

The complaint

Mr W took out a loan with Monzo Bank Ltd (“Monzo”) in July 2019. He says that Monzo lent to him irresponsibly. He has since struggled to make the monthly repayments.

What happened

Mr W says that he applied for a £15,000 loan as he wanted to consolidate other lending as he was constantly in his overdraft and he wanted to move home. When he applied, his income was from benefits before starting his job but he knew he was getting a job. Although he now has a job earning £19,000 a year, he is still having issues due to ill health and was off work due to stress. Mr W has spoken to a debt charity as he is still often at the bottom of his overdraft. He says that he wasn’t asked any questions about other bills and debts and that this was irresponsible lending.

Monzo says that it made the correct decision to lend to Mr W. It says that he met its criteria for lending at the time the loan was taken out, based on income information provided by Mr W and information from credit reporting agencies. Monzo says that it does take annual income into consideration.

Monzo says that Mr W declared an income of £21,000 and said he worked full time and was a tenant. Monzo says it verified this income and was very confident that this was a stable income belonging to Mr W. Mr W’s expenditure and rental expenses were calculated using an average for a customer of his age, location and income. Monzo determined that Mr W had sufficient affordability to be able to take on a loan of up to £15,000. Mr W’s credit score (both external and internal) was sufficient for its credit risk policy to allow a loan of up to £15,000.

Mr W says that at the time of the loan he wasn’t working and was on personal income of £13,000. He was due to start work the following month and had been given the contract so he knew he could keep up the repayments (£19,000 wages and £6,300 personal independence payment) Mr W says that he doesn’t know where the £21,000 quoted income would come from.

Our investigator looked at this complaint. She found that Monzo did carry out reasonable checks to satisfy it that Mr W would be able to repay the loan in a sustainable way. She noted that being in receipt of benefits and having an overdraft wouldn’t automatically mean Mr W wouldn’t qualify for a loan. The investigator considered Mr W’s income and outgoings at the time he took the loan to see whether it was affordable and concluded that it was. She also found that it was reasonable for Monzo to conclude that Mr W could sustainably repay the loan without undue difficulty, while being able to meet other commitments and without having to borrow further.

I disagreed with the investigator and set out in my provisional decision dated 8 April 2021 (reproduced below) why I was minded to uphold this complaint on the basis that Monzo’s decision to lend to Mr W was unfair and that he shouldn’t have been given the loan. I invited both parties to let me have any further comments and evidence by 8 May 2021.

Monzo disagreed with my provisional decision. It says that information provided by the customer in June 2019 supported the affordability assessment. Monzo also said that it strongly believes that putting the customer in control results in more open dialogue and better customer outcomes and that the vast majority of its customers do not have their entire income paid into their Monzo account.

Mr W contacted this service for clarification of the findings in the provisional decision but has not made any further comments in relation to these findings.

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.

In my provisional decision I set out the following:

“Having looked at the evidence I disagree with the investigator's view and I've explained my reasons further below.

Before agreeing to an application for credit, businesses need to make sure they lend in a responsible manner. To do this they are required to carry out appropriate checks. There isn't a set requirement of what a business must do in every instance. But the checks need to be borrower-focused and proportionate to the application being made. The size and duration of the loan will therefore be relevant to the reasonableness of the checks carried out. These checks usually include an assessment of whether the person requesting credit can afford to make and sustain the repayments, taking account of their financial situation and other outgoings.

Monzo has provided a copy of its credit risk assessment, which shows that Mr W had a credit score of 642 (out of 710) from the credit reference agency, no defaults, missed payments or short-term loans taken and 12 accounts on his credit file.

Monzo says that Mr W declared an income of £21,000 and that it verified this income and was very confident that this was a stable income. Monzo has been asked to clarify what verification was done on this income. It has provided a copy of its affordability assessment which states that the 'Verified Net Monthly Income' was £1,522 which corresponded to an annual gross income of £21,000. The affordability assessment also shows that the 'Income Confidence Factor' was given a rating of 8 from a range of 1-9.

Although Monzo has provided a copy of the affordability assessment, it is still not clear what verification was done in relation to Mr W's income. I've looked at Mr W's statements for his bank account with Monzo, which was opened at the end of March 2019. Prior to taking out the loan on 28 July 2019, Mr W's monthly income amounted to around £1,100, made up of benefit payments of approximately £620 of universal credit and £480 of personal independence payments.

Although it appears that Mr W was starting a new job around the time of the loan application, the first salary payment received into his account was at the end of August 2019 for approximately £1,000. In light of the above, it's unclear what checks Monzo did to verify that Mr W's income was £1,500 a month in July 2019 as this was inconsistent with the information it held in relation to his account. I think that if Monzo had done further checks to verify Mr W's income it would have established that this was closer to £1,100 than £1,500 at the time he applied for the loan.

