

The complaint

Mr M complained that Bamboo Limited irresponsibly provided him with loans which were unaffordable.

What happened

Bamboo provided Mr M with loans as follows:

Loan	Date taken	Loan status	Amount	Term (months)	Monthly repayment
1	05/06/2018	Repaid on 31/7/2018	£2,500	48	£128.29
2	14/08/2018	Outstanding	£7,000	60	£275.93

When Mr M complained to Bamboo it said it had carried out creditworthiness and affordability assessments before agreeing to provide these loans which showed they were affordable and its lending decisions were fair. Nonetheless, as a gesture of goodwill, Bamboo offered to waive some interest on the outstanding loan which would reduce the overall cost and shorten the loan term.

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

Our investigator assessed the complaint and recommended upholding it. He set out the steps Bamboo needed to take to put things right.

As far as I can see, it appears Mr M is happy with what the investigator has recommended.

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

- Mr M's income was verified for both loans and showed he had sufficient income to be able to sustainably afford each loan
- Bamboo was aware of a recent £5,000 loan Mr M had taken out and had included this as part of its affordability calculation
- a third of Mr M's credit was on a Hire Purchase agreement which he was paying perfectly
- no cash advances were within six months of the application date
- loan 2 was a guarantor loan offered with a significantly reduced APR
- an up to date credit report for Mr M shows no detriment has been caused by Bamboo's lending decisions
- between loans 1 and 2, the number of Mr M's active accounts had remained consistent at 7 and he was continuing to repay his credit well, with no evidence of financial hardship
- checks on loan 1 were proportionate
- by loan 2, Bamboo had the benefit of Mr M's previous history, the loan was for debt consolidation and the amount was sufficient to clear all of Mr M's revolving credit.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

“There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr M’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 things like 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.

For example, if the lender should’ve realised that the loan was likely to lead to more money problems for a borrower who is already struggling with debt that can’t be repaid in a sustainable way.

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 (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).

I’ve kept all of this in mind when thinking about Mr M’s case.

Like our investigator, I don’t think Bamboo should’ve provided either of these loans. I’ll explain why I say this.

Loan 1

Bamboo asked Mr M some questions about his income and expenditure. Bamboo did its own checks, which included using an online tool to verify Mr M’s income. It obtained information about Mr M’s credit history and relied on statistical information about how much someone in Mr M’s position typically spent each month on basic essentials.

Bamboo relied on information gathered that suggested Mr M's net monthly income was around £1,868. Using national average figures to reflect his living costs, plus the amount Mr M said he was paying towards his housing costs, and after also allowing for Mr M's spending on his other credit commitments, Bamboo worked out that Mr M would still have net monthly disposable income of approximately £606. So the loan monthly repayments looked affordable for him.

I've taken into account what Bamboo has said about how it calculated the affordability of this loan before it agreed to lend to Mr M. From what I've seen, I think the checks that Bamboo carried out before it agreed to lend to Mr M were, broadly speaking, reasonable and proportionate, in the circumstances. But, I don't think Bamboo made a fair lending decision when it lent to Mr M based on the information it had gathered.

I say this because Bamboo was able to see from its credit checks that Mr M already had a total outstanding credit balance of £22,407 – which I think was a substantial amount of debt for someone with Mr M's earnings. And it was clear that he had used up almost all his available credit – his balance to limit ratio was 99%. Bamboo was able to see that he was making full use of his overdraft limits on two current accounts and the account history showed that this had largely been the case for many months – the combined debt on these accounts when Mr M applied for loan 1 was £3,241. So Bamboo could see that he wasn't making any significant inroads into repaying this debt. As well as this, Bamboo saw that Mr M had taken out a £5,000 loan within the previous 3 months. It was also evident that Mr M had a history of taking out expensive loans and that he had relied on taking out cash advances on his credit cards within the previous 12 months – which Bamboo would've known was an expensive way to obtain cash.

To my mind, all this information suggested that Mr M was likely having problems managing his money and already struggling with debt.

This loan was taken out for the purpose of paying for home improvements so it would increase Mr M's total credit balance.

I don't think that anything Mr M had told Bamboo when he took out this loan was sufficient to explain or rebut what Bamboo saw from its own credit checks. And I don't think, based on what Bamboo had in front of it, I can fairly say that Bamboo saw enough to reasonably be satisfied that Mr M was going to be able to make the repayments for this loan in a sustainable way over the four year term. I think that Bamboo should've realised that this loan wasn't going to be sustainably affordable for Mr M when it was evident that he was already making no real headway towards clearing his outstanding debts and likely to struggle to get through the month without needing to rely further on credit, given that his overdraft amount significantly exceeded his monthly income.

All this leads me to conclude that Bamboo should not have provided loan 1.

Loan 2

When Mr M applied for loan 2, Bamboo obtained a bank statement from him and also carried out the same affordability and creditworthiness checks as it had done before providing loan 1.

It recorded his net pay as £1,750, used statistical information to assess his likely living expenses at around £264.50 and worked out that he was paying £676.85 towards servicing debt. This led Bamboo to calculate that Mr M's net disposable income would be around £532 *after* he had made his monthly repayment for loan 2.

