

The complaint

Miss A says Bamboo Limited (trading as Bamboo Loans) lent to her irresponsibly.

What happened

Miss A took out a loan over 60 months from Bamboo on 27 August 2019. It was for £5000 and the monthly repayments were £197.09. The total repayable was £11,825.37. I understand the loan remains outstanding.

Miss A said Bamboo didn't complete good enough affordability checks, had it done so it would not have agreed to lend to her.

Our investigator found that Bamboo lent irresponsibly to Miss A. He found the lender's checks were not proportionate, and better checks ought to have led to a different lending decision as there were signs the loan would not be sustainably affordable for Miss A.

Bamboo rejected this conclusion. As agreement couldn't be reached the complaint was passed to me to make a decision.

I reached the same conclusion as the investigator, but my findings varied slightly so I issued a provisional decision (an extract follows and forms part of this final decision). I asked for any new comments and evidence by 24 October 2021.

Extract from my provisional decision

I can see Bamboo asked for some information from Miss A before it approved the loan. It asked about her income and checked this using an income verification tool. It also checked Miss A's credit file to understand her current credit commitments and credit history. It made some assumptions about her living expenses based on national averages. It asked about the purpose of the loan, which was debt consolidation. From these checks combined Bamboo concluded Miss A had monthly disposable income of £884.01 and so could afford the loan.

I'm not wholly persuaded these checks were proportionate given the term and value of the loan. Bamboo need to be sure Miss A would be able to afford to sustainably make repayments for five years. And as there was adverse information in the credit check Bamboo carried out I think it should have completed a fuller financial review using actuals, rather than relying primarily on national statistics or averages. I note Bamboo says this service has previously concluded that using national statistics is an appropriate check, but we review each case on its individual merits and what may be proportionate in one set of circumstances may not be in another. But I won't comment further on this as even given the checks it carried out I don't think Bamboo made a fair lending decision. I'll explain why.

The credit check Bamboo completed showed Miss A had defaulted on three accounts in the last 12 months. Bamboo pointed out that none of these were in the eight months leading up to the application, but I'm not persuaded there was sufficient evidence to fairly conclude that she was no longer having problems managing her money. Miss A was making no inroads into reducing the defaulted debts. I think this ought to have concerned Bamboo given that it

understood she had £884.01 of disposable income each month. And she had also already needed to take out a loan for £5000 six months earlier.

Miss A told Bamboo the purpose of this loan was to consolidate debts, but I can't see it took any steps to understand which debts and/or how giving the loan for this purpose would impact Miss A's overall indebtedness. It seems to have focused on pounds and pence affordability, without considering as part of its lending decision whether almost doubling her overall indebtedness to £15,173.37 (assuming she used the full £5000 to reduce her existing debt to £3347 before increasing it by the total repayable here of £11,825.37) would be potentially harmful. It would clearly prolong her use of high-cost credit. In response to our investigator's assessment Bamboo said it couldn't know from the credit check that the February 2019 loan was a guarantor loan. But it could have asked for more information about this loan to help it make a fair decision.

I note it also argues that the loan was sufficient for her to clear her default balances therefore putting her in a better financial position – but this may not be the case as it was giving her a high-cost loan and it's likely interest had been frozen on her defaulted balances.

Plus, Miss A hadn't used the £5000 loan she took out in February 2019 to clear any of her defaulted balances so I'm unsure on what grounds Bamboo is making this assumption.

It needed to consider not just the monthly affordability, but also the longer-term impact of giving the loan to meet its obligations under CONC 5.2A.12(R) which sets out (amongst other things):

The firm must consider the customer's ability to make repayments under the agreement:

(5) without the repayments having a significant adverse impact on the customer's financial situation.

And for the reasons set out above I think Bamboo ought to have realised there was a risk that the loan might be harmful to Miss A's overall financial position. It follows I currently think Bamboo was wrong to give the loan to Miss A.

I then set out what Bamboo would need to do to put things right if I upheld the complaint.

Bamboo responded with some additional comments before the deadline, Miss A didn't comment.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

In response to my provisional decision Bamboo said the loan might not necessarily have increased Miss A's overall indebtedness due to the different ways a lender can report credit (excluding interest charges, or including them as Bamboo does). It suggests the other £5000 loan is net of interest and therefore the total amount to repay would be far higher than what was reported at the time of this loan application. And so by Bamboo lending to Miss A for the purposes of debt consolidation her level of debt remained fairly consistent.

This point does not change my conclusion. Whilst I accept the point that lenders report differently, as I said in my provisional decision I found no evidence that Bamboo took any

steps to understand what debt Miss A intended to repay with its loan – and therefore to understand whether or not its loan might be financially detrimental for her. Nor did it put in place direct repayment of any of her debt as other lenders often do. I can't fairly find that it made its lending decision with any certainty that it was reducing – or at the very least not increasing Miss A's overall indebtedness. So I think it was most likely prolonging her use of high-cost credit.

Also, Bamboo argued previously that the loan was sufficient for her to clear her default balances therefore putting her in a better financial position. I pointed out Miss A hadn't used the £5000 loan she took out in February 2019 to clear any of her defaulted balances - so I was unsure on what grounds Bamboo was making this assumption. And given it was lending Miss A a total of £5000, I also don't think that it can fairly argue that she would be able to clear the guarantor loan she took out in February 2019 (thus it wasn't increasing her overall indebtedness) as well as her older defaulted debts.

Overall, I still think Bamboo's lending decision is unfair as it seems to rely on certain assumptions about how Miss A would use the loan, rather than being based on conclusive information it gathered to check that the loan would most likely be sustainably affordable for Miss A, and not harmful to her overall financial situation. And as I said previously, there were signs of previous financial stress that I don't find historic enough so as to not be relevant - the credit check Bamboo completed showed Miss A had defaulted on three accounts in the last 12 months.

It follows I think Bamboo was wrong to lend to Miss A.

Putting things right

I think it's fair and reasonable for Miss A to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her.

It seems Bamboo hasn't sold the outstanding debt. But if it has it should buy it back if it is able to do so and then take the following steps. If Bamboo is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

It should:

- Remove all interest, fees and charges from the loan and treat all the payments Miss A made as payments towards the capital.
- If reworking Miss A's loan account results in her having effectively made payments above the original capital borrowed, then Bamboo should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Miss A's loan account leaves a capital balance outstanding Bamboo should try to agree an affordable repayment plan with Miss A.
- Remove any adverse information recorded on Miss A's credit file in relation to the loan.

*HM Revenue & Customs requires Bamboo to deduct tax from this interest. Bamboo should give Miss A a certificate showing how much tax it's deducted, if she asks for one.

My final decision

I am upholding Miss A's complaint. Bamboo Limited (trading as Bamboo Loans) must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 30 November 2021.

Rebecca Connelley
Ombudsman