

complaint

Mr S complains that WDFC UK Limited (trading as Wonga) lent him money he could not afford to repay.

background

Mr S took out 16 loans with Wonga between September 2012 and March 2014. He says that during this period his loans got larger and he had to take out other loans to repay them. He says that had Wonga carried out affordability checks and looked more closely at his income and credit file it would have realised he could not afford the loans.

Mr S says he contacted Wonga in August 2013 to ask for his account to be permanently closed. This did not happen and he took out further loans making his situation worse. He complained to Wonga and it agreed to refund him the interest and charges on two of his loans.

In its final response letter, Wonga says that before providing a loan it carries out a credit check and this information is combined with the information provided by the customer in their application. It says that Mr S achieved an acceptable underwriting score and so the loans were approved. It says that the income figure Mr S provided in this complaint does not match the amount that he provided in his loan applications.

Wonga says that before the end of 2013, the loans it provided were low compared to Mr S' income. It says the loans he applied for then increased and that these loans were not suitable. Because of this it offered to refund the interest and charges on the loans taken out on 31 December 2013 and 25 January 2014.

Our adjudicator upheld this complaint. He said that Mr S had an income of around £750 per week and given the amount Wonga was requesting for repayment further checks should have been carried. He said that had questions been asked about Mr S' expenditure these would not have raised concerns about the affordability of the first loan. However, he said that when the second loan was requested more checks should have been carried out to understand why Mr S needed payday loans given his low expenditure.

Our adjudicator said that had further checks been carried out such as a review of Mr S' bank statements it would have seen Mr S was spending a large amount each month on gambling and that the loans were being used to support this. He recommended that the interest and charges on the second and all subsequent loans be refunded.

Wonga did not provide its case file until after our adjudicator had issued his view. This confirmed that Mr S took out 16 loans and the amounts of these. It showed a much higher monthly income figure for Mr S.

my findings

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

Mr S took out 16 loans with Wonga between September 2012 and March 2014. Before agreeing to lend to Mr S, Wonga had to make sure each time that he could afford to repay the loans. Affordability checks should be proportionate. What is proportionate depends on

things like - but not limited to - the size of the loan, the repayments, what Wonga knew about Mr S, and the things he told it about his circumstances.

Wonga has provided information about the checks it carried out before the loans were provided to Mr S. It has provided information showing that the income it had recorded for Mr S was much higher than he has mentioned in this complaint. In the Wonga files, Mr S' monthly net income is the same for all the loans and recorded as £15,000.

I accept that Wonga should be able to rely on the information provided to it by Mr S. I have not seen a copy of the application form he completed and so cannot confirm whether he said he earned £15,000 net per month. However, even accepting that he did provide this information I find it reasonable, given the high level of the income that Wonga would have checked this. Wonga had information that Mr S worked full time at a retailer and although it did not have his position recorded I find that it should have done more to verify his income.

Mr S's first loan was for £200 and was repaid on 5 October 2012. Mr S then took out a much larger loan (£430) the following day. Before providing this loan Wonga should have confirmed Mr S' income (as noted above) but also asked for information about his expenses, including his normal living costs and other financial commitments. Mr S' next two loans were for much smaller amounts.

Mr S' fifth loan was for £250. By this time I find that Wonga should have been concerned about the frequency with which Mr S was making use of short term borrowing. This was Mr S' fifth loan in five months. Given this I would have expected Wonga to have carried out a full review of Mr S' financial situation. This could have included a review of his bank statements.

Overall, I think that the income figure Wonga had for Mr S should have been checked and verified before any loans were made. Had this happened it would have found Mr S' income started at less than £800 and increased to around £1,000 during the period of the loans. I think that further checks of his regular expenses should have been carried out before loans two to four were provided and that before loan five and all subsequent loans were provided a thorough check of Mr S' financial circumstance should have occurred.

Given I find that sufficient checks were not carried out before the loans were provided I have considered whether, had these taken place, Wonga would have been reasonably aware the loans were unaffordable.

Mr S' income at the time of the first loan was just over £750. The loan repayment amount was £235. While this is a high portion of Mr S' income, it was his first loan and I do not find based on Mr S' correct income Wonga should have realised this loan was unaffordable.

Mr S repaid his first loan and then took out the second the next day. This was for £430 with an amount to be repaid of just over £550. At this time Mr S' income was around £800 and so the repayments would have taken more than half of his monthly net income. Had Wonga checked Mr S' normal living expenses as well as his financial commitments including other short term borrowing it would have found that Mr S was making use of other payday lenders. Although Mr S' living expenses were low he had other short term lending which I find should have raised concerns about the affordability of the loan.

The two subsequent loans were for small amounts. But given the checks that should have been carried out prior to these loans being provided Wonga should have been reasonably aware that lending to Mr S was not affordable.

By loan five thorough checks should have been carried out. I have looked through Mr S' bank statements and can see that he was using his loans as least in part to fund his gambling.

Overall, I find that had sufficient checks been carried out at the appropriate times then Wonga would have realised before providing loan two that lending to Mr S was not affordable.

my final decision

My final decision is that I uphold this complaint. WDFC UK Limited should:

1. refund all interest and charges that Mr S paid on loan two and all subsequent loans;
2. pay interest of 8% simple a year on all refunds from the date of payment to the date of settlement;
3. apply the refund to reduce any capital outstanding and pay any balance to Mr S;
4. remove any negative information about the loans from Mr S' credit file.

HM Revenue & Customs requires WDFC UK Limited to take off tax from this interest. WDFC UK Limited must give Mr S a certificate showing how much tax it's taken off if he asks for one. If WDFC UK Limited intends to apply the refund to reduce any outstanding capital balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 16 October 2017.

Jane Archer
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