Monzo says that it calculated Mr W's expenditure and rental expenses using an average for a customer of his age, location and income. The affordability assessment shows that it used a figure of £1,077 for Mr W's monthly essential spend and 'other monthly debt obligations' have been recorded as £50 which the report says is determined from Monzo's credit search with a credit reference agency and any internal Monzo debt. The monthly affordability capacity is recorded as £300 and based on this Monzo has determined that Mr W's affordability capacity for credit was sufficient to be able to meet the monthly repayments of £274.11 on the loan. However, based on Mr W's actual monthly income of £1,100 these outgoings would have left him with a deficit every month. Monzo didn't check Mr W's actual outgoings and I don't think it was reasonable for it to rely on estimated amounts rather than considering Mr W's actual monthly expenditure in the circumstances of this case for the reasons set out below.

I've looked at the chat history between Mr W and Monzo for his bank account. On 10 June 2019, Mr W contacted Monzo by chat to say he was having problems paying off his overdraft and asking for help. He said he was due to start a new job and went on a spending spree but now they'd pushed back the start date and they weren't being very forthcoming with a new one. Mr W said that as he was on universal credit and PIP benefits and was constantly at the bottom of his overdraft.

During this call Mr W told Monzo that he was suffering with depression and anxiety and that his coping mechanism was spending. He said that he had spoken to the Money Advice Service and done a budget and that he could afford to pay it off within four months. Mr W said that his main worry was that he would pay off a chunk of his overdraft, then hit a depressive episode and ruin what he had worked hard to pay off.

Mr W was asked by Monzo if he had any other debts and said he had a £500 overdraft with another bank. He said he was going to pay off £200 per month and reduce the overdraft with the other bank. He said that the other bank's financial difficulties team was less forgiving and had told him entering into a payment plan would affect his credit file. Monzo set up a plan to reduce Mr W's overdraft by £80 a month from 26 June onwards. Mr W also asked if it would be possible to set up a gambling ban on his account at this time and was told how he could do this himself on the account settings.

On 24 June 2019, Mr W contacted Monzo again by chat and asked to cancel the overdraft reduction plan (due to commence on 26 June) as he had miscalculated and only had £40 to last him the week. The plan was cancelled so never came into effect to reduce Mr W's overdraft.

On 25 July 2019, Mr W contacted Monzo and asked to speak to the vulnerable customers team as he didn't think he had been dealt with fairly when he used the chat function to query a transaction. It was noted on an internal note in the chat that there was a customer note on the account and Mr W referred to there being a vulnerable customer flag on his account.

On 26 July 2019, an internal note was placed on Monzo's system stating "If this user comes back regarding a VC issue, please: check we can help with this using this guidance, reply to the user and tell them you're just asking for a bit of help from a specialist, tell them we'll be back in touch very soon, and then escalate this user to VC."

Monzo approved Mr W's loan application on 28 July 2019, the repayments being £273.90 over 60 months. It is clear that Mr W had alerted Monzo to the fact that he was in financial difficulties the previous month and had by that time contacted the Money Advice Service in order to work out a budget for paying off his overdraft. He had indicated that he had mental health problems and was concerned about overspending when in a depressive episode and he had been noted on Monzo's internal system as a vulnerable customer only two days before the loan was approved.

Mr W had initially agreed an overdraft reduction plan of £80 a month but contacted Monzo only a month before the loan was approved to indicate that he was no longer able to pay off the £80 a month as he had miscalculated. However, despite this the loan – with a monthly repayment of three and a half times that amount – was approved the following month.

In light of the above, it is my view that it would have been appropriate and proportionate for Monzo to have carried out more borrower-focused checks on whether the loan was affordable for Mr W. The information available – which was also available to Monzo at the time it approved the loan – suggests to me that Monzo didn't do enough to ensure Mr W would be able to meet the payments in a sustainable manner without falling into financial difficulty or experiencing significant adverse impact. This is particularly so, given that Mr W had already indicated to Monzo only a month earlier that he was already in financial difficulty and was unable to pay off his overdraft. Had Monzo completed further checks on Mr W's income and financial position, this would have shown that the proposed loan payments would not have been affordable for Mr W.

In summary, I don't think Monzo did enough at the time of granting Mr W the loan to check that it was affordable for him. Based on the information available, I think it was sufficiently clear it wasn't capable of being sustained over the loan term. And so I'm satisfied that Monzo's decision to lend to Mr W was unfair and that he shouldn't have been given the loan."

I also subsequently set out the following in relation to what Monzo should do to put things right:

"I've considered what would be a fair way to address these errors. Mr W has had the benefit of the funds for the loan, so I don't think it would be fair to ask Monzo to write this amount off. However, I don't think Mr W should be held responsible for the costs associated with the loan – the interest, and any charges, applied to it. Had the loan not been granted, as I think should have happened, Mr W wouldn't have had to pay these amounts, so I don't think it is fair that he should pay them now. I also don't think any negative information should be recorded on Mr W's credit file in respect of this loan – as without the error by Monzo, the loan wouldn't have existed.

