

complaint

Miss H complains that WDFC UK Limited (trading as wonga.com) gave her loans that she couldn't afford to repay.

background

Miss H first borrowed from Wonga in February 2011. She repaid that loan later in the month and took another loan the next day. She topped up her loan around a week later and repaid it in mid-March. On that day she took another loan from Wonga and another top up loan ten days later. This loan was repaid at the end of March.

Immediately Miss H then took another loan, topping this one up twice. It was repaid at the end of April 2011. This was followed two days later by another loan, that was topped up once and repaid at the end of May. At the start of June, Miss H took a loan that was topped up twice and repaid at the end of July. Her final loan was taken the next day and topped up once. Miss H was unable to repay this loan and the balance was sold to a debt collection agency.

Wonga has written to Miss H to explain that it now considers her final loan was unaffordable and shouldn't have been lent to her. So Wonga has bought the loan back from the debt collection company and written off the balance. But Wonga didn't agree that it had done anything wrong in relation to the other loans Miss H took. So she has brought her complaint to this Service.

Miss H's complaint has been assessed by one of our adjudicators. He thought that Wonga shouldn't have lent to Miss H from, and including, her third loan taken on 15 March 2011. So he recommended that Wonga should pay Miss H some compensation. Wonga disagrees and has asked, as it is perfectly entitled to, that the complaint be decided by an ombudsman.

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 make checks to see whether Miss H could afford to pay back each loan before it lent to her. Those checks needed to be proportionate to the amount Miss H was borrowing, but there was no set list of checks it had to do.

Wonga has told us about the checks that it normally performs. It has explained a number of criteria that, if met, would result in a loan application being declined. And it has also shown us some screens that it has recently added to gather information about a consumer's income and normal monthly expenditure. But Miss H's last loan was taken in August 2011 – so I think it unlikely that it she would have needed to complete these screens as part of her application.

Wonga hasn't been able to show us the checks that it actually performed on Miss H's applications, or the results that these checks generated. So I can't be sure that Wonga performed proportionate checks when assessing each of Miss H's applications. 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 Miss H's history of lending with Wonga. And I've looked at her circumstances at the time – both in terms of how she was managing her finances and her normal monthly income and expenditure. This was information that would have been available to Wonga through looking at Miss H's credit file, and by asking her about her normal monthly expenditure – or looking at her bank statements as I have done.

I can see that for the first two loans, both taken in February 2011, and the top up taken in March 2011, Miss H had little history of payday loans with Wonga. And it seems from her bank statements and credit file that Miss H wasn't using much other lending at that time either. It looks as though her disposable income was sufficient to support the loans that she was taking from Wonga. When she topped up her second loan in early March, I think Wonga should have begun to have some concerns about the affordability of the loans Miss H had – by that time the total amount she had outstanding with Wonga was approaching her normal disposable income. But I haven't seen enough to suggest Wonga wouldn't have agreed these loans – even if it had performed sufficient checks.

By the time Miss H asked Wonga for the third loan, at the end of March 2011, she had begun to borrow from other payday lenders too. So that meant she had far less disposable income with which to repay her loans to Wonga. As I said earlier, I think Wonga should have become concerned that Miss H was increasingly reliant on payday lending to meet her normal day to day living expenses, and to service other credit repayment obligations. And that should have led it to make more detailed checks into Miss H's ability to repay her loans.

I think that if Wonga had performed sufficient checks on Miss H's true circumstances when she asked for the third loan it would have concluded that it shouldn't lend to her – because the loan would be unaffordable. And I've not seen any improvement in Miss H's circumstances over the remainder of the time she was borrowing from Wonga – if anything her 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 Miss H from this point onwards.

It follows that I partially uphold Miss H's complaint. Wonga needs to pay her compensation as shown below.

putting things right

I don't think Wonga should have made any further loans to Miss H after, and including, the loan 15 March 2011. So WDFC UK should;

- Refund the interest and charges applied to all lending to Miss H after, and including, 15 March 2011 apart from the final loan taken on 30 July 2011 that has already been written off.
- 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 Miss H's credit file in relation to the loans I am asking to be refunded (and the final loan if Wonga hasn't already done so).

As I said earlier, Wonga has written off the outstanding balance on the last loan it gave Miss H. From the information I have been given, it seems Miss H made a number of part repayments on this loan. But it looks as though £182.29 of the capital that Wonga lent her remained outstanding. So I think it is fair that WDFC UK should be allowed to deduct that amount from the final compensation that it pays to Miss H.

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

my final decision

My final decision is that I partially uphold Miss H's complaint and direct WDFC UK Limited to pay her fair compensation as detailed above.

I make no other award against WDFC UK Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 30 September 2016.

Paul Reilly
ombudsman