

complaint

Mr L complains about the loans he took out with WDFC UK Limited trading as Wonga. He says that he was stuck in a cycle of borrowing and dependency and his overall financial position was worsened by being lent loans by Wonga. He thinks that Wonga didn't properly assess the affordability of these loans and if it had done it would've seen this and not lent to him.

background

Mr L took out 17 loans with Wonga from December 2013 to August 2016. Some of the information Wonga has given us is in the table below.

loan number	date taken	amount borrowed	date closed
1	15/12/2013	£200	07/01/2014
2	15/01/2014	£200	31/01/2014
3	06/02/2014	£300	28/02/2014
3a	16/02/2014	£120	
4	07/03/2014	£300	28/03/2014
4a	09/03/2014	£120	
5	30/03/2014	£420	21/04/2014
6	29/04/2014	£420	30/05/2014
7	02/06/2014	£420	01/07/2014
8	14/08/2014	£290	29/08/2014
8a	23/08/2014	£50	
9	31/08/2014	£350	30/09/2014
9a	13/09/2014	£50	
10	30/09/2014	£400	31/10/2014
11	01/11/2014	£420	21/11/2014
12	05/01/2015	£400	30/01/2015
13	12/03/2015	£200	20/03/2015
14	28/03/2015	£60	31/03/2015
15	09/04/2015	£450	20/04/2015
16	22/04/2015	£300	28/04/2015
17	13/08/2016	£450	01/12/2016

The increases to the loans are labelled 'a' next to the loan number.

Wonga looked at Mr L's complaint but it didn't uphold it. It said that it had properly determined that all of the lending was affordable. It did this by asking Mr L detailed questions about his income and expenditure, and it also looked at his credit file. It relied on the information provided. It also gave Mr L full information about the loans before it lent.

Our adjudicator thought that Mr L's complaint should be partially upheld. She thought that Wonga didn't make proportionate checks for any of the lending. So she thought if it had better checks then it would've likely found out that Mr L could afford the repayments for loans 1 to 4. But he couldn't afford the repayments for loans 5 to 17. So she said that if

Wonga had made better checks than it wouldn't have agreed to lend to Mr L for loans 5 to 17.

Mr L didn't disagree with the adjudicator's findings. Wonga didn't fully agree with our adjudicator findings, it said that:

- it was entitled to rely on the information provided by Mr L which showed that the loans were affordable,
- the adjudicator's findings showed that Mr L had enough disposable income. For example he had £150 left after paying loan 6. And we had said that he usually had around £750 remaining before his other short term lending was considered,
- loan 17 was a three month instalment loan, we hadn't considered this and
- it did agree that loans 5 and 7 weren't affordable and so it offered to put things right for these.

As no agreements been reached the complaint's been passed to me.

my findings

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

Having done so, I've decided to partially uphold Mr L's complaint I think Wonga shouldn't have lend to Mr L for loans 5 to 17. I'll explain why.

Wonga was required to lend responsibly. To do this it needed to make checks to see whether Mr L could afford to pay back each loan before it lent to him. There's no set list of what a lender should do to check affordability. But the checks should be proportionate to things like the size of the loan, the repayments, what the lender knows about the consumer and what the consumer tells the lender about their circumstances.

So I've firstly looked at whether Wonga performed proportionate checks. If I think that the checks were proportionate then it usually would've been reasonable for it to lend. But if Wonga didn't do proportionate checks I've looked at whether it would've been apparent to it that the loan repayments were affordable had it done better checks. Wonga should put things right if it's likely to have then found that the loan repayments were unaffordable

Wonga says that the checks it made were proportionate. It recorded Mr L's income as being £2,000 for loan 1, £1,500 for loans 2 to 11 loans and £2,000 for loans 12 to 17. It's also shown us the results from the credit checks it did before each loan. And for the final loan it recorded L's expenditure as being £1,250.

Mr L has accepted the adjudicator's opinion that loans 1 to 4 were affordable for him. So as there is now no dispute about these loans I won't be looking at them here. But although I won't be making a decision about whether Wonga did something wrong in respect of those loans, they were part of the lending relationship Mr L had with Wonga. So they are something I will take into account when considering the other loans she took.

were the checks Wonga did proportionate for loans 5 to 17

By loan 5 Mr L had been borrowing from Wonga for over four months and the (initial application) amounts he had borrowed had broadly increased with each loan. So I think

Wonga could've realised that Mr L may have been becoming dependent on short term lending rather than using the loans to help with a temporary cash flow problem. And Wonga should've become concerned about whether it knew enough about Mr L's true financial situation – as it would seem Mr L was becoming further indebted to Wonga.

