

complaint

Mr W complains that WDFC UK Limited (trading as wonga.com) gave him unaffordable payday loans. He wants a refund of his interest and charges.

background

Mr W had 27 loans from Wonga between December 2010 and January 2013. He said he was struggling financially at the time and the loans were unaffordable. Wonga said it had carried out proportionate affordability checks before approving the loans. But it said it could have done more for five loans, and it offered redress for these. But Mr W was unhappy with this offer.

Our adjudicator recommended that the complaint should be upheld in part. She thought that Wonga's affordability checks had been proportionate for loans one and two, but not thereafter. She thought that if Wonga had made better checks, it would have seen that Mr W didn't have enough disposable income to repay his loans.

So the adjudicator thought Wonga had been wrong to approve loan three onwards. She thought it should refund the interest and charges Mr W had paid for these loans, with interest, and remove any related adverse information from his credit file.

Wonga replied that its standard checks had been proportionate for loans three to eleven. It thought these looked affordable for Mr W. However, it noted that Mr W's loans increased significantly from loan 12 onwards. So it offered redress for loans 12 to 27. But Mr W declined this offer.

my findings

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

Mr W's first loan was for £85 (£90.87 with interest). Next month, he borrowed and repaid £36 (£46). Three months later, he borrowed and repaid £114 (£137.18). He then continued to borrow monthly for the next two years. The amounts varied, but they increased to £630 (£792.20). Mr W repaid all his loans.

Wonga has already offered to redress loans 12 to 27, so I won't consider those further.

Wonga was required to lend responsibly. It should have made checks to make sure Mr W could afford to repay the loans before it lent to him. Those checks needed to be proportionate to things such as the amount Mr W was borrowing, and his lending history. But there was no set list of checks Wonga had to do.

Wonga said it asked Mr W for his monthly income which was £936 for loans one and two and £950 from loan three onwards. It also carried out credit checks on Mr W.

I agree with the adjudicator that Wonga's affordability checks for loans one and two were proportionate and sufficient. These two loans were small compared to Mr W's stated income so they looked affordable. Therefore I can't say it was wrong for Wonga to approve them.

Loan three was larger and the third in four months, so I'd expect Wonga to have asked more questions to make sure that Mr W could afford to repay it. I think Wonga should have asked him about his monthly outgoings for his normal living costs and regular bills. For loan four, again for over £100, I think it should also have asked Mr W about his other credit commitments, both regular and short-term. And from loan five, where Mr W was expected to repay £322.11, a third of his salary, I think it should have looked very closely at his financial circumstances.

I've looked at Mr W's bank statements from the time to get more information about his finances, but Wonga could easily have asked Mr W for it. I can see that if Wonga had asked better questions for loan three, it would have found that Mr W didn't have enough disposable income to repay his loan. This pattern continued for the rest of his loans.

So I think that if Wonga had made proportionate and sufficient affordability checks for loan three onwards, it would have seen, as I have, that Mr W couldn't afford to repay these loans without further borrowing. So I think Wonga was wrong to approve these loans. Wonga has offered redress for 16 loans, but I think this doesn't go far enough.

my final decision

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

1. Refund Mr W the interest and charges he paid from loan three onwards, adding interest at 8% simple per annum from the date of payment to the date of settlement.
2. HM Revenue & Customs requires Wonga to withhold income tax from that interest. It must give Mr W a certificate showing how much it's taken off if he asks for one.
3. Remove any adverse information relating to these loans from Mr W's credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 27 November 2017.

Phillip Berechree
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