

The complaint

Mrs A complains that Bamboo Limited was irresponsible in its lending to her. She wants compensation for this.

Mrs A is represented by a third party but for ease of reference I have referred to Mrs A throughout this decision.

What happened

Mrs A was provided with a £4,000 loan by Bamboo in December 2019. The loan term was 60 months and Mrs A was required to make monthly repayments of around £176. The total amount repayable was £10,583.27.

Mrs A said that Bamboo didn't fully assess the affordability of the loan before it was provided and had it done so it would have realised the repayments were unaffordable. She said that she couldn't maintain her repayments and the loan was put in a debt management plan.

Bamboo issued a final response to Mrs A's complaint dated 24 April 2024. It said that creditworthiness and affordability checks were undertaken before the loan was provided. It noted that Mrs A declared that she was employed with an average net monthly income of £2,320 and said that her income was verified using an income verification tool. A credit check was carried out which didn't raise any concerns and third-party data, along with information provided by Mrs A, was used to estimate her expenses. Bamboo noted that Mrs A said the purpose of the loan was to consolidate some of her debts and so this should have improved her monthly disposable income.

Bamboo believed that it had carried out reasonable checks and that the loan was affordable for Mrs A. Therefore, it didn't uphold this complaint.

Mrs A referred her complaint to this service.

Our investigator noted that Mrs A's credit report showed she had taken out a loan for £5,067 around seven months before this application and a further loan around six months prior although this loan had been settled. She noted Mrs A's other credit commitments at the time and that she was making use of high-cost loans. Our investigator thought that given the size of the loan compared to Mrs A's income and the information identified through the credit check, further checks should have been undertaken to verify Mrs A's income and expenses to ensure the loan would be sustainably affordable.

Our investigator considered the information contained in Mrs A's bank statements for the months leading up to the loan being provided. She found that Mrs A's monthly income was around £1,480 and her share of costs was around £2,083. This resulted in Mrs A having a negative disposable income and therefore she didn't think Bamboo should have provided this loan.

Bamboo didn't agree with our investigator's view. It noted reference to the loans taken out seven and six months prior to Mrs A's application and said that these didn't indicate Mrs A

was struggling financially. It noted one of the loans had been settled and Mrs A was maintaining her payments on the other. It said that Mrs A had only one payment in arrears marker in the previous three years and this was recorded over 12 months before her application. It reiterated that Mrs A declared her income as £2,320 and it verified this. It said this, along with her excellent credit history, meant it had no reason to ask for further evidence. Bamboo also disagreed with our investigator's calculation for Mrs A's expenses.

As a resolution wasn't agreed, this complaint was passed to me, an ombudsman, to issue a decision.

My provisional conclusions.

I issued a provisional decision on this complaint. While I upheld the complaint as our investigator did, I provided additional reasoning for the outcome. The details of my provisional decision are set out below.

Before the loan was provided, Bamboo gathered information about Mrs A's employment, income, residential status, and housing costs. It validated the declared income using an income verification tool and carried out a credit check. Mrs A declared that she was employed and had a net monthly income of £2,320. She said she was a homeowner with a mortgage and her housing costs were £170. The credit check showed Mrs A had around £49,711 outstanding on her mortgage, £12,155 in outstanding loans /instalment credit and £614 in revolving credit (against a limit of £750). Mrs A's credit report also showed that additional to her loans and revolving credit she had outstanding balances of £2,881 on mail order accounts, and an overdraft of £3,582.

Looking through Mrs A's credit report she had no judgments or bankruptcies recorded. She had nine active accounts all of which were up to date. Her mortgage repayments were recorded as £364 but I think it reasonable that Bamboo accepted Mrs A declared share of this as £170. While I agree that Mrs A's credit report didn't show that she was struggling to manage her existing commitments, it did show that she had taken out three loans and a credit card account within the previous nine months. While one of the loans had been settled and Mrs A was making her payments towards the other accounts, I think that given her increased amount of debt in the months leading up to the loan application, further checks should have been undertaken to ensure this additional credit would be sustainably affordable for her.

While I note that Bamboo used an income verification tool to check Mrs A's declared income, I think in this case it would have been proportionate to have carried out further checks to understand the income available to Mrs A. Bamboo wasn't required to request copies of Mrs A's bank statements but I have used the information they contain to understand what further checks would likely have revealed.

