

The complaint

Mr B says Bamboo Limited, trading as Bamboo Loans, irresponsibly lent to him.

What happened

Mr B took out a 12-month instalment loan from Bamboo on 22 September 2019 for £5,000. The monthly repayment was £532.07. I will refer to this as loan 1. He then took out a top up loan on 21 February 2020. This was set up as a new 12-month instalment loan, at the same time he repaid loan 1 in full. So the total value of the loan was £5,442.27. His monthly repayment increased to £560.43. I will refer to this as loan 2.

Our investigator found Bamboo did not complete proportionate checks for either loan. She said better checks would have shown the loans to be sustainable unaffordable for Mr B. Bamboo disagreed and asked for an ombudsman's review. Its key points, in summary, were:

- Mr B had no defaults or County Court Judgements and at the time of loan 1 was only using 24% of his available credit;
- it was reasonable to rely on Mr B's declared income and rent and to use statistical data to estimate his living costs based on his circumstances - for loan 2 it also used data from the open banking system to verify his declarations;
- Mr B chose the shortest loan term and repaid each loan well showing financial discipline; and
- further checks were not needed due to good affordability and credit worthiness, but reviewing his bank statements now shows he was living within his means and managing his money well.

I reached the same conclusion as the investigator, but I relied on some different findings, so I issued a provisional decision. An extract follows and forms part of this final decision. I asked the parties to send any comments and new evidence by 5 July 2022. As they both replied before this deadline I am able to issue a final decision now.

Extract from my provisional decision

I can see Bamboo asked for some information from Mr B before it approved the loans. On both occasions it asked about his income, residential and employment status, and number of dependents. It also checked Mr B's credit file to understand his current credit commitments and credit history. For loan 1 it checked his declared income using a third-party income verification tool, for loan 2 it used open banking to check his income. For both loans it made some assumptions about his living expenses based on national averages. It asked about the purpose of the loans, which was debt consolidation. From these checks combined Bamboo concluded Mr B had enough monthly disposable income to afford to repay the loans.

I don't think Bamboo's affordability checks were proportionate for either loan, or that it made a fair lending decision based on the information it gathered. I'll explain why.

Loan 1

Bamboo's checks showed Mr B would have disposable income of £761.95 so I can see the loan appeared affordable on a pounds and pence basis. But I think there were some things in the information it gathered that ought to have led Bamboo to carry out a fuller financial review. At the time of application Mr B was already spending around 45% of his income on his existing credit commitments. And this was based on his declared income of £2,221. As Bamboo now knows, and better checks would have shown, his actual income was £1705.60 (the average from the three months prior to application) so he was actually already spending closer to 60% of his income on his credit commitments. I don't think further increasing this was responsible – giving this loan took his credit commitments to 90% of his income. To meet regulatory guidelines Bamboo needed to check not just the pounds and pence affordability, but also that taking on the loan would not cause harmful financial consequences for Mr B. Given the level of debt he would need to service each month I think it ought to have realised there was a significant risk he would be unable to sustainably repay the loan.

I anticipate Bamboo will argue that this loan was for debt consolidation and that Mr B settled seven accounts after receiving this loan. But I can't see it took any steps to understand which debts Mr B was planning to settle prior to making its lending decision, or that it paid off any of his accounts directly. So I don't think its checks were proportionate: I find in the circumstances of this complaint it needed to know precisely how Mr B's credit commitments were going to reduce. And even then – given the level they were already at prior to adding in this loan, I think it very unlikely it would have been fair and reasonable to conclude the loan was sustainably affordable.

It follows I think Bamboo was wrong to give loan 1 to Mr B.

Loan 2

Mr B returned to Bamboo five months later, again wanting to borrow to consolidate other debts. This time Bamboo had more information on his income from its checks and so reduced his declared figure down to £1,981. At this stage its credit check showed his monthly credit commitments were £705.53, excluding loan 1 which would be settled with this loan. So by giving loan 2 Bamboo was putting Mr B in the position where he would need to spend over 60% of his income on servicing his unsecured debt. Again I think at this level Bamboo ought to have realised there was a risk Mr B would not be able to sustainably afford the repayments. Whilst the total value had reduced slightly since loan 1 Mr B's credit check showed he was still heavily indebted. He only received £1,723.60 from loan 2 after loan 1 was settled so this would not have made significant inroads into reducing his debt levels, rather I think loan 2 extended his reliance on high-cost credit which would have been financially harmful.

It follows I think Bamboo was wrong to give loan 2 to Mr B.

Bamboo argues both loans were repaid well, but as it does not know with certainty how Mr B funded the repayments this does not change my conclusion. It also said it feels it was reasonable to rely on national statistics for Mr B's living expenses and his declared rent. Given the level of Mr B's credit commitments relative to his income I don't think it was. But I haven't focused on checking what Mr B's actual monthly living and housing costs were as just reviewing his actual income and credit commitments indicates Bamboo was most likely wrong to lend. Bamboo also highlighted that Mr B was managing his existing credit well, but it needed to consider the ongoing impact of repaying these loans over their term and how that might affect Mr B. And I can't conclude that putting Mr B in a position where he needed to spend such a high percentage of his income on credit did not put him at risk of financial harm – be that borrowing to repay or other adverse consequences.

I have not seen any evidence that Bamboo acted unfairly or unreasonably towards Mr B in some other way.

I then set out what Bamboo what need to do to put things right if I went on to uphold Mr B's complaint.

Mr B responded to the provisional decision, accepting the findings and outcome. Bamboo replied saying it had no further comments.

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.

As neither party sent in any comments or new evidence I have no reason to change the findings or outcome I set out in my provisional decision. It follows I find Bamboo was wrong to give loans 1 and 2 to Mr B.

Putting things right

I think it's fair and reasonable for Mr B to repay the capital that he borrowed, because he had the benefit of that money. But he has paid interest and charges on loans that shouldn't have been provided to him. Bamboo must put this right.

It will have to:

- Add up the total amount of money Mr B received as a result of being given loans 1 and 2. Deduct all repayments Mr B made from this amount.
- If reworking Mr B's loan accounts results in him 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 Mr B's loan accounts leaves a capital balance outstanding Bamboo should try to agree an affordable repayment plan with Mr B.
- Remove any adverse information recorded on Mr B's credit file in relation to the loans.

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

My final decision

I am upholding Mr B'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 Mr B to accept or reject my decision before 18 July 2022.

Rebecca Connelley
Ombudsman