

## **complaint**

Miss W complains that WDFC UK Limited, trading as Wonga, provided her with loans which she couldn't afford.

## **background**

Miss W took a number of loans from Wonga between February and December 2013.

When Miss W complained to Wonga last year, it didn't agree it had done anything wrong when it provided the loans to her. So she brought her complaint to this Service.

One of our adjudicators looked into Miss W's complaint. Our adjudicator thought that Wonga shouldn't have provided some of the loans to Miss W. And she asked it to pay Miss W some compensation.

Wonga responded to say that it had already written off the entire last loan. It said that Miss W had received the benefit of £620 principal which was never repaid. So it argued that it should be allowed to deduct that from any compensation payable in respect of the earlier loans. It showed our adjudicator how it had calculated this and that it meant that no compensation would be payable to Miss W.

Our adjudicator explained to Miss W that as she'd had the benefit of the £620 and hadn't repaid it, Wonga didn't now owe Miss W anything - even though our adjudicator had agreed that Wonga shouldn't have provided some of the loans.

Miss W didn't accept that outcome. As the complaint wasn't resolved informally it came to me for a decision. Last week I issued a provisional decision explaining why I was minded to uphold the whole of Miss W's complaint. I invited the parties to let me have anything more they wanted me to look at before I considered my final decision.

Wonga has responded to say that it accepts my provisional decision. Miss W has also responded. She has pointed out some things about the loan schedule I referred to in my provisional decision. And she's unhappy that I was minded to allow Wonga to deduct some money from the compensation I proposed it should pay her.

## **my findings**

I've once again 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.

In my provisional decision I included a table outlining the loans which Wonga provided. Miss W has pointed out a typing error - for which I apologise. Loan 4 was for £250 and not £205. She also mentioned that she'd taken a top-up of £50 on 3 December 2013. And to be clear the advance I referred to as Loan 19 was also a top-up (to Loan 18) of £30. This table more accurately reflect the loans provided to Miss W by Wonga.

	<b>date taken</b>	<b>principal amount</b>		<b>date taken</b>	<b>principal amount</b>
<b>Loan 1</b>	07/02/13	£150.00	<b>Loan 11</b>	01/08/13	£250.00

<b>Loan 2</b>	13/03/13	£175.00	<b>Loan 12</b>	16/08/13	£250.00
<b>Loan 3</b>	18/04/13	£100.00	<b>Loan 13</b>	27/09/13	£120.00
<b>Loan 4</b>	17/05/13	£250.00	<b>Loan 14</b>	11/10/13	£120.00
<b>Loan 5</b>	03/06/13	£50.00	<b>Loan 15</b>	25/10/13	£120.00
<b>Loan 6</b>	09/06/13	£151.00	<b>Loan 16</b>	08/11/13	£110.00
<b>Loan 7</b>	13/06/13	£125.00	<b>Loan 17*</b>	23/11/13	£100.00
<b>Loan 8</b>	23/06/13	£70.00	<b>Loan 18**</b>	06/12/13	£170.00
<b>Loan 9</b>	28/06/13	£160.00	<b>Loan 19</b>	20/12/13	£620.00
<b>Loan 10</b>	19/07/13	£200.00			

\*Plus the top-up of £50 taken on 3 December 2013

\*\* Plus the top-up of £30 referred to as Loan 19 in my provisional decision taken on 11 December 2013

The loan I referred to as “Loan 20” in my provisional decision will be referred to as Loan 19 in this final decision.

I mention above that Wonga accepts my provisional decision. Miss W has replied about what loans and top-ups were taken and the compensation I proposed. But she hasn't said anything about my decision to uphold her complaint about all her loans. So I see no reason to change my provisional findings about whether Wonga did something wrong when it lent to Miss W. But Miss W is unhappy that I was minded to allow Wonga to deduct some money from the compensation it has to pay her. I'll explain why I'm not going to change my mind on this point later in this decision.

*why I think Wonga shouldn't have provided any loans to Miss W.*

Wonga was required to lend responsibly. It needed to make checks to see whether Miss W could afford to pay back each loan before it lent to her. There's no set list of what a lender should do to check affordability in every case. But 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.

Wonga says it asked for information from Miss W and did credit checks to help it assess the affordability of the loans she applied for. It's provided details to show that Miss W declared that she earned £620 per month – which was payable at weekly intervals. Wonga had details of the part-time work Miss W was doing. But it seems Wonga didn't ever ask Miss W what her outgoings were.

Miss W's first loan was for £150 – which with charges and interest meant that she had to repay almost £200 less than one month later. That amounts to one-third of her income and would've left her with £400 to live on. She'd told Wonga she was living in rented unfurnished accommodation. So as far as Wonga knew she had rent to pay as well as all the other usual monthly costs of living. Given the sums involved I think Wonga should've - at the very least - asked Miss W about her normal outgoings.

