

The complaint

Ms S complained that Bamboo Limited (trading as Bamboo) irresponsibly provided her with an unaffordable loan without properly undertaking affordability checks or assessing signs she was already over-indebted.

What happened

Ms 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
November 2015	£1,000	12	£118.90	Paid

When Ms S complained to Bamboo it didn't uphold the complaint. Bamboo did however offer a payment of £100 as a gesture of goodwill in order to settle the complaint quickly.

Ms S didn't feel this offer went far enough and so she brought her 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, it mainly said that it had carried out proportionate checks before agreeing the loan and made a fair lending decision.

Bamboo asked for an ombudsman review 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. Having done so, I am upholding Ms S's complaint for broadly the same reasons as our investigator. I'll explain my reasons.

There are some general principles and questions I need to think about when deciding whether to uphold Ms 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.

When considering what's fair and reasonable in the circumstances of this particular complaint, I have thought about the following key questions:

☐ Did Bamboo complete reasonable and proportionate checks to satisfy itself that Ms S would be able to repay the loan in a sustainable way? If so, did Bamboo make a fair lending decision?

☐ If not, what would reasonable and proportionate checks have shown at the time?

☐ Did Bamboo act unfairly or unreasonably in some other way?

On this occasion, Bamboo gathered some information from Ms S before it agreed the loan.

It asked her for details of her income and verified this by doing an online check.

Bamboo obtained a credit report to find out about Ms S's credit history. It also asked Ms S what she paid for her housing and relied on statistical information which indicated what the likely living expenses would be for someone in Ms S's particular circumstances based on national UK averages.

Ms S's monthly take home pay was recorded as £1,400.

After reviewing the information on the credit report it obtained and taking into account what it thought Ms S would likely need to spend each month, Bamboo worked out that Ms S should have a cash surplus each month of around £368. So Bamboo concluded that the monthly repayment for this loan should've been affordable for her and that it was fair to provide this loan to Ms S – and it still thinks this.

Bamboo says that not only did Ms S make all the loan repayments in full and on time, having now seen bank statements from around the time Ms S took out the loan, it felt these confirmed that Ms S was living within her means, not using her overdraft and she looked to be managing her money well. So it still didn't feel this was a complaint we should uphold.

I've carefully taken into account everything Bamboo has said. But I agree with our investigator that Bamboo didn't make a fair lending decision. I'll explain my reasons for saying this.

Bamboo was able to see from its credit checks that when Ms S applied for this loan, she already had around £8,000 worth of outstanding unsecured loans. Slightly over half of this was accounted for by vehicle finance – but the rest was mainly owing to providers of high cost credit. She also owed approximately £9,000 on credit cards and her credit history showed she had a long established record of taking out and paying expensive payday and unsecured loans. I think, given Ms S's particular circumstances, her use of credit looked to be at odds with the fact that she had been in secure employment with a reasonable income

for more than 3 years, she told Bamboo that she didn't pay any contribution towards her housing costs and she was supposed to have around £368 surplus income each month.

She was spending a large portion of her income just on servicing her debt – which was an indication that she may have already become over-reliant on using credit. Bamboo could see from its credit checks that the outstanding loan balance Ms S owed included a payday loan she had taken out just a month earlier with £930 owing.

As well as this, it saw that she had relied substantially on using her credit cards to obtain cash advances - not just historically but also during the previous 12 months. This is a particularly expensive way to obtain spending money, so it isn't something I'd expect someone managing credit well would be likely to want to do.

All this leads me to think that Bamboo should have completed more in-depth checks to ensure it had a proper understanding Ms S's overall financial situation and done more to verify what she had declared to ensure its loan would be sustainably affordable for her over the term. So, I've looked at what I think proportionate checks would likely have shown.

I think the bank statements provided by Ms S are a useful guide to understanding her overall financial situation at the time. And despite what Bamboo has said, if Bamboo had done a proportionate check before lending, I think it would've seen nothing to reassure it that this loan was going to be sustainably affordable for Ms S.

I can see that, far from having the amount of disposable income left over each month that Bamboo had calculated, in reality Ms S was only able to keep her account in credit because the loans she took boosted her current account balance and enabled her to do this.

Some months she spent more out of the account than she paid in.

And Bamboo would likely also have found out, if it had done a proportionate check, that she had taken out another high cost loan of £780 just a month or so before applying to Bamboo for this loan. So it should have realised that she was dependent on maintaining the pattern of lending it saw in her credit history and reliant on using expensive loans and other high cost credit to manage her debt repayments – making any further credit unsustainable.

As well as this, I think it's fair to say that with this loan from Bamboo, on top of the loan she had recently taken out and the other credit commitments that Bamboo saw on her credit file (not including the payday loan it knew about which Ms S had repaid already) she still needed to pay such a significant proportion of her take home pay towards her creditors that this level of repayment was unlikely to be sustainably affordable for her over the whole loan term.

I think the overall picture was of someone persistently reliant on expensive credit and already unable to afford the cost of her debt without borrowing to fund repayments.

So I think that Bamboo should've realised that having to pay around £118 for this loan didn't look sustainably affordable. And it shouldn't have provided this loan to Ms S.

For these reasons, I am upholding Ms S's complaint that she should not have been given the loan.

In coming to my decision, I've taken into account that Bamboo declined Ms S's next loan application – but this doesn't mean that the lending decision it made when it provided this loan was fair. And the fact Ms S successfully made the loan repayments on time and in full doesn't mean that she was able to do so sustainably.

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

I haven't seen enough to make me think that Bamboo acted unfairly or unreasonably towards Ms S some other way.

So I'm not proposing to award any additional redress over and above what I've set out below.

Putting things right

I think it is fair and reasonable for Ms S to repay the capital amount that she borrowed, because she had the benefit of that lending. But in line with this Service's approach, Ms S shouldn't repay more than this.

Bamboo should do the following:

- add up the total amount of money Ms S received as a result of being given the loan. The payments Ms S made should be deducted from this amount
- if this results in Ms S having paid more than she 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 Ms S's credit file regarding the loan.

*HM Revenue & Customs requires Bamboo to deduct tax from this interest. Bamboo should give Ms S a certificate showing how much tax has been deducted if she 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 Ms S.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 25 July 2022.

Susan Webb
Ombudsman