

## The complaint

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

## What happened

Bamboo provided Mr M with loans as follows:

	Date	Amount	Term	Monthly Repayment
Loan 1	22/10/2018	£2,000	24 months	£138.19
Loan 2	14/05/2019	£635.10 additional funds	24 months	£163.51
Loan 3	23/12/2019	£764.50 additional funds	36 months	£156.01

Our investigator upheld Mr M's complaint about all three loans. She set out the steps Bamboo needed to take to put things right.

Mr M is happy to settle the complaint in the way our investigator recommended.

Bamboo disagreed with our investigator's view.

In brief summary, it said that during the application process it carried out an affordability assessment on each of Mr M's loans and they were all demonstrated to have been sustainably affordable for him.

Bamboo said that although it didn't think it had needed to ask for bank statements at the time, having now seen these, they made no difference to its lending decisions. It said Mr M may have had some cash flow issues from time to time and used payday loans on occasions – but he repaid them with no issues. Bamboo said that Mr M's credit history was typical for its customers and not a concern. It said Mr M had a fantastic repayment history with Bamboo, the loans performed as expected, he was paying his priority bills and the credit he had and its loans had caused him no detriment.

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).

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

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

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

Bamboo asked Mr M some questions about his income and expenditure. Bamboo did its own checks, which included obtaining information about Mr M's credit history and it relied on statistical information about how much someone in Mr M's position typically spent each month on living costs.

For loan 1, Bamboo recorded a figure of £1,641 for Mr M's take home pay. Using national average figures to reflect his living costs and allowing for Mr M spending around £169 on his other credit commitments, Bamboo worked out that, after making the monthly repayments for this loan, Mr M would still have more than £1,000 spare cash. So the loan looked comfortably 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.

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 had already used 97% of his available credit
- he owed more than £4,000 to existing creditors, which I think was a lot for someone in Mr M's particular position, bearing in mind that he paid no rent or mortgage and he wasn't responsible for the usual household bills
- within the previous 12 months he had been using credit cards to obtain cash advances (which is very expensive to do) and his credit cards were very close to their limit
- he had taken out another large unsecured loan around 3 months earlier which had a balance at the time of £1,447
- he was making full use of an arranged £1,200 overdraft on a current bank account
- he had an old outstanding default balance with a telecommunications supplier towards which he was making no payments at all, despite the impact this had on his credit file.

I don't think Bamboo thought carefully enough about what this credit history showed about Mr M's overall financial situation, especially bearing in mind it had calculated that he had disposable income of approximately £1,212 each month which, to my mind, would've seemed at odds with what it saw on the credit checks it had carried out.

I think Bamboo should have considered carefully why someone with the amount of disposable income its checks suggested Mr M had would have needed to make use of expensive credit the way it could see Mr M was doing.

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.

Although the reason Mr M gave for the loan purpose was debt consolidation (in other words, he told Bamboo that he would use the loan to repay other debt) I think that further checks ought to have been done to gain a deeper understanding of Mr M's financial circumstances, particularly bearing in mind that he would be making the loan repayments for the next two years.

I don't think its checks were proportionate because, to my mind, the amount borrowed, the total repayments Mr M would have to make for this loan and the length of the loan term all lead me to think, on balance, that Bamboo should have carried out a complete review of Mr M's finances and done more to verify what he had told it – especially bearing in mind also what it saw on the credit checks it did carry out.

I've looked at bank statements provided by Mr M which I think are a useful guide to understanding Mr M's overall financial situation at the time – and I am aware that these have also been seen now by Bamboo. I've taken into account that Bamboo considers that the bank statements demonstrate that the loans were affordable and that Mr M was choosing to spend a significant proportion of his disposable income on discretionary expenditure.

