

The complaint

Miss H, through a representative, says Bamboo Limited lent to her irresponsibly.

What happened

Miss H took out a 60-month guarantor loan for £3,000 from Bamboo on 18 November 2019. This means it was given on the basis she had a guarantor who would be responsible for making the repayments if Miss H failed to. The monthly repayments were £118.25 and the total repayable was £7,095.22.

Miss H says Bamboo did not carry out effective affordability checks and had it done so it would not have lent to her. She rejected a goodwill offer Bamboo made to reduce her outstanding balance.

Our investigator said Miss H's complaint should be upheld. She thought Bamboo's checks were proportionate but as they showed that Miss H would be left with just £56.81 disposable income each month it was wrong to lend to her.

Bamboo disagreed and asked for an ombudsman's review. It said it's seen no evidence the loan was unaffordable and so maintains its decision to lend was responsible. Miss H has repaid her loan very well and at no point suggested she was struggling to do so. A more recent credit check shows she has not needed to borrow to repay the loan. There was no adverse information on her credit report when she applied, and she had a low level of debt.

What I've decided – and why

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

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Bamboo lent to Miss H required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Bamboo had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Miss H. In other words, it wasn't enough for Bamboo to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Miss H. Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for. In light of this, I think that a reasonable and proportionate check ought generally to have

been *more* thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Bamboo did what it needed to before agreeing to lend to Miss H. So to reach my conclusion I have considered the following questions:

- did Bamboo complete reasonable and proportionate checks when assessing Miss H's loan application to satisfy itself that she would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Bamboo make a fair lending decision?
- did Bamboo act unfairly or unreasonably in some other way?

I can see Bamboo asked for some information from Miss H before it approved the loan. It asked about her income, residential and employment status, and number of dependents. It also checked Miss H's credit file to understand her current credit commitments and credit history. It checked her declared income using a third-party income verification tool and made some assumptions about her living expenses based on national statistics. It asked about the purpose of the loan, which was home improvements. From these checks combined Bamboo concluded Miss H had enough monthly disposable income to afford to repay the loan and would be left with £56.81 each month.

I think Bamboo's check were proportionate in the circumstances of this loan application. But I don't think it made a fair lending decision based on what it saw. Its affordability assessment took into account that Miss H had a monthly income of £1,333, paid rent of £650, had essential living costs of £359.94 and was spending £148 on her existing monthly credit commitments. This meant after taking on this loan Miss H would be left with just over £50 to cover all unplanned and discretionary costs. The loan was over a 60-month term and Miss H had two dependents. So I don't think Bamboo's assessment can be seen as borrower-focused. Given her personal circumstances, I think leaving Miss H with so little disposable income put her at risk of going on to suffer some kind of financial harm.

Bamboo argues there is no evidence this happened, and Miss H has managed her loan well. But it did not know this would go on to be the case at the point of application – and equally nor does it know how Miss H has funded her repayments. And this decision is looking at whether or not Bamboo made a fair decision based on what it knew in November 2019.

It also pointed out that Miss H was not overly indebted and there was no adverse data on her credit file. That is accurate but does not change my finding that putting Miss H in a position where she was left with just £56.81 a month for five years when she had two dependents was irresponsible.

It follows I think Bamboo was wrong to lend to Miss H.

Putting things right

I think it's fair and reasonable for Miss H to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her.

So Bamboo should:

- Remove all interest, fees and charges from the loan and treat all the payments Miss H made as payments towards the capital.
- If reworking Miss H's loan account results in her having effectively made payments above the original capital borrowed, then Bamboo should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Miss H's loan account leaves a capital balance outstanding Bamboo should try to agree an affordable repayment plan with Miss H.
- Remove any adverse information recorded on Miss H's credit file in relation to the loan.

*HM Revenue & Customs requires Bamboo to deduct tax from this interest. Bamboo should give Miss H a certificate showing how much tax it's deducted, if she asks for one.

My final decision

I am upholding Miss H's complaint. Bamboo Loans Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 4 April 2022.

Rebecca Connelley
Ombudsman