

complaint

Miss W complains that WDFC UK Limited (trading as wonga.com) gave her payday loans that she couldn't afford to repay. She wants a refund of the interest and charges she paid, with interest.

background

Miss W had 93 small loans from Wonga over two years. She said the loans got her into financial difficulties and she had to borrow to pay them back. She said she was on benefits at the time and Wonga took advantage of her.

Our adjudicator recommended that the complaint should be upheld. She thought Wonga should have made further checks on affordability when Miss W asked for her fourth loan in her first month on borrowing. If it had done, it would have seen her poor financial situation. She thought it should refund interest and charges from this point, with interest, and remove related adverse information from Miss W's credit file.

Wonga replied that its loans were cheaper than if Miss W had had a high street bank loan or used her overdraft. It couldn't see why the first three loans were thought to be affordable, but not the later ones. It said the loans were affordable as demonstrated by Miss W's excellent repayment history.

my findings

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

Miss W usually borrowed small amounts several times a month in 2012 and 2013. The principal didn't exceed £40, but her total monthly borrowing ranged from £126 to £200.

Lenders are obliged to make sufficient and proportionate checks to make sure that loan repayments are affordable without undue hardship.

Wonga said it carried out credit check, but I can't see what these showed. Wonga said it asked Miss W for her income and outgoings. Miss W said she earned £600 a month for her first five loans and £700 a month afterwards. This was from benefits. Wonga couldn't tell us what Miss W said her outgoings were.

Miss W's first loans were small, £30, £31, and then £35. So I agree with the adjudicator that Wonga's affordability checks were proportionate and sufficient for her first three loans. When Miss W asked for her fourth loan, £30, this brought her borrowing for the month to £126. She was repaying the weekly loans and then borrowing again immediately. Miss W then increased her borrowing to £40 a week and kept this up for nearly two years.

But payday loans aren't intended for long term use. They are an expensive form of borrowing intended for short-term use. Even though Miss W was only paying a relatively small amount of interest, this took up a chunk of her modest weekly income.

We expect a lender to be alert to any warning signs of financial difficulties that might trigger concerns about a dependency on payday lending or that further checks were needed.

Wonga had recorded that Miss W was on benefits. Her borrowing was modest, but so was her income. She was borrowing sequentially.

I agree with the adjudicator that Wonga should have been alerted by the pattern of Miss W's borrowing to make further checks on her circumstances when she asked for her fourth loan. It could, for example, have looked at her bank statements.

Miss W has provided these from the time. I can see that she was in her overdraft and incurring fees for this. She was borrowing to repay her loans, and her expenditure exceeded her income.

So I think that if Wonga had made further checks at this point, it would have seen, as I have, that Miss W couldn't afford further loans. I think its lending from this point was irresponsible. I think it should therefore refund Miss W the interest and charges she paid from her fourth loan, with interest, and remove related adverse information from her credit file.

my final decision

My final decision is that I uphold this complaint. I require WDFC UK Limited (trading as wonga.com) to do the following:

1. Refund Miss W the interest and charges she paid on all her loans from and including 24 February 2012, adding interest at 8% simple per annum from the date of payment to the date of settlement.
2. If Wonga considers that it's required by HM Revenue & Customs to withhold income tax from that interest, it should tell Miss W how much it's taken off. It should also give Miss W a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.
3. Remove adverse information related to these loans from Miss W's credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 17 February 2017.

Phillip Berechree
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