

Complaint

Miss N has complained about an overdraft Monzo Bank Ltd (“Monzo”) provided to her. She says the overdraft was unaffordable as her income was made up solely from benefits.

Background

One of our investigators reviewed what Miss N and Monzo had told us. And she thought Monzo hadn’t done anything wrong or treated Miss N unfairly. So she didn’t recommend that Miss N’s complaint be upheld. Miss N disagreed and asked for an ombudsman to look at her complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss N’s complaint.

Monzo needed to make sure it didn’t lend irresponsibly. In practice, what this means is Monzo needed to carry out proportionate checks to be able to understand whether Miss N could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

I think it’s important for me to start by saying that while Miss N initially said that she did not ask for an overdraft of £1,000.00, I can see that not only did she apply for an overdraft of this amount she also asked for it to be increased. But Monzo declined to increase Miss N’s overdraft limit above £1,000.00.

Monzo says it agreed to the applications it did after it carried out a credit search. It’s unclear whether Monzo asked Miss N anything else about her financial circumstances at the time. But it says there was nothing in the information it obtained from the credit reference agency which warranted further checks or suggested that what was being advanced was unaffordable.

On the other hand, Miss N has said that she wasn’t working and as her income was made up solely from benefits she shouldn’t have been lent to.

I've thought about what Miss N has said. But I'm not aware of any prohibition on lending to consumers on benefits. Indeed, any blanket policy failing to take into account the particular circumstances of a prospective borrower and instead automatically declining an application on the basis of their income being made up of benefits could be arbitrary and discriminatory. And such a policy is unlikely to be fair and reasonable.

As a lender is able to lend to a customer on benefits it follows that it is allowed to charge for this providing it's affordable. So I'm satisfied that Miss N's income being made up of benefits in itself doesn't mean that it was unfair to lend to her. Miss N also suggested that she had County Court Judgements ("CCJ"). But Monzo has provided a copy of the information it received from the credit reference agency about Miss N. And I can't see any record of a CCJ on here.

Finally, while I appreciate that Miss N has gone through a difficult period, I don't think that the fact her income was made up of benefits meant that Monzo ought to have been aware of this. I've therefore assessed whether there was anything else in the information obtained which suggested the overdraft provided was unaffordable.

I think that it would be useful for me to start by explaining that Miss N wasn't required to repay the entire £1,000.00 in one go. Miss N's overdraft was a revolving credit facility and this meant that what Monzo had to assess was whether Miss N could repay the maximum amount she could borrow, plus any interest, within a reasonable period of time. Given what I've been told about Miss N's income and expenditure, I do think that there was a reasonable prospect of her repaying what she owed within a reasonable period of time.

I know that Miss N's position did worsen. But while I'm not seeking to make retrospective value judgements over Miss N's expenditure, nonetheless her indebtedness grew because significant amounts of were transferred from this account to a different one with another bank. I don't think that Monzo could reasonably have expected Miss N to do this. And it wouldn't be fair and reasonable for me to use hindsight here, or say that Monzo should have anticipated this would happen.

I've also seen that when Miss N did get in contact to explain that she was struggling, Monzo refunded some of the charges it added. It also took corrective action and removed the overdraft from Miss N's account reasonably quickly, crucially without allowing the balance to spiral of control before doing so. As this is the case, I'm satisfied that Monzo did exercise forbearance and due consideration when Miss N explained she was having difficulty repaying what she owed.

So overall while it's unclear whether Monzo's checks, did go far enough, bearing in mind what I do know about Miss N's circumstances in the period leading up to the application, I don't think that proportionate checks would have stopped Monzo from lending to Miss N. As this is the case, I'm not upholding Miss N's complaint. I appreciate this will be very disappointing for Miss N. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding this complaint, I'd like remind Monzo of its obligation to exercise forbearance and due consideration should it intend to collect the outstanding balance remaining on the account given it is now aware of Miss N's medical condition and she say she's experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm not upholding Miss N's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss N to accept or reject my decision before 8 February 2022.

Jeshen Narayanan
Ombudsman