

complaint

Mr D complains that WDFC UK Limited (trading as Wonga) should've realised that the loans he took out with the company were unaffordable that it was irresponsible in lending to him. He says that he was in a spiral of debt and using other payday lenders to repay loans.

background

Mr D took out a total of 71 loans with Wonga between October 2010 and August 2014.

Our adjudicator has looked into Mr D's complaint. He concluded that Wonga shouldn't have offered any loans to Mr D after and including the fifth loan he took on 31 January 2011. He was of the view that the checks Wonga performed were insufficient and appropriate checks would have shown the loans were unaffordable to Mr D so it was irresponsible in continuing to lend to him.

Wonga hasn't responded to the view so the case has been passed to me to make a final decision.

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 conduct checks to make sure that the loans it was giving to Mr D were affordable. Those checks needed to be proportionate to the amount Mr D was borrowing, but there was no set list of checks it had to do.

Wonga says that before it approved the loans it carried out a credit reference agency check. It says that when Mr D applied it combined that data with the personal data Mr D provided including salary, employment, marital status, dependents, home ownership status, motor owner status and his repayment history. Wonga also says that it assessed affordability by looking at the value of the loans and top ups against the customer's stated income, the frequency of borrowing and any other factors which indicate financial difficulties as a result of the loan, such as arrears and repayment arrangements. Wonga says that the loan records for Mr D show that he managed to repay the loans in full and on time and that it doesn't consider that there was sustained sequential borrowing.

Mr D initially borrowed £125 in October 2010. He topped this up with another £60 and repaid it the same month. He took a further loan of £148 three days later which he paid back the same month. Mr D took his third loan of £125 the next day and repaid it that month. He took a further loan initially of £105 the following day in December 2010. He topped this up three times to a total of £425 and paid the full amount back the following month.

It does appear that Wonga obtained details of Mr D's monthly income at the time of the first and subsequent loans, which they have recorded as £2,200 at the time of the first loan. The amounts of the first four loans were relatively low compared to Mr D's stated salary and that he didn't have a history of taking payday loans. So I haven't seen enough to persuade me that Wonga failed to make sufficient checks at the time it made the decision to lend to Mr D on these occasions.

The fifth loan was taken by Mr D on 31 January 2011 - the same day as he had paid off the previous loan. The initial sum was £250 but this was topped up by a further 220 before being repaid the following month. The initial amount of the fifth loan was for around double the amount Mr D had previously requested. He had taken this the same day as he paid off the previous loan and he had also topped up the previous loan three times before repaying this.

In light of this, when he took out loan five, I think Wonga should have begun to have some concerns about the affordability of the loans Mr D had and should have made more detailed checks into Mr D's ability to repay his loans. Wonga hasn't been able to show us the checks that it actually performed on Mr D's applications, or the results that these checks generated. So I can't be satisfied that Wonga performed proportionate checks when assessing Mr D's applications at this stage. I've therefore gone on to consider what I think Wonga would have seen if it had undertaken these checks at the time.

I've thought about Mr D's history of lending with Wonga. And I've looked at his circumstances at the time – both in terms of how he was managing his finances and his normal monthly income and expenditure. This was information that would have been available to Wonga through looking at Mr D's credit file, and by asking him about his normal monthly expenditure – or looking at his bank statements as I have done.

When he took out loan five, I think Wonga should have been concerned that Mr D was borrowing more and that he had taken successive loans with Wonga previously. It seems from his bank statements that he was increasingly reliant on payday lending to meet his normal day to day living expenses, and to service other credit repayment obligations. As he was repaying short term and other lending he had far less disposable income, if any, with which to repay his loans with Wonga. Mr D was also spending a significant amount of money on gambling, for example around the time of the fifth loan the amount he spent a month on gambling was around two times his monthly income.

I think that if Wonga had performed sufficient checks on Mr D's circumstances when he asked for the fifth loan it would have concluded that it shouldn't lend to him – because the loan would be unaffordable. And I've not seen any improvement in Mr D's circumstances over the remainder of the time he was borrowing from Wonga – if anything his situation got worse and the loans even less affordable. So I don't think Wonga should have agreed any of the loans that it offered to Mr D from this point onwards.

It follows that I partially uphold Mr D's complaint and that Wonga needs to pay him compensation as shown below.

putting things right

I don't think Wonga should have made any further loans to Mr D after and including the loan on 31 January 2011 (loan five). So it should;

- Refund the interest and charges applied to all lending to Mr D after, and including, 31 January 2011.
- 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 D's credit file in relation to the loans I am asking to be refunded.

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

my final decision

For the reasons given above, I partially uphold the complaint and require WDFC UK Limited to pay the fair compensation set out above.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr D to accept or reject my decision before 20 October 2016.

Rachel Ellis
ombudsman