

The complaint

Mr L, through a representative, says Bamboo Limited, trading as Bamboo Loans, irresponsibly lent to him.

What happened

This complaint is about a 36-month instalment loan for £1,000 that Bamboo provided to Mr L on 10 March 2019. The monthly repayments were £60.55 and the total repayable was £2,179.83.

Mr L says Bamboo didn't complete proper affordability or creditworthiness checks before lending.

Our investigator upheld Mr L'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. In summary, it said Mr L had excellent credit profiles and a low level of debt. The loan was for debt consolidation and would have reduced Mr L's monthly credit commitments by over £300. Mr L had regularly made overpayments and settled the loan early showing it had not caused him any financial detriment. 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 Mr L's complaint. These two questions are:

1. Did Bamboo complete reasonable and proportionate checks to satisfy itself that Mr L 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 Mr L 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 Mr L'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 Mr L. In practice this meant that the business had to ensure that making the payments to the loan wouldn't cause Mr L 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 Mr L. 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 Mr L's complaint.

Bamboo has provided evidence to show that before lending it asked for some information from Mr L. It asked for details of his employment, monthly income and housing costs. It used national statistics to estimate his living costs and used an independent income verification tool to check his declared income. It carried out a credit check to understand his credit history and his existing credit commitments.

Based on these checks Bamboo concluded Mr L would have sufficient disposable income each month after taking on this loan and so thought it was fair to lend.

I think these checks were proportionate given the value of the loan, the term and the monthly repayment relative to Mr L's declared income. But I am not satisfied Bamboo made a fair lending decision based on the information it gathered. I'll explain why.

Bamboo's credit check showed it Mr L had opened 11 new accounts in the previous six months, and there were 14 searches on his file from the last three months. And his credit file also showed he was most likely in a cycle of borrowing to repay as he was using high-cost short-term loans. This was not a recent or temporary pattern - he had been using this type of loan since August 2017 suggesting he was reliant on them to manage his finances.

I accept this loan was for debt consolidation, but I can't see Bamboo understood which debts Mr L was going to settle or that it had any certain assurances that this would allow him to end his reliance on high-cost credit. Without this, I think it was unfair to lend to Mr L as there

was a high risk extending his indebtedness with this loan would have adverse financial consequences.

I have carefully considered Bamboo's comments that its checks showed the loan to be affordable, but it needed to do more than check it was affordable on a pounds and pence basis. It needed to consider the impact on Mr L to ensure it was not adverse, and for the reasons set out above I am not satisfied it has evidenced it did this.

Bamboo also argued that Mr L paid more than the minimum repayment and settled the loan early. But it does not know how he did this, and given his credit history I find it is reasonable to be concerned that this may not have been done sustainably.

It follows I think Bamboo was wrong to lend to Mr L. I have not seen any evidence it acted unfairly in any other way towards Mr L.

Putting things right

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

It should:

- Refund all interest and charges, so add up the total amount Mr L repaid and deduct this sum from the capital amount of the loan.
- As reworking Mr L's loan account will result 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*.
- Remove any adverse information recorded on Mr L's credit file in relation to the loan.

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

My final decision

I am upholding Mr L'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 L to accept or reject my decision before 9 June 2023.

Rebecca Connelley
Ombudsman