So for loan 5 onwards Wonga should've made a full review of Mr L's finances to check if any further short term lending was affordable. There are many ways it could've done this, such as asking for payslips and/or bank statements, to verify the information Mr L was providing.

I don't think Wonga did these checks. It didn't verify Mr L's income at any time and I can't see that it looked at his outgoings until loan 17. It didn't fully review his finances at any point. So I don't think Wonga did proportionate checks for any of this lending.

were loans 5 to 17 affordable?

So I've thought about whether it would've been apparent to Wonga that loans 5 to 17 were affordable, had it made proportionate checks. To do this I've looked at the information provided by both parties about Mr L's financial circumstances. This includes his bank statements and a recent credit report. I've also thought about what Mr L said and what Wonga recorded about him.

were loans 5 to 7 affordable?

Before loan 5 Mr L earned around £1,150. He also says that his regular expenditure had fallen as his housing costs were now paid through his employer. So his regular expenditure was now just over £500, and he also had regular financial commitments of around £300. The largest component of this was around £200 for a car loan. So Mr L had a disposable income of around £350. This was lower than the Wonga loan repayments which were all over £500.

And Mr L was using other short term lenders. I can see that just before loan 5 he had over £400 outstanding with other short term lenders. Some of this would've needed to be repaid when he had to repay the Wonga loan.

Shortly after loan 5, I can see Mr L changed jobs. His income dropped to around £550 per month before loan 6 and £400 before loan 7. He did receive some emergency payments from his employer but these weren't a great amount. His regular expenses were still much the same but I can see that before loan 6 he had at least £900 outstanding with other short term lenders and £260 before loan 7.

So if I Wonga had done proportionate checks it would've seen that Mr L couldn't afford to make the repayments to loans 5 to 7. It also would've seen that he was now in financial difficulty. So I'm upholding Mr L's complaints about loans 5 to 7.

were loans 8 to 17 affordable

Looking at Mr L's bank statements over loans 8 to 10 I can't see that his circumstances improved significantly. He does start to receive an income of around £1,000 at the time of loan 9. But his expenditure seems to remain around the same.

Loans 8 to 10 were all taken in August and September 2014. The initial loan amounts, plus the increases, to these meant that Mr L was repaying around £400 to £500 to Wonga over

these months which he couldn't afford. So I'm upholding Mr L's complaint about loans 8 to 10.

And going forward – especially as the amounts Mr L was regularly borrowing remained the same – I think Wonga should've been doing more than just assessing if Mr L could repay the credit. Wonga should've taken reasonable steps to assess Mr L's ability to repay it in a sustainable manner. It didn't do this.

At the point he took loan 11, I'm satisfied that Mr L couldn't sustainably repay any further borrowing. This is because his outgoings, including the loan repayments, were close to, or above, his likely income. And the factors I've talked about above point to Mr L being in, or close to, financial difficulty over a prolonged period of time.

I do note that Mr L's partner's income increased but this doesn't seem to improve their financial situation term. Even when his wife's income is added to his (which may not be what happened) their commitments are very close to their income. This still applied even though there was a break between loans 16 and 17.

And I have taken into account some of the later loan repayments were lower – such as loan 17 which Wonga says was an instalment loan, but I still don't think it was right to lend to Mr L given his financial circumstances.

I think if Wonga had carried out the appropriate checks it would've likely have seen all of this. And given what these checks would've shown Wonga it seems to me that, after loan 11, Wonga wasn't acting as a responsible lender. So I'm also upholding Mr L's complaint about loans 11 to 17.

putting things right

Wonga shouldn't have lent to Mr L between March 2014 and October 2018. So for loans 5 to 17 Wonga:

- refund any interest and charges applied to those 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 L's credit file in relation to those loans.

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

my final decision

For the reasons I've explained, I partly uphold Mr L's complaint.

WDFC UK Limited should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr L to accept or reject my decision before 6 October 2018.

Andy Burlinson
ombudsman

