

The complaint

Miss D complains that Bamboo Limited, lent to her irresponsibly and without carrying out proper affordability checks.

What happened

In July 2022 Bamboo approved a loan of £5,000 for Miss D, which was scheduled to be repaid at approximately £500 per month over a term of 12 months. Bamboo says that the loan was intended to consolidate other debt, but I have been given no confirmatory evidence of that.

When assessing the applications, Bamboo took steps to verify Miss D's financial circumstances and carried out a credit check before approving the lending.

It would appear that Miss D managed to maintain the repayments, although the updated status of the loan has not been confirmed.

When Miss D complained to it, Bamboo didn't accept it had done anything wrong. So she brought her case to this service. The investigator thought that Bamboo shouldn't have given Miss D this loan, but Bamboo doesn't accept that and has asked for an ombudsman to look at the complaint.

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, I'm going to uphold this complaint broadly for the same reasons as those of the investigator.

Bamboo is aware of its obligations under the rules and regulations in place at the time of this lending decision, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Miss D would be able to repay the borrowing applied for in a sustainable way. As set out in CONC 5.3.1G(2) that means that she could manage the repayments,

"...without...incurring financial difficulties or experiencing significant adverse consequences"

Essentially, she needed to be able to meet her financial commitments and not have to borrow elsewhere to repay Bamboo for the loan to be considered affordable and sustainable.

Did Bamboo carry out proportionate checks before granting this loan?

Bamboo asked Miss D about her income and expenditure (I&E); used some statistical tools about I&E; and carried out a credit check when considering her loan application. Like the

investigator, I'm satisfied that its checks went far enough.

Did Bamboo respond appropriately to the information it had when deciding whether to provide this loan?

Based on what it knew about Miss D, I don't think Bamboo could reasonably have concluded that this loan would be sustainable for her, bearing in mind the regulations in force.

The investigator thought that Miss D needed to spend such a significant proportion of her income on servicing her debts that Bamboo should not therefore have lent to her. Bamboo did not accept that, highlighting that there were no defaults or CCJs on her credit file; that she wasn't overly indebted in relation to her income; and that this loan would have been large enough to enable her to consolidate all her debts. So, in the round, it thought the evidence supported the borrowing being affordable and sustainable for Miss D.

I share the investigator's concerns about the proportion of income needed to service debt. Miss D's income was not large, at approximately £1,500 per month. So this repayment alone would have claimed a third of her income each month. But in addition, I have identified some other reasons why I think Bamboo ought to have concluded that this borrowing was not sustainable for Miss D, and that she probably had some fairly entrenched financial problems.

But first, I have thought carefully about Bamboo's assertions that this loan was for debt consolidation and so therefore would have improved Miss D's financial position significantly. There is no persuasive evidence that was the purpose of the loan. Bamboo has offered no information from its records as to why it believes that, and its summary of the I&E assessment does not support that conclusion. In its final response to Miss D, Bamboo set out that, even after making this monthly repayment of nearly £500, she would have had approximately £530 for daily expenses (such as food and bills presumably). However, that simply ignores some of the expenditures she declared at the time, so doesn't make sense. In its loan application screenshots from 2022, it is clear it was not considering the consolidation of other borrowing in its assessment. So, on the basis of that contemporary evidence, Miss D would have been left with less than £200 disposable income after she had made this repayment.

So, due to lack of consistent evidence, I cannot conclude that the purpose of this loan was for debt consolidation and therefore that it is reasonable to say it would overall significantly improve Miss D's financial situation by eliminating almost all of her other debt.

However, the issue of disposable income, which frankly remains somewhat unclear, is not really relevant to the outcome of this case. As mentioned above, I have identified other issues of concern from the credit file it obtained which ought to have led Bamboo to decline this application.

Crucially, Miss D had an aggregate overdraft limit across three accounts of nearly £3,200. Two of those accounts appear to have been consistently at the overdraft limit for several months. The third (and largest) overdraft balance had reduced significantly in May 2022, but had been over the agreed limit in March 2022. So, even taken at the most recent (and arguably favourable) position shown on the credit file, Miss D was persistently in an aggregate overdraft of at least £2,200 and there was no evidence of her ever being in credit on those accounts. Given that her income was around £1,500 per month, it ought to have been clear to Bamboo that Miss D effectively had no disposable income that wasn't funded by borrowing. Regardless of her other lines of credit, her aggregate overdraft balance was well in excess of her income each month. The logical conclusion of that fact is

that she was dependent on borrowing to survive.

It's also clear from the credit file that Miss D regularly, and recently, took fairly large cash advances on her credit cards. Given the expense of this, I consider it reasonable to conclude that was because she absolutely needed that cash in order to function. Again, this cannot be taken as a sign of financial health.

In the round, it therefore follows that the evidence in this case leads me to uphold the complaint on the basis that Bamboo's assessments did not demonstrate that the borrowing was affordable and sustainable for Miss D.

Putting things right

It may well be that Miss D has now settled this loan. In order to put things right for her, Bamboo must do the following:

A) Bamboo must remove all interest, fees and charges from the loan, and treat any repayments made by Miss D as though they had been repayments of the principal on the loan.

B) If this results in Miss D having made overpayments then it must refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the payments were made, to the date the complaint is settled.

C) Whilst I don't believe there is, should there still be an outstanding balance following the actions set out in "A", then Bamboo should agree a suitable repayment plan with Miss D.

D) It must remove any adverse information recorded on Miss D's credit file in relation to this loan, once it has been repaid.

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

My final decision

For the reasons I've explained, I uphold this complaint and direct Bamboo Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 21 September 2023.

Siobhan McBride
Ombudsman