

The complaint

Mr G complained that Bamboo Limited trading as Bamboo Loans irresponsibly provided him with unaffordable loans.

What happened

Bamboo provided Mr G with loans as follows:

	Date	Amount	Term (months)	Monthly repayment	Loan status
Loan one	31/07/2019	£2,000	24	£145.15	Paid February 2020
Loan two	13/03/2020	£1,200	36	£63.27	Outstanding

When Mr G complained to Bamboo it didn't agree it had done anything wrong. But, as a gesture of goodwill, it offered to reduce the outstanding balance on loan 2 by an amount equal to six months' payments on the outstanding loan, in full and final settlement of his complaint.

Mr G didn't feel this went far enough and so he brought his complaint to this Service.

Our investigator upheld Mr G's complaint and he set out the steps Bamboo needed to take to put things right.

Bamboo disagreed with our investigator's view. In brief summary, it said:

- it carried out proportionate checks before lending
- Mr G had good affordability and no active adverse information on his credit file at the time of either application
- there was no evidence that he was struggling financially
- both loans were paid perfectly and Bamboo saw no evidence of detriment – a more recent credit report shows his debt balances had decreased and no defaults
- Mr G had less debt overall when he took out loan 2
- generally Mr G seemed to manage his credit well.

Bamboo asked for an ombudsman to review the case so the complaint comes to me to decide.

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.

We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint. Like our investigator, and for broadly similar reasons, I don't think Bamboo should've provided the loans. I'll explain why I say this.

There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr G's complaint.

Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay. This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done. If proportionate checks were done and a loan looked affordable, a lender still needed to think about whether there was any other reason why it would be irresponsible or unfair to lend.

Bearing all of this in mind, in coming to a decision on Mr G's case, I have considered the following questions:

- did Bamboo complete reasonable and proportionate checks when assessing Mr G's loan application to satisfy itself that he would be able to repay the loan in a sustainable way? If so, did Bamboo then make a fair lending decision?
- If not, what would reasonable and proportionate checks have shown?
- Did Bamboo act unfairly or unreasonably in any other way?

Bamboo asked Mr G some questions about his income and did its own checks, which included taking steps to verify his salary and obtaining information about his credit history. Bamboo also relied on statistical information about how much someone in Mr G's position typically spent each month on living costs.

For both loans, Bamboo recorded a figure of £2,548 for Mr G's take home pay. Bamboo worked out that Mr G should have had around £1,600 spare cash left in order to make the monthly repayments for loan 1 and just over £1,900 disposable income per month available to pay loan 2. So it was satisfied that both loans looked comfortably affordable.

I've taken into account what Bamboo has said about how it calculated the affordability of these loans before it agreed to lend to Mr G. But, I don't think Bamboo made fair lending decisions when it lent to Mr G based on the information it had gathered because I don't think its checks were proportionate.

I say this because I think Bamboo should've realised that it most likely didn't have a proper understanding of Mr G's financial situation as his use credit looked to be very substantially at odds with the amount of disposable income that Bamboo thought he should have. Bamboo's affordability calculations suggested he could have saved up the amount of loan 1 within a couple of months and used this to repay other debt - which should've raised a question about why he needed to borrow it and whether this expensive loan was in Mr G's interests. And it wasn't obvious why he wanted to borrow loan 2 when Bamboo's affordability assessment suggested he should already have had significantly more spare cash than this available to him out of his normal net income.

Bamboo could see on its credit checks that Mr G had a long established record of using expensive credit, including in the months running up to these loan applications, and he'd had evident financial difficulty previously. I think this was worrying information, especially bearing in mind that Mr G had been in his relatively well paid job for more than 2 years and living with his parents throughout.

So, even though these were relatively small loans, I still think Bamboo needed to do more to understand why Mr G was actively taking out expensive credit when this wasn't something its affordability assessments suggested he should need to do. In particular, I think Bamboo should have done more in-depth checks into whether his borrowing was a sign that he was facing problems managing his money.

