

The complaint

Mr L complains that Bamboo Limited (“Bamboo”) gave him a loan which was unaffordable for him and therefore lent irresponsibly.

What happened

In January 2023 Mr L took out a loan from Bamboo for £10,000. This was to be repaid over 60 months, at monthly repayment of approximately £288 per month. This loan had an APR of 26.9% and Mr L would’ve been charged £7,281.68 in interest over the full term of the loan. The purpose of this loan is recorded as debt consolidation by Bamboo.

Mr L raised a complaint to Bamboo and it issued a response rejecting his complaint. It said that the checks completed showed Mr L could afford to sustainably repay his loan. In particular, it said that although the credit search showed some historic adverse information, it demonstrated his credit was currently being managed well. It also said it verified Mr L’s monthly income and relied on his declarations and information from the Office of National Statistics (“ONS”) to estimate his regular living expenses. So it felt that Mr L could afford to sustainably repay this loan. Unhappy with Bamboo’s response, Mr L referred his complaint to our service.

Our investigator considered this complaint. They concluded that the checks Bamboo did were proportionate and demonstrated that Mr L could afford to repay this loan. So the investigator didn’t uphold the complaint. Mr L didn’t agree and so the complaint was referred for a decision.

For context Mr L took out an earlier loan of £5,000 in September 2022. This loan was due to be repaid over 60 months and was repaid early, prior to taking out the loan in question. The purpose of this earlier loan was also debt consolidation. Mr L has confirmed this loan is not in dispute and so this decision will only consider the January 2023 loan sale.

I considered this complaint and issued a provisional decision, setting out why I thought this complaint should be upheld. In my provisional decision I said:

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. I have used this approach to help decide Mr L’s complaint. Having carefully considered all the information I’ve been provided with, I am planning to uphold this complaint.

Bamboo needed to make sure it lent responsibly to Mr L. It therefore needed to complete sufficient checks to determine if Mr L could afford to sustainably repay the lending.

Our website sets out our approach to what we typically think when deciding if a lender’s checks were proportionate. There is no set list of checks a lender should do, but there is guidance on the types of checks a lender could complete. However, these checks needed to be proportionate when considering things like amount and term of the lending, what the lender already knew about the consumer etc.

Generally, we think that earlier in a lending relationship it would be reasonable for a lender’s checks to be less extensive. However, we might expect a lender to do more, for example, if a borrower’s income was low or the amount lent was high. In addition, the longer the relationship goes on, the

greater the risk for harm through sequential lending.

As detailed above, prior to lending to Mr L, Bamboo checked his credit file, verified his self-declared income using an income verification tool and asked Mr L about his regular expenditure. Bamboo has said it then used ONS information to assess the declarations and estimate Mr L's expenditure.

Having carefully considered the checks Bamboo completed, I don't think they were proportionate. Looking firstly at Mr L's expenditure information Bamboo has said it based its lending decision on figures declared by Mr L and expenditure estimates from ONS information. And it completed a credit search (considered further below). Using this information it recorded Mr L's "Contribution to accommodation" as £350 and "Debt servicing" as £117. It said that based on a monthly income of £1,876, Mr L had enough disposable income to meet his monthly loan repayment of £288 and other essential expenditure. It's not clear what amounts Mr L declared and how Bamboo increased this using ONS information. However, these are the figures that Bamboo based its lending decision on and I think this gives a very limited insight into Mr L's regular expenditure. Therefore I don't think it was sufficient to assume Mr L had enough remaining income to meet his living expenses without questioning this further, particularly given the size and term of the loan.

In addition, I note that in his application around four months earlier Mr L declared £625 for his accommodation costs and this figure had almost halved at the time of the application to £350. There may have been a plausible explanation to this – I can see he declared he was a "tenant furnished" on the earlier loan application and a "council tenant" when applying for the loan in question – however it's a relatively short period of time between applications and Mr L's address didn't change between applications. So I would've expected Bamboo to query this discrepancy.

I have also considered Mr L's credit file and I can see that Mr L had two accounts in default. The first account was a current account where Mr L looks to have been only making the minimum payments and the second was a loan account where Mr L had an outstanding balance of £560 which was the original default balance. So Mr L wasn't making any payments towards this debt. I accept, as Bamboo has argued, that these were historic defaults, but they both still had balances outstanding. I also accept that the loan in question was for consolidation purposes, so arguably Mr L could've been planning to repay this debt with the loan in question. However, Mr L's previous loan just a few months earlier was recorded as being for debt consolidation purposes and yet these balances were still outstanding. If Mr L was managing his accounts well, as Bamboo has suggested, why was he leaving default balances as unpaid or only paying the minimum repayment? And why weren't these default accounts not repaid by the previous debt consolidation loan?

Furthermore, Mr L's credit file showed he had a credit card where he was almost at his limit of £1,410. Mr L had reduced his outstanding balance in September 2022 and cleared the balance fully in the following month, but by November 2022 he was back up to almost the full limit. Given his declared monthly income was £1,876, this was a large sum to reach in around a month time period. Particularly if Mr L had sufficient disposable income to repay the loan in question together with his regular outgoings. So I think in the context of everything it knew about Mr L, Bamboo could've questioned this further.

And so, taking everything into consideration, I don't think Bamboo completed proportionate checks. Bamboo didn't gather sufficient information about Mr L's expenditure and I think it had reason to further question some of the information it did gather.

I now need to consider what proportionate checks would have shown. This presents challenges as Bamboo didn't complete proportionate checks, so I can't say for sure what these checks would've revealed. Mr L has provided bank statements in the months leading up to this loan being taken. In the absence of any other information, I think it's fair to rely on this to give an indication of what information proportionate checks would've most likely revealed.

Mr L has told us that he had a gambling problem which meant he had trouble managing his finances. I have reviewed his statements in the months leading up to this loan and I can see that there was clear evidence of compulsive spending. As an example, in the month prior to this loan (December 2022) Mr L spent over £10,000 on gambling. So I think if Bamboo had completed proportionate checks it should have concluded that it wasn't sustainable or reasonable to give additional lending to someone in Mr

L's position. And that to do so would've been irresponsible.

I've noted that Bamboo has said it asked Mr L to declare his monthly gambling expenditure and he declared £0. I think it's unlikely during a lending application that an applicant would declare that they spend large sums gambling. But in any event, I don't think Bamboo completed proportionate checks and I think that it's most likely that if it had done, Bamboo would've seen that it wasn't responsible to lend to Mr L regardless of his gambling expenditure declaration.

In response Mr L accepted my decision and Bamboo said it had nothing further to add.

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.

Having done so, as neither party has provided any new information, I see no reason to change the findings reached in my provisional decision. So it follows, for the reasons set out in my provisional decision, (which forms part of this decision) I uphold Mr L's complaint.

To summarise, I don't think Bamboo completed proportionate checks. And I think that had it done so it would've seen that it wasn't sustainable or reasonable to lend. And so I don't think it should have agreed this loan.

Putting things right

Bamboo should:

- Remove all interest, fees and charges applied to Mr L's loan from the outset. The payments Mr L has made should then be deducted from the new starting balance. If the payments Mr B has made total more than the amount he was originally lent, then any surplus should be treated as overpayments and refunded to him.
- Add 8% simple interest* calculated on any overpayments made, from the date they were paid by Mr L to the date the complaint is settled.
- Remove any adverse information recorded on Mr L's credit file as a result of this 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

For the reasons set out above, I uphold this complaint and require Bamboo Limited to 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 8 May 2024.

Claire Lisle
Ombudsman