month as much larger loans – in other words Mr B hadn't been paid in the meantime, and so it is clear that he was simply borrowing more money in order to repay his loans.

So I don't think that Wonga should have agreed to lend to Mr B after, and including, the fourth loan that he took on 1 April 2011. So Wonga needs to pay him some compensation.

putting things right

I don't think Wonga should have agreed to lend to Mr B after, and including, the loan that he took on 1 April 2011. So for each of those loans Wonga should;

- Refund any interest and charges applied to each of 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 B's credit file in relation to the loans.

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

my final decision

My final decision is that I largely uphold Mr B's complaint and direct WDFC UK Limited to pay him compensation as detailed above.

I make no other award against WDFC UK Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 6 January 2017.

Paul Reilly
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