

complaint

Mr G says that WDFC UK Limited, trading as Wonga, gave him loans he couldn't afford to repay. He'd like Wonga to refund the interest and charges he paid.

background

I sent Wonga and Mr G my provisional decision on 11 January 2018. A copy is attached below and forms part of this final decision.

In my provisional decision, I explained why I didn't think Wonga had done enough to check if all of Mr G's loans were affordable. I went on to explain that, although Wonga hadn't always carried out what I considered to be proportionate affordability checks, there wasn't enough evidence to say whether proportionate checks would likely have shown the loans to be unaffordable. So in the particular circumstances of Mr G's complaint, I couldn't find that Wonga's lending was irresponsible. I highlighted that my provisional findings could change if Mr G was able to provide more information about his income and/or savings.

Both parties have now responded to my provisional decision. Mr G told us he didn't have any further evidence to put forward and so accepted my provisional decision. Wonga also said it didn't have anything further to add.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. In doing so I've taken into account the law, good industry practice and any relevant regulations at the time.

As both Wonga and Mr G have confirmed there's nothing else they want to put forward, I see no reason to change my provisional findings. So I'm not upholding Mr G's complaint, for the same reasons as set out in my provisional decision.

my final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 26 February 2018.

Matthew Bradford
ombudsman

COPY OF PROVISIONAL DECISION

complaint

Mr G says that Wonga gave him loans he couldn't afford to repay. He'd like Wonga to refund the interest and charges he paid.

background

Wonga gave Mr G 17 loans between January 2011 and August 2013. Our adjudicator considered Mr G's complaint and recommended it be upheld in part. He said Wonga should refund the interest and charges on all but the fourth loan. Wonga didn't agree with the adjudicator, so the case was passed to me for a decision.

my provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. In doing so I've taken into account the law, good industry practice and any relevant regulations at the time.

Mr G's loans were taken when the Office of Fair Trading (OFT) was the regulator. The OFT didn't set out prescriptive rules for what a lender should check to determine the affordability of a loan. But it was clear that lenders had a responsibility to take reasonable steps to ensure that a borrower could sustainably afford to repay their loans. Those steps included carrying out proportionate affordability checks.

what checks did Wonga carry out?

From what I've seen, the information Wonga obtained included things like Mr G's income, including household income, as well as collecting information about his employment status. It also says it applied its credit scoring policy and carried out checks with credit reference agencies (CRAs).

were those checks proportionate?

With the possible exception of the second loan, I don't think the checks carried out were proportionate – as I explain below.

Mr G's first loan was for £225, so I don't think the repayment would've been so small that it was reasonable for Wonga to assume it was affordable without obtaining at least some basic information about Mr G's monthly outgoings. So I think it would've been proportionate to obtain that.

The second loan was smaller, for £150 – and started over two months after the first loan, which ran for only six days. So I think it's arguable that it wouldn't be proportionate for Wonga to obtain expenditure information for the second loan and to rely on the information it did in fact obtain.

Loans three and four were also for £150. Loan three started less than a month after loan two ended and was Mr G's third short-term loan in about four months. I think it would've been proportionate for Wonga to check Mr G's regular expenditure, to make sure he could sustainably afford the repayment.

Loan four started on 24 July 2011. Although there was a three month gap between loans three and four, this was Mr G's fourth short-term loan in six months. So I think Wonga should still have been checking Mr G's regular expenditure to ensure the lending remained sustainable.

Loan five followed loan four quite closely and loans six to ten were taken out in relatively quick succession. From July 2011 until January 2012 Mr G was borrowing on a monthly basis. Given the regular nature of Mr G's borrowing, I think it would've been proportionate for Wonga to look at Mr G's circumstances much more closely, not only asking for detailed information about his monthly

expenditure (including regular and short-term credit commitments) but also asking for evidence to support the figures.