The bank statements that have been provided are for a joint account and income and expenses are paid from this. Looking through the statements these show income from Mrs A's employer (around £800 a month) as well as receipts from benefits. Mrs A has provided a copy of her December 2019 payslip which supports her income figure of around £800 at the time. There are transfers in and out of the account, but these vary and there are no other regular sources of income. So, I think that had further questions been asked, Bamboo would have realised that Mrs A was receiving around £800 from her employment and around £560 from benefits, giving a total income of around £1,360. Given this was a lot lower than the amount declared, I think that Bamboo should have carried out further checks to verify Mrs A's expenses to understand fully her financial circumstances.

There are no other regular sources of income into the joint account, which would suggest Mrs A was responsible for all payments from this account. However, as the joint account statements have been provided and Mrs A recorded her mortgage costs as £170 which was 50% of the monthly payments, I have calculated her housing and living costs as 50% of those recorded in the statements. The joint account statements show payments for utilities, insurance, communication/media contracts, car costs and other general living costs such as food and fuel. Based on a 50% contribution, Mrs A's household and general living costs (including £170 for her mortgage contribution) were around £1,000.

The joint statements show several payments towards credit commitments. However, as I am focussing the calculations on Mrs A's expenses, I have checked the payments made but based my numbers on the payments identified through her credit check. Looking through the credit check, Mrs A was paying £296 towards her loans (although there were additional loans recorded in the joint statements) and based on her outstanding balances for her credit card and mail order accounts, I think it reasonable to include monthly repayments of £175. This gives total payment to Mrs A's credit commitments excluding her mortgage but before the Bamboo repayments of around £471. Additional to this were the charges on the overdraft of which 50% would be around £65 month bringing total cost of credit to around £536 (this is in line with the amount Bamboo recorded in its final response). I note there were also payments being made to buy now pay later accounts, but I haven't included these at this stage.

Combining Mrs A's costs for her existing credit commitments along with her housing and general living costs, resulted in total expenses of around £1,536, which meant she had negative disposable income before the Bamboo loan repayments. I think this should have caused Bamboo concerns that the loan repayments wouldn't be affordable for Mrs A.

I have noted that Bamboo has said the loan was intended for debt consolidation. But noting the repayments required of £176 for a £4,000 loan compared to Mrs A's existing credit commitments, I do not find that even if the loan was used to pay down her other loans or her overdraft, it would have put her in a materially better financial situation. Taking all of this into account, I am upholding this complaint.

I've also considered whether NewDay acted unfairly or unreasonably in some other way given what Mrs A has complained about, including whether its relationship with Mrs A might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress directed below results in fair compensation for Mrs A in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Mrs A accepted my provisional decision.

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 general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

As no new information was provided in response to my provisional decision, my conclusions haven't changed. As I previously set out, given the increased debt that Mrs A had taken on in the months leading up to this application, I think that further checks should have been carried out to fully understand her financial circumstances. Had these happened, I think it reasonable to accept that a monthly income of around £1,360 would have been identified. Deducting from this Mrs A's share of her housing and other costs along with her payments to the credit commitments recorded in her credit report would leave her with negative disposable income. While I note the loan was intended for debt consolidation, considering the repayments required of £176 for a £4,000 loan compared to Mrs A's existing credit commitments, I find that even if the loan was used to pay down her other loans or her overdraft, it wouldn't have put her in a materially better financial situation.

In conclusion, for the reasons I set out in my provisional decision, I am upholding this complaint.

Putting things right

As I don't think Bamboo ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mrs A should pay back the amount she borrowed. Therefore, Bamboo should:

Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.

- If the rework results in a credit balance, this should be refunded to Mrs A along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Bamboo should also remove all adverse information regarding this account from Mrs A's credit file.
- Or, if after the rework there is still an outstanding balance, Bamboo should arrange an affordable repayment plan with Mrs A for the remaining amount. Once Mrs A has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

If Bamboo has transferred the debt to a third party, it should arrange to either take back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Bamboo to deduct tax from any award of interest. It must give Mrs A a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

My final decision is that I uphold this complaint. Bamboo Limited should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 22 April 2025.

Jane Archer
Ombudsman