Mr W has indicated that this issue has affected him since the loan has been taken out and contributed to him being off work for 12 weeks due to stress. And I can understand why having this debt would've been distressing. Given that I don't think Monzo should have lent to Mr W and Monzo were made aware shortly before the loan was given that he was already in financial difficulties, had spoken to a debt advice organisation, was suffering from mental health problems, and was flagged as a vulnerable customer, Monzo should pay a further £150 to Mr W to compensate for the distress he's been caused in addition to the removal of the costs associated with the loan."

Following this provisional decision, Monzo has made some further submissions. Firstly, it says that information provided by Mr W supports the affordability assessment and it has provided a copy of the budget self-assessment Mr W completed with the Money Advice Service and provided during the communication on 10 June 2019. This shows a total monthly income of £1,146 and total spending of £659, leaving a balance of £487, which Monzo says shows a greater affordability capacity and supports its view that the outcome of the affordability assessment was both reasonable and conservative.

I have considered this point and I disagree. Whilst Monzo now says that the information in Mr W's self-assessment provided on 10 June supports its affordability assessment, I note that the income declared here was £1,146. Monzo has provided no further information as to what checks it did to verify that Mr W's income was £1,500 a month in July 2019, which is what the loan was based on. During this call Mr W also made Monzo aware that he had debts with another bank, yet this is not reflected in the self-assessment. The figures provided by the customer on 10 June were provided as Mr W was having trouble paying off his overdraft and was asking for help and – as a result of this call – an overdraft reduction plan was arranged for Mr W to pay off £80 a month. But – as I said in my provisional decision – two weeks later Mr W contacted Monzo asking to cancel the overdraft reduction plan as he had miscalculated his figures and only had £40 left to last him the week. And despite this, the loan – with a monthly repayment of three and a half times that amount – was approved the following month. Therefore the self-assessment budget provided for a debt charity by Mr W six weeks prior to the loan (and which he subsequently said he had miscalculated) does not affect my view that more borrower-focussed checks should have been carried out by Monzo before lending the £15,000.

Monzo has also said that it strongly believes that putting the customer in control results in more open dialogue and better customer outcomes. It says that its vulnerable customer team would only set a 'do not lend' flag to restrict lending once either the customer has consented to this or there are significant and serious concerns about the customer. In this case, Monzo believes that Mr W declared a short-term difficulty and it stands by the decision to not apply a flag to this particular customer.

Whether or not there was 'do not lend' flag applied to the account does not affect the regulatory obligations on Monzo to ensure that lending was affordable for Mr W. It may well have been that other products would have been affordable to Mr W but my provisional decision sets out why – in respect of the circumstances of *this* loan – it would have been appropriate and proportionate for Monzo to have carried out more borrower-focused checks on whether the loan was affordable for Mr W. Had it done so, this would have shown that the proposed loan payments would not have been affordable for Mr W.

Monzo also says that the vast majority of its customers do not have their entire income paid into their Monzo account. Monzo says its credit reference agency's affordability search verifies income based on the inbound transactions across all bank accounts held by the customer and it believes that restricting lending based on just having their income paid into the Monzo account would result in bad customer outcomes. It says it understands the customer had more than one bank account at the time he applied for the loan. It says – and I've seen evidence to confirm – that the £21,000 income was declared by the customer during the loan process and that the affordability assessment showed that this income was given a rating of 8 from 1-9.

But the issue here is about verification. Although Monzo has referred to Mr W's other accounts, it appears that all of Mr W's income was paid into the Monzo account by the time

he applied for the loan – his benefits of £1,100 as declared in the self-assessment in June 2019 and his salary from August 2019 of approximately £1,000. I considered the affordability assessment based on this information in my provisional decision and as set out there and above, it's still unclear what checks Monzo did to verify that Mr W's income was £1,500 a month.

I have considered what Monzo has said but this doesn't change my mind about the outcome of this case. It remains my view that Monzo didn't do enough at the time of granting Mr W the loan to check that it was affordable for him. Based on the information available, I think it was sufficiently clear it wasn't capable of being sustained over the loan term. And so I'm satisfied that Monzo's decision to lend to Mr W was unfair and that he shouldn't have been given the loan.

Putting things right

In light of the above and my provisional decision, I require Monzo to:

- Remove all interest, fees and charges applied to the loan;
- Arrange a repayment plan with Mr W to repay the amount he initially borrowed (£15,000) less any payments he has already made towards the loan;
- Remove any adverse information from Mr W's credit file in relation to the loan;
- Pay Mr W an additional £150 in respect of distress and inconvenience caused.

My final decision

For the reasons set out in my provisional decision and above, I uphold this complaint and require Monzo Bank Ltd to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 9 July 2021.

Rachel Ellis
Ombudsman