There was then a gap of almost five months between loans ten and eleven. There was also a gap of almost six months between loans fourteen and fifteen. I've thought about whether this means loans eleven to seventeen should be looked at differently from loans five to ten, *i.e.* as if it were a new chain (or chains) of borrowing which would mean Wonga could treat Mr G similarly to a new customer.

But I think the regularity with which Mr G had been borrowing from Wonga up until loan ten means it should've continued to look closely at Mr G's circumstances, as I've described for loans five to ten. I say this because I think Mr G's apparent need for so much short-term finance should've alerted Wonga to the need to closely check that the loans really were affordable and sustainable. And I can also see, from the CRA data Wonga has provided, that the balance of Mr G's revolving credit accounts (*e.g.* credit cards) had increased substantially from around £3,600 in December 2011 to around £9,000 in June 2012 (and then to over £11,000 in October 2012) – which could suggest Mr G's situation wasn't improving during this period.

Given how many loans Mr G had taken, I don't think gaps of five to six months could be looked at as being substantial enough that it should be considered proportionate for Mr G to be treated as if he were a new customer.

what would proportionate checks have shown?

In order for the loan to be considered affordable, Mr G needed to be able to make his repayments in a sustainable manner. The OFT considered sustainable to mean, amongst other things, that the credit could be repaid out of income and/or available savings.

So in order to fairly establish what proportionate checks would've shown, I'd need to have enough information about Mr G's income and available savings at the time he applied for his loans.

Mr G's first loan with Wonga started on 8 January 2011 and his last on 22 August 2013. Wonga has recorded that Mr G declared a net monthly income of £1,300 throughout this period – suggesting a net income of around £15,600 a year. Mr G has provided us with copies of statements from two current accounts - and from these I think the information about his salary is broadly accurate. (The current accounts were with "Bank S" and "Bank R".)

But in looking at Mr G's bank statements, I've noted a significant amount of money being transferred into his current account with Bank S from another account. The incoming transfers appear on Mr G's statements as if they were from an account in his name ("transfer from Mr G") and are not being made from Bank R.

To give some examples: there's a transfer on 24 May 2011 for just £100, then a transfer of a little over £1,500 on 3 October 2011. There's a similarly sized transfer on 3 November 2011 and a further three smaller transfers that month of £40-£60 each.

I can see from the bank statements I have that these transfers continue throughout the period of lending. The transfers are sometimes as large as £2,800 and there are many for over £1,000. In total I've noted over 40 incoming money transfers with a reference indicating a transfer from Mr G to himself. And the total value of the transfers across a period of about two years is in the region of £17,000.

To help us understand the source of these funds, we asked Mr G to tell us more about the transfers. Although the loans were granted some time ago, I don't think that's an unreasonable request. After all, the total amount of the incoming transfers is significant relative to Mr G's stated salary and they occur fairly regularly. So it's the sort of thing I'd expect someone to remember.

Mr G has told us he can't remember these transfers. Given the overall size of the transfers and that they appear to have been made by him I find this surprising. Mr G did suggest the transfers could've been from his ex-wife. But he also confirmed her account was in her sole name, so that seems unlikely.

Without more information about the source of these funds, I'm unable to find that the loans were unaffordable. From what I've seen, I can't exclude the possibility that Mr G had savings or other income from which he could've repaid some (or all) of the loans. I accept that may not be the case. But without a further explanation (and preferably evidence, by way of bank statements) I'm unable to fairly say whether or not proportionate checks would've made a difference.

my provisional conclusions

From everything I've seen, I don't think Wonga carried out proportionate checks for any of the loans, except perhaps the second. But, on the evidence I have, I'm unable to say whether proportionate checks would've shown the loans to be unaffordable. So I can't say that Wonga's failures make a difference in Mr G's case.

my provisional decision

I do not currently intend to uphold this complaint. But both parties should be aware that if Mr G is able to provide more detailed information or evidence about his income and/or savings then this may change my provisional findings.