I mention above that Wonga says it did credit checks. And it's shown us the outcome of those. Clearly, performing checks in itself isn't enough – a lender also needs to react appropriately to what those checks show. This might necessitate further investigations or a decision to not lend at all. The credit check results appear in a codified format. But from my

reading of the one obtained when Miss W took Loan 1, the picture was such that Wonga should've had some concerns about Miss W's financial situation at that early stage.

It looks to me that Miss W had three accounts on which repayments weren't being met as agreed – this is known as “delinquent”. And it seems she had defaulted on a loan and owed £324 on that. Additionally the results showed that Miss W owed around £1,000 on active loans.

I accept that the fact that someone has delinquent loans or has defaulted on a loan doesn't necessarily mean that it was irresponsible for a lender to provide a new loan. But I do think that it meant that further checks were required before it did so.

In Miss W's circumstances I don't think it was proportionate of Wonga - in possession of those credit reference agency results - to provide her with the loans without more checks. This is especially so since the only other financial information Wonga had was the declared income Miss W had provided - £620 per month.

I think Wonga should've done a much more thorough check of Miss W's finances before it lent to her. It didn't have to ask to see her bank statements. But they're easy to obtain and are very telling about a person's financial circumstances and their ability to repay credit.

I've seen Miss W's statements from 2013. Even on a glance it is clear that had Wonga enquired more deeply it would've decided against lending to her - as to do so would be irresponsible. Firstly Miss W's only steady income into her bank account came from benefits. I accept that she may have been working as she had declared, but if she was, she was receiving her wages through some other means.

These statements also show that Miss W was paying a debt management company a weekly sum. This ties in with the credit report and potentially that she was repaying the defaulted loan through a debt management company. And her statements show numerous transactions with gambling companies. Miss W also withdrew large sums in cash on a very regular basis. In February 2013 these accounted for almost all the benefit income. I accept that cash withdrawals don't always mean that a borrower is going to use that for gambling purposes. But in my experience people who gamble often withdraw large sums of cash to fund it – and in Miss W's case the statements themselves suggest she was betting regularly – through a well-known bookmaker, a bingo site and a lottery.

I accept it's possible that Miss W was using cash to pay for her day to day expenses. But without drilling in for details - and it seems that Wonga's checks were fairly basic - I think its decision to lend to Miss W was not what a responsible lender should've done. And it seems Miss W's dependence on short term loans increased as the months went by. So that in November I can see she borrowed £700 from payday lenders.

I acknowledge that Miss W may not have provided Wonga with wholly accurate information about her financial circumstances. But I think that the broader circumstances - including the additional information Wonga had in its possession from the credit file results - at the time should've alerted it to make additional checks. And in failing to do those, it failed to act responsibly. So I don't think that Wonga should've provided any loans (or the top-ups to loans) to Miss W.

*putting things right*

As I'm satisfied Wonga shouldn't have given Miss W any loans or top-ups I intend to require WDFC UK Limited to:

- refund all interest *and* charges she paid for each of the loans and top-ups to loans. To each of these sums that it repays, it must add 8% simple interest a year, from the date Miss W paid them to the date of settlement. From this refund it may deduct £620 which is the principal sum it wrote off in respect of Loan 19. It shall not deduct any amount of interest or charges it wrote-off in respect of that loan; and
- remove any adverse entries relating to these loans from Miss W's credit file.

\*HM Revenue & Customs requires WDFC UK Limited to take off tax from this interest. It must give Miss W a certificate showing how much tax it's taken off if she asks for one.

In response to my provisional decision Miss W asks why £620 is to be taken off the final amount payable by Wonga when she says she told Wonga about her financial difficulties and asked to pay in instalments? She adds that Wonga chose to write off that loan, not her.

My role is to look at complaints made by consumers and if I think that the business did something wrong then I try to put the parties back in the position they would've been in if nothing had gone wrong. And I have to be fair to both parties. I accept that Wonga had written off the whole of Loan 19 previously. But in cases where I find the business did something wrong I don't usually require it to refund or write off principal sums. So when Wonga did this for Loan 19 it did more than I'd usually ask it to do.

Loan 19 was provided to Miss W and she received the sum of £620 (the principal) into her account. She hasn't repaid any of that principal sum but she has had the benefit of it. Over £300 was applied to that loan account as interest and charges. I'm not allowing Wonga to deduct those from the compensation - just the amount of principal she borrowed. This will put Miss W and Wonga back into the position they would've been in if Wonga hadn't provided the loans to her.

**my final decision**

For the reasons above I uphold Miss W's complaint and I require WDFC UK Limited to put things right as outlined.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 24 April 2017.

EJ Forbes  
**ombudsman**