

complaint

Mr K complains that WDFC UK Limited, trading as Wonga.com, gave him loans he couldn't afford to repay.

background

Wonga's records show that Mr K took out 50 loans between January 2012 and April 2016. The amounts he asked to borrow ranged from £58 to £615. Mr K had 30 top-ups on those loans. Mr K says Wonga didn't check he could afford to repay the loans.

The adjudicator said Wonga was required to carry out proportionate checks before lending. She hadn't seen any credit checks by Wonga but she noted that it took Mr K's income details but not his expenditure. The adjudicator noted Mr K borrowed frequently with short gaps between borrowing. She said this indicated Mr K was dependent on these loans and, given the amounts Mr K was borrowing, she would've expected Wonga to ask more questions.

The adjudicator said if Wonga had done more checks, it might've picked up that Mr K had a gambling problem. She thought the lending was irresponsible and that Wonga should refund all interest and charges on the loans from 3 February 2012, less any principal balance remaining. She also said it should pay interest and remove these loans from Mr K's credit file.

Wonga didn't agree with the adjudicator's view. It said the amounts Mr K borrowed fluctuated and there was a low loan to income ratio. Wonga said there was occasional sequential borrowing. It said Mr K repaid all loans in full, sometimes early. Wonga didn't know of anything that would've affected Mr K's ability to repay the loans.

Wonga said it was entitled to rely on the credit checks it made and the information Mr K gave about his income and other personal data. It used its underwriting system to assess affordability. Wonga said Mr K agreed that he'd considered how he could repay the loans. Mr K said he had income between £1,400 and £2,000.

Wonga said it didn't think Mr K was dependent on the loans but some of loans may have been unaffordable. It offered to pay Mr K a refund of fees and interest on seven of the loans, with interest. Mr K didn't accept that offer. He said Wonga should've noticed after the first few loans that he was relying on them.

my findings

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

When lending to Mr K, Wonga was required to ensure he could repay the borrowing in a sustainable manner, without it adversely affecting his financial situation. A lender should obtain sufficient information to make an informed decision about the lending. It's for the lender to decide how it does this. The guidance and rules list a number of things a lender may wish to consider. Checks should be proportionate, based on the size of the loan.

The information Wonga provided in response to the adjudicator's view includes data it says it gathered by way of credit checks. Wonga says that information is very difficult to interpret, as it's intended for its automated decision engine. In the form it's presented, it doesn't show me what information Wonga took into account before it decided to lend to Mr K. Based on what I've seen, I don't think Wonga carried out proportionate checks in relation to the loans it gave Mr K from 3 February 2012. I'll now explain why.

I agree with the adjudicator that there's nothing to suggest Wonga shouldn't have agreed to lend to Mr K in January 2012. The position changed in February 2012. That's because in February 2012, Mr K asked to borrow an amount that was almost double what he'd first borrowed. Also, he'd only recently repaid the previous loan. That's a clear sign that the borrowing may not have been sustainable. That should've prompted Wonga to ask more questions of Mr K.

There was no specific check Wonga was obliged to do at that point. But if it had looked at Mr K's financial situation more closely it would've seen, as I have, that the lending wasn't sustainable. I've looked at Mr K's bank account statements that show he had an unarranged overdraft and was repaying other payday lenders. He was reliant on short-term lending to meet day-to-day commitments. A pattern emerged of almost continuous borrowing.

I think if Wonga had made proportionate enquires about Mr K's circumstances and considered affordability properly, it would've realised the loans it offered him from February 2012 onwards weren't affordable. I think Wonga shouldn't have offered Mr K the loans from February 2012 onwards. It should refund the interest and charge, with interest, less the principal outstanding on Mr K's loans. It should also remove any adverse information it recorded about those loans on Mr K's credit file.

my final decision

I uphold Mr K's complaint and direct WDFC UK Limited, trading as Wonga.com to:

1. calculate the interest and charges Mr K paid on the loans he took out with it from February 2012 to April 2016;
2. calculate interest of 8% simple each year, to each of the amounts, from the date they were paid to the date of settlement;
3. pay Mr K the sum of 1. and 2. above, less any principal outstanding on Mr K's loans; and
4. remove any adverse information it recorded on Mr K's credit file about those loans.

If Wonga considers it has to deduct tax from the interest element of my award, it should send Mr K the appropriate tax certificate when it pays him. He can then use that certificate to try to reclaim the tax, if he's entitled to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 22 December 2016.

Louise Povey
ombudsman