But Bamboo needed to do more than assess affordability according to a strict pounds and pence calculation – it needed to think about Mr M's overall financial situation and take into account what it knew about his use of credit. And whilst I've thought carefully about what Bamboo has said, I don't think that Bamboo made a fair lending decision on this occasion.

Bamboo's credit checks showed that Mr M continued to be very substantially overdrawn at the bank. His use of credit showed concerning hallmarks of financial difficulty – the credit report Bamboo acquired when Mr M applied for loan 2 continued to show that he was still using 99% of his available credit and further demonstrated his established record of reliance on high cost credit. So, to my mind, the fact that Mr M had repaid loan 1 early wasn't any indication of an overall improvement in his financial situation. I think Bamboo ought reasonably to have considered that taking out and repaying that loan early was a further sign of financial instability – particularly given that Mr M was now applying to Bamboo for a much bigger loan.

I think Bamboo should have thought carefully about the fact that the longer term was most likely Mr M's preferred arrangement for loan 2 in order to keep down the cost of the monthly repayments even though this added significantly to the overall loan cost. Had Mr M really had the amount of disposable income that Bamboo calculated then it seems unlikely to me that he would have willingly chosen to pay more for the loan than he needed to.

So although the loan might've *appeared* affordable to Bamboo, I think all this information painted a picture of someone struggling to manage money problems effectively and it included clear warning signs that Mr M might be experiencing financial difficulty. I think it's fair to say that Bamboo saw information that was seriously at odds with what Mr M had said about his financial situation.

Mr M's recent borrowing track record suggested he was reliant on taking out expensive credit and stuck in a cycle of debt.

I've taken into account that Bamboo was reassured by Mr M's payment record on loan 1 and it understood loan 2 was for the stated purpose of debt consolidation - in other words, it would be used to pay other debt. And I've noted what Bamboo said about how loan 2 could've been used to help Mr M. But I think the scale of his debts, compared to the much smaller value of the loan, would suggest that he would remain in serious financial trouble regardless.

And I think that's borne out by the fact that the credit checks Mr M sent us show that he took out three further high-cost loans in the three months after taking out loan 2. It looks to me like Mr M was borrowing from one high cost lender to repay other high cost credit and effectively moving his debt between lenders. This supports my view that loan 2 wasn't sustainably affordable for him and he didn't have the financial resources to meet his debt repayments without relying on other credit to do this.

I've thought carefully about everything Bamboo has said – including its comments made in response to our investigator's view.

I've seen nothing to make me think that Mr M's financial situation improved in the months following these loans.

Bamboo hasn't shown me that it knew which debt was going to be repaid by loan 2 and it didn't have control over how the loan was used. Even if it was applied to pay other debt, all the indications were that Mr M was reliant on regularly taking out new credit after repaying previous borrowing. And the £7,000 loan amount was insufficient to make any real impact on his overall debt.

Bamboo said an up to date credit report shows that no detriment has been caused by its lending decisions I think it's fair to say it doesn't show improvement in his financial situation. But balances on loans/instalment credit are up by £5,239 since loan 2 was taken out and total indebtedness has increased by £3,125. In this context, evidence of less reliance on taking cash advances and reduction in the balance to limit ratio from 99% to 90% and the fact Mr M still had the same number of active accounts as when loans 1 and 2 were taken isn't enough for me fairly to be able to say that Mr M's credit position improved overall or that Bamboo's lending decisions did not cause detriment. I think the overall picture shows that Mr M is still very substantially reliant on expensive credit and stuck in a cycle of debt.

Overall, I haven't seen enough to make me think that Bamboo's loans helped Mr M to improve his financial situation. For all the reasons I've explained, I think they shouldn't have been provided. So, as things stand, I'm planning on upholding his complaint about both loans.

As Mr M 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.

I haven't seen enough to make me think that Bamboo acted unfairly or unreasonably towards Mr M some other way. I think Bamboo showed forbearance when Mr M needed to vary his loan monthly repayments. So I'm not proposing to award any additional redress over and above what I've set out below.

I appreciate that Bamboo's goodwill offer was made in a genuine attempt to bring this complaint to an early resolution, but I think it needs to do more. 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."

What the parties said in response to my provisional decision

Mr M hasn't been in touch again since I sent my provisional decision but it's my understanding that he agrees with my decision to uphold his complaint.

Bamboo has confirmed that it has nothing further to add.

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'd like to thank both parties for all the information that has been provided about this matter and Bamboo for responding to my provisional decision. Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

Putting things right

In line with this Service's approach, Mr M shouldn't repay more than the capital amount he borrowed when he took out loans 1 and 2. But he has had to pay interest and charges on loans that shouldn't have been provided to him – which isn't fair or reasonable.

Bamboo should buy back any outstanding debt sold 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 and do the following:

- add up the total amount of money Mr M received as a result of being given loans 1 and 2. The payments Mr M made should be deducted from this amount
- if this results in Mr M 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 M bearing in mind the need to treat him positively and sympathetically in those discussions
- remove any adverse information placed on Mr M's credit file regarding these loans

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

My final decision

I uphold Mr M's complaint about loans 1 and 2 and direct Bamboo Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 15 October 2021.

Susan Webb
Ombudsman