

The complaint

Mrs G says Bamboo Limited, trading as Bamboo Loans, irresponsibly lent to her.

What happened

This complaint is about a 48-month instalment loan for £8,000 that Bamboo provided to Mrs G on 5 May 2021. The monthly repayments were £289.49 and the total repayable was £13,985.62.

Mrs G says she should never have been given this loan; she was desperate at the time. Had Bamboo done proper checks it would have seen this. She has ended up with a debt management plan (DMP) as she had to take out other loans just to repay this one.

Our investigator upheld Mrs G's complaint and thought Bamboo was wrong to have given the loan.

Bamboo disagreed, it reiterated the checks it carried out and why the results supported its lending decision. It asked for an ombudsman's review, so the complaint was passed to me.

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 general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mrs G's complaint. These two questions are:

1. Did Bamboo complete reasonable and proportionate checks to satisfy itself that Mrs G would be able to repay the loan without experiencing significant adverse consequences?

- If so, did it make a fair lending decision?
- If not, would those checks have shown that Mrs G would've been able to do so?

2. Did Bamboo act unfairly or unreasonably in some other way?

The rules and regulations in place required Bamboo to carry out a reasonable and proportionate assessment of Mrs G's ability to make the repayments under this agreement. This assessment is sometimes referred to as an affordability assessment or affordability check.

The checks had to be "borrower" focused – so Bamboo had to think about whether repaying the loan would cause significant adverse consequences for Mrs G. In practice this meant that the business had to ensure that making the payments to the loan wouldn't cause Mrs G

undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Bamboo to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mrs G. Checks also had to be proportionate to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mrs G's complaint.

Bamboo has provided evidence to show that before lending it asked for some information from Mrs G. It asked for details of her monthly income and her housing costs. It used national statistics to estimate her living costs and used an independent income verification tool to check her declared income. It carried out a credit check to understand her credit history and her existing credit commitments. It asked about the purpose of the loan which was debt consolidation. Based on these checks Bamboo concluded Mrs G would be able to sustainably repay this loan and so thought it was fair to lend.

I am not wholly persuaded these checks were proportionate given Bamboo needed to be sure Mrs G could sustainably repay the loan over a 48-month term. I think given the results from the credit check it carried out it ought to have completed a fuller financial review. But I won't comment further on this as even based on the information it gathered, I think Bamboo ought to have realised there was a risk the loan would not be sustainably affordable for Mrs G. I'll explain why.

Mrs G was already spending over 50% of her declared income on her existing credit commitments. By giving this loan Bamboo was increasing the amount of her income she would need to spend on her monthly debt repayments to nearly 65%. At this level I think it ought to have been concerned she would likely struggle to sustainably repay the loan over four years. It could see from her credit check that even before giving this loan she had debt of nearly £30,000; she had made the minimum repayments on her credit card debt five times in the prior 12 months and was close to her limits; and she was close to her overdraft limits on two current accounts. So I think they were already indicators of some financial strain and in this context I don't it was fair to extend Mrs G's credit commitments such that they were almost 65% of her income.

It seems Bamboo focused heavily on the pounds and pence affordability of the loan, but to meet its regulatory obligations it was also required to check that Mrs G would be able to repay the loan without suffering adverse financial consequences, or borrowing to repay. I am not satisfied it did this. And from Mrs G's testimony I can see she went on to enter a DMP – and I think this was foreseeable from the results of Bamboo's checks.

I understand this loan was for debt consolidation, but I can't see Bamboo took any steps to understand which debts Mrs G was planning to settle – and she would still have a significant amount of debt and therefore high monthly repayments even if she used the full £8,000 to repay other debts. So in the circumstances of this case that does not change my conclusion.

It follows I think Bamboo was wrong to lend to Mrs G.

I have not seen any evidence that Bamboo acted unfairly or unreasonable towards Mrs G in some other way.

Putting things right

I think it's fair and reasonable for Mrs G 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. Bamboo must put this right.

It should:

- Refund all interest and charges, so add up the total amount Mrs G repaid and deduct this sum from the capital amount of the loan.
- If reworking Mrs G'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 Mrs G's loan account leaves a capital balance outstanding Bamboo should try to agree an affordable repayment plan with Mrs G.
- Remove any adverse information recorded on Mrs G's credit file in relation to the loan once any outstanding capital has been repaid.

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

My final decision

I am upholding Mrs G'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 Mrs G to accept or reject my decision before 19 June 2023.

Rebecca Connelley
Ombudsman