I think reasonable and proportionate checks before each loan would've involved Bamboo obtaining a thorough knowledge of Mr G's financial circumstances, including evidence. That's because, to my mind, the monthly cost presented a high risk of becoming unaffordable or unsustainable over the terms of the loans. Keeping in mind that Bamboo's checks needed to be borrower-focused, I think it needed to do more to obtain a thorough understanding of Mr G's overall financial situation to be satisfied he could afford these loans, particularly bearing in mind that Bamboo had relied on third party data to establish Mr G's income and expenditure but seen no direct evidence. And it hadn't particularly enquired or checked, as far as I can see, if he had any costs over and above what would be typical for someone in his financial situation.

So, I've looked at what I think proportionate checks would likely have shown.

A more recent credit report shows that Mr G was taking out and repaying multiple loans from other high cost providers in the run up to taking out these loans with Bamboo. I think, had Bamboo done proportionate checks it would've likely seen the full extent of Mr G's reliance on using expensive credit and realised that his pattern of lending showed that it looked like he was borrowing in order to maintain his debt repayments to other creditors. And that's borne out by the fact that he continued this pattern of borrowing after taking out his Bamboo loans as he was stuck in a cycle of unaffordable debt. So Bamboo should've realised it was unfair to lend to him and it shouldn't have provided either loan 1 or loan 2.

Whilst I've taken into account everything Bamboo has said, including comments made in response to our investigator's view, the fact that Mr G was able to make his loan repayments on time doesn't mean that he was able to do so in a way that was sustainable. And nothing else it has said makes me think that its loans were fairly provided – given the evidence it should've seen showing that Mr G was already in serious financial difficulty when it provided these loans.

The fact that Bamboo understood loan 1 was intended for debt consolidation – in other words, Mr G said he would use the loan to repay other debt, doesn't affect the outcome. Having seen the extent of Mr G's money problems, I think it should've been apparent that there was a real risk he would use the loan instead to meet his immediate financial demands rather than apply the money as part of a planned restructuring of his finances. And I don't think Bamboo had sufficient reason to think its loan would've improved Mr G's overall position sufficiently to achieve a significant and sustainable improvement in his financial situation given his outstanding indebtedness overall and his record of repeatedly taking out new credit.

Had more in-depth checks been done, as I think ought to have happened bearing in mind the information Bamboo was aware of when it provided these loans, it would have seen that Mr G's actual financial situation showed that these loans were unaffordable on any sustainable basis.

So I can't fairly say that I've seen enough to make me think that Bamboo's loans helped Mr G to improve his financial situation. And I don't think Bamboo should have agreed to give either of these loans to Mr G.

As Mr G has been further indebted with a high amount of interest and charges on loans that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what Bamboo did wrong. So, I think Bamboo needs to put things right.

Our investigator didn't recommend that Bamboo should pay any additional redress. Mr G hasn't commented on that and I haven't seen anything which makes me think Bamboo acted unfairly or unreasonably towards Mr G in any other way. So I'm not awarding any additional redress over and above what I've set out below.

I appreciate that Bamboo takes a different view and I'm grateful to Bamboo for its detailed responses to this complaint. If I haven't commented on everything that's been mentioned, that's because I've concentrated on dealing with the things that are directly relevant to the reasons why I'm upholding this complaint and there's nothing more I can usefully add to what our investigator has said already.

For all the reasons I have explained above, I think it is fair and reasonable for Bamboo to take the following steps to put things right.

Putting things right

When this complaint was first brought to us there was still a balance owing on loan 2. If Bamboo has sold any outstanding debt it should buy this back if able to do so and then take the following steps. Otherwise, Bamboo should liaise with the new debt owner to achieve the results outlined below:

- add up the total amount of money Mr G received as a result of being given the loans. The payments Mr G made should be deducted from this amount
- if this results in Mr G having paid more than he received, then any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement)
- if any capital balance remains outstanding, then Bamboo should attempt to arrange an affordable/suitable payment plan with Mr G.
- remove any adverse information placed on Mr G's credit file regarding these loans.

*HM Revenue & Customs requires Bamboo to take off tax from this interest. Bamboo must give Mr G a certificate showing how much tax it takes off if he asks for one.

My final decision

I uphold Mr G's complaint and direct Bamboo Limited trading as Bamboo Loans to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 21 June 2022.

Susan Webb
Ombudsman