

The complaint

Mr H complains that Monzo Bank Ltd lent irresponsibly when it approved his overdraft application.

What happened

In March 2019 Mr H applied for an overdraft with Monzo. Mr H gave a monthly income of £1,229 and Monzo used assumed outgoings of £890 a month in its affordability assessment. Monzo says it also carried out a credit search that didn't find any adverse information, like County Court Judgements (CCJs) or defaults. A £500 overdraft limit was approved.

Mr H used the account for a little over a week. At that stage, the balance exceeded the £500 overdraft limit. No credits were made and Monzo ultimately closed the account and recorded a default on Mr M's credit file.

Last year, Mr H complained that Monzo had lent irresponsibly. Mr H provided evidence to show he had several CCJs and other adverse credit at the time of his application. Monzo didn't uphold Mr H's complaint and said its credit searches hadn't identified any adverse credit in his name and that the overdraft was correctly approved. Monzo paid Mr H £75 for service issues when responding to his complaint.

Mr H referred his complaint to this service and it was passed to an investigator. They thought Monzo had dealt with Mr H's complaint fairly and didn't ask it to do anything else. Mr H asked to appeal, so his complaint has been passed to me to make a 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.

Mr M says Monzo should've known he was unable to support further borrowing due to the CCJs and other adverse credit already recorded on his credit file at the time of his application. I've reviewed everything Mr H has sent us and I can see he did have CCJs and adverse credit at the time of his application. I need to decide whether that information was known to Monzo and whether its decision to approve his overdraft was reasonable.

Before a business agrees to lend, it should take reasonable steps to ensure it does so in a responsible way. There's no set list of checks a lender has to complete. In practice, this means businesses should ensure proportionate checks are carried out to make sure the customer can afford to repay the borrowing in a sustainable way. These checks should take into account various factors, like the amount being lent, the costs to the borrower each month, credit history and the consumer's income and outgoings. As the relationship between lender and borrower progresses, the business may need to consider carrying out more comprehensive checks to ensure the borrower can afford repayments in a sustainable way.

In Mr H's case, the overdraft application was for £500 which is a reasonably modest sum. Monzo collected personal information from Mr H, including his address and income, and

applied estimated living costs to verify whether the overdraft was sustainable for him. In addition, Monzo completed a credit search as part of the application process. I'm satisfied those checks were proportionate when considering the type and amount of credit Mr H applied for.

In my view, the key issue is that Monzo's credit search didn't pick up Mr H's CCJs and adverse credit. So Monzo wasn't aware of them when it assessed and approved the overdraft application. I've seen the other credit searches Mr H has provided along with the screen prints of the CCJs. I note that the CCJs were recorded at different addresses to the one Mr H was living at when he completed his application. It's possible the credit search completed didn't pick up Mr H's previous address which could be why the CCJs and other adverse credit wasn't found by Monzo. Whilst I don't doubt Mr H did have the adverse credit he's told us about, I'm satisfied Monzo's credit search didn't find that information.

As I'm satisfied Monzo was unaware of the CCJs and adverse credit, I'm unable to agree it acted unfairly by approving Mr H's overdraft application. In my view, Monzo completed proportionate checks and, based on what it knew, its decision to approve Mr H's overdraft was reasonable. I haven't been persuaded that Monzo lent irresponsibly.

Monzo paid Mr H £75 for service issues following his complaint. I'm satisfied that's a fair way to resolve Mr H's complaint. As I'm satisfied Monzo dealt with Mr H's complaint fairly I'm not telling it to take any further action.

My final decision

My decision is that I don't uphold Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 22 April 2022.

Marco Manente
Ombudsman