But I think, if Bamboo had done a proportionate check before lending, it would've seen nothing to reassure it that this loan was going to be sustainably affordable for Mr M. I can see that, far from having the amount of disposable income left over each month that Bamboo had calculated, in reality Mr M was struggling to get his bank account into credit. In the three months running up to him applying for loan 1, the account was generally overdrawn by a four figure amount.

I think that Bamboo would've likely found out, had it done a proportionate check before agreeing loan 1, that Mr M was also spending regular amounts on what appear to be online gambling transactions. Whilst these payments were for small amounts at a time and would not have been excessive for someone with the amount of disposable income Bamboo had calculated Mr M should have, in reality his bank statements show that he was gambling with borrowed money and funding the account by taking loans from other providers of high cost credit at a time when the account was already substantially overdrawn and incurring daily overdraft fees.

All of this should have led Bamboo to the conclusion that Mr M was not managing his financial situation effectively. And I think that Bamboo should've realised that this loan wasn't going to be sustainably affordable for Mr M when he was already struggling to get through the month without needing to rely on credit, not making any real headway towards clearing his outstanding debts, spending recklessly and he had other new debt that needed to be paid alongside this loan from Bamboo.

I have considered that Bamboo's records indicate that Mr M intended to use this loan to consolidate some of his other debts and Bamboo pointed out that it could have cleared his revolving credit balance (in other words, paid his credit cards). But I think that what Bamboo saw on its credit checks about Mr M's use of credit, and in particular his reliance on using credit cards for cash advances, would suggest that he would likely remain in serious financial trouble regardless once credit was made available on his cards again.

And given the scale of his debts, which stood at around twice the value of the loan, I don't think I can safely say this would've helped Mr M's overall position sufficiently to achieve a significant and sustainable improvement in his financial situation.

So I don't currently think Bamboo should have agreed to give this loan to Mr M.

Thinking about loans 2 and 3, whilst the figures Bamboo gathered for Mr M's income and expenditure were broadly unchanged its credit checks showed he was increasingly reliant on borrowed money.

By the time he applied for loan 2 he owed a total credit balance of £7,609 – so it was obvious that he had taken out further lending after having obtained loan 1 from Bamboo, despite what he'd told Bamboo about his debt consolidation plans.

Mr M first had a payment problem on loan 1 and by loan 2 Mr M was obviously struggling to make the loan monthly repayments. Bamboo has sent me information showing that he incurred late payments almost from the start of the loan – in June, July, August, September and October 2019. And its credit checks for loan 3 showed Mr M had used 98% of his available credit and his total indebtedness now stood at £8,655 – clearly showing that his overall financial situation was steadily worsening.

So I don't think Bamboo was fairly able to support its lending decisions when it provided these further loans to Mr M.

And had it done more in-depth checks, it wouldn't have seen anything to reassure it that it was fair and reasonable to provide these loans to Mr M. His bank statements show that Mr M had extended the range of gambling sites he used and he had increased his spending on gambling up to around £250 in November 2019. I think this was now a significant proportion of his take home pay.

And despite the fact that Mr M was using multiple other high cost lenders to provide credit and boost the funds in his bank account, he was still in persistent overdraft and incurring daily overdraft fees and his bank statements show evidence of returned payments due to insufficient funds. So I can't fairly say that I've seen enough to make me think that Bamboo's loan helped Mr M to improve his financial situation. All this leads me to conclude that Bamboo should not have provided loans 1, 2 or 3.

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

I appreciate the time and trouble Bamboo has taken to engage with our investigator and provide its detailed responses to this complaint. 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."

### **What the parties said in response to my provisional decision**

Mr M agrees with what I've said in my provisional decision and Bamboo has told me it has nothing further to add. So I think it's reasonable for me to proceed with my review of this complaint.

### **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 for responding so promptly 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, 2 and 3. 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. With this in mind, Bamboo should:

- add up the total amount of money Mr M received as a result of being given loans 1, 2 and 3 (not including anything already refunded). 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 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 20 October 2021.

Susan Webb  
**Ombudsman**