

## The complaint

Mr S complains that Bamboo Limited irresponsibly provided him with a loan that was unaffordable.

## What happened

Mr S was given a single loan by Bamboo. The main loan details are as follows:

Date taken	Loan amount	Number of monthly instalments	Typical monthly repayment	Loan status
January 2017	£5,000	24	£308.65	PAID in May 2018

The stated loan purpose was debt consolidation – in other words, Mr S said he would use the loan to repay other debt.

Mr S complained that Bamboo lent to him without sufficient affordability checks or properly assessing his over-indebtedness. He told us that his financial situation was already poor and the loan made things worse.

When Mr S complained to Bamboo it didn't uphold the complaint. Bamboo did however offer a payment of £300 as a gesture of goodwill in order to settle the complaint quickly.

Mr S didn't feel this offer went far enough and so he brought his complaint to us.

One of our investigators looked into what happened and he felt that this was a complaint we should uphold.

Bamboo disagreed with our investigator's view. In brief summary, Bamboo said it saw that Mr S was in control of his finances and it made a responsible lending decision after carefully considering Mr S's circumstances and affordability. Bamboo felt it was reasonable to disregard a historic default shown on Mr S's credit report. And it said that using the loan for debt consolidation could have helped him (although he could still afford it anyway) and he repaid the loan exceptionally well, so there was no evidence of detriment to Mr S.

Bamboo asked for an ombudsman review so the complaint came 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. I have also taken into consideration regulatory rules and good industry practice at the time.

I'd like to reassure Bamboo that I've looked at the complaint afresh – and I've independently reached the same conclusion as our investigator and I am upholding Mr S's complaint. I'll explain in more detail 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 S'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.

It's important to keep in mind that when working out if a loan looks likely to be affordable a lender must take a 'borrower focussed' approach and think about the impact of the lending on the customer. The lending decision shouldn't just be about the business risk to the lender of not getting its money back.

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.

I've kept all these things in mind when thinking about Mr S's complaint.

Bamboo gathered some information from Mr S before it agreed the loan. It asked him for details of his income and verified this using an online credit checking service. Bamboo obtained a credit report to find out about Mr S's credit history and relied on statistical information which indicated what the likely living expenses would be for someone in Mr S's particular circumstances based on national UK averages. Mr S told Bamboo he didn't pay anything towards his housing costs.

Mr S's monthly take home pay was recorded as £2,960. After reviewing the information on the credit report it obtained and taking into account what it thought Mr S would likely need to spend, Bamboo worked out that Mr S should have a cash surplus each month of just over £800. So Bamboo concluded that the monthly repayment for this loan should've been affordable for him.

On this basis, Bamboo concluded that it was fair to provide this loan to Mr S – and it still thinks this.

I've carefully taken into account everything Bamboo has said – including comments made in response to our investigator's view. I think it was reasonable for Bamboo to have drawn no adverse conclusions about a default dating from 2011. I can understand why that debt wasn't likely to be a priority for Mr S if it hadn't been actively pursued – especially as it would soon likely become unenforceable and no longer reported on his credit file in any event. So I don't think this information provided a lender with much useful insight into Mr S's current financial situation. I can also see that Bamboo gathered information showing that Mr S had a significant amount of unused credit available, including an overdraft facility he didn't appear to use. And it's fair to say that his live accounts did appear to be well managed.

But I still think that the picture painted overall showed that Mr S was already over-reliant on using expensive credit and the signs were that he was increasing his dependency on using credit to manage his financial situation.

Having other outstanding lending or even an impaired credit history wouldn't be unusual for a borrower applying for this type of expensive borrowing, and it wouldn't necessarily be a bar to lending. But I don't think Bamboo took properly into account what the information it had gathered showed about Mr S's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner.

Whilst I agree with Bamboo that it was reasonable to discount the monthly repayments he was making on a loan that he would likely be repaying in the near future, I think Bamboo should have been concerned to see that Mr S's current debt servicing costs took up such a significant proportion of his take home pay it was a clear indication that Mr S was, in reality, already experiencing financial difficulty.

And that's borne out by other information Bamboo saw showing that Mr S seemed to be juggling his debt between credit cards – for instance, he had cleared two of his credit card balances to nil in September and October 2016 but since then he had run up the balances towards the card limits again. And the bulk of his debt had been accumulating over the previous 12 months.

With the monthly repayments for this loan, Mr S would have to spend more than half his take home pay on servicing debt. In my opinion, as a responsible lender, given his financial situation and seeing the level of income Mr S would be committed to paying just to cover his debt, Bamboo should've realised that he would likely struggle to repay this loan sustainably – especially bearing in mind the 24 month loan term.

I've taken into account that Bamboo understood the loan was intended for debt consolidation. But Bamboo didn't have control over how Mr S used the loan as it paid the loan balance to him.

And even if Mr S had used this loan to repay some existing debt, I don't think Bamboo had sufficient reason to think this would've improved his overall position sufficiently to achieve a significant and sustainable improvement in his financial situation – given his outstanding indebtedness overall and reliance on using credit cards – which of course would make available more credit if he paid the balances down.

So I think the indications were that he would most likely remain in serious financial trouble regardless.

Taking all these things into account, I think Bamboo ought reasonably to have been aware that taking this additional, costly lending was likely to further over-stretch Mr S's finances beyond the point where the portion of his income he would need to spend every month over the loan term just to meet his credit commitments would be sustainable for him

In my opinion, as a responsible lender, Bamboo should've realised that Mr S would likely struggle to repay this loan. So I agree with our investigator that Bamboo didn't make a fair lending decision when it agreed to provide this loan to Mr S based on the information it had in front of it.

The fact Mr S successfully made the loan repayments and repaid the loan early doesn't mean that he was able to do so sustainably. And whilst I've noted that Bamboo said a new credit report it obtained showed his debt levels had reduced by 30%, this doesn't affect my overall view that its lending decision was unfair. As Mr S has been further indebted with a

high amount of interest and charges on a loan 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.

Like our investigator, I haven't seen enough to make me think that Bamboo acted unfairly or unreasonably towards Mr S some other way. So I'm not proposing to award any additional redress over and above what I've set out below.

But 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**

Mr S should repay the capital amount that he borrowed, because he had the benefit of that lending. But in line with this Service's approach, Mr S shouldn't repay more than the capital amount he borrowed.

So Bamboo should:

- add up the total amount of money Mr S received as a result of being given the loan. The payments Mr S made should be deducted from this amount
- if this results in Mr S 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)
- remove any adverse information placed on Mr S's credit file regarding the loan.

\*HM Revenue & Customs requires Bamboo to deduct tax from this interest. Bamboo should give Mr S a certificate showing how much tax has been deducted if he asks for one.

### **My final decision**

I uphold this complaint and direct Bamboo Limited to take the steps I've set out above to put things right for Mr S.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 22 July 2022.

Susan Webb  
**Ombudsman**