

## **Complaint**

Miss H says that Monzo Bank Ltd (“Monzo”) unfairly recorded a default on her credit file as a result of the overdraft she had on her current account.

## **Background**

Miss H applied for a current account with Monzo in January 2018. At this stage she was given an overdraft with a limit of £750. In June 2021, Monzo sent Miss H a final demand, which is the equivalent of a default notice on an overdraft and provided Miss H with 30 days to repay her outstanding balance in full.

As Miss H’s overdraft wasn’t repaid during this period, Monzo closed Miss H’s account and recorded a default with credit reference agencies. Miss H was unhappy with this and complained. Monzo didn’t uphold Miss H’s complaint and as Miss H remained dissatisfied she referred her complaint to our service.

One of our investigators looked into Miss H’s concerns. She thought that Monzo ought to have realised that Miss H’s overdraft had become unsustainable for her and therefore taken the action it took in June 2021, in April 2019 – in other words our investigator thought that Monzo ought to have taken corrective steps in relation to Miss H’s overdraft in April 2019.

Both Monzo and Miss H disagreed with our investigator and so the complaint was passed to an ombudsman for a final decision.

## **My findings**

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

Having carefully considered everything provided, I’ve decided to partially uphold Miss H’s complaint. I’ll explain why I’ve done so in a little more detail.

I’ve started by considering Monzo’s initial decision to provide Miss H with an overdraft.

### *Monzo’s initial decision to provide the overdraft to Miss H*

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 H’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 H 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.

Monzo provided Miss H with an overdraft that had a limit of £750. It says it agreed to Miss H's application after it asked her about her income and carried out a credit search. It's unclear whether Monzo asked Miss H 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.

I've carefully thought about what's been provided. At this stage, I think it would be helpful for me to explain that Miss H was provided with a facility which needed to be repaid within a reasonable period of time, as long as it was utilised appropriately, rather than all in one go. And given the credit search information Monzo has provided, shows that Miss H little in the way of existing credit commitments and no previous difficulties repaying, I'm satisfied that what Monzo learned about Miss H, was enough for it to reasonably conclude that she could afford to repay £750 within a reasonable period of time.

As this is the case, I'm satisfied that Monzo didn't act unfairly or unreasonably when initially deciding to provide Miss H with an overdraft, with a limit of £750, in January 2018.

That said, while Monzo might not have acted unfairly when it initially decided to provide Miss H with an overdraft, I've also gone on to look at whether Monzo acted fairly and reasonably in allowing Miss H to continue using it until June 2021.

*Monzo's monitoring of Miss H's overdraft facility – did Monzo act fairly and reasonably?*

Monzo will be familiar with all the rules, regulations and industry codes of practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges to an account. So I don't consider it necessary to set all of this out in this decision.

Having carefully considered everything provided, I think Monzo acted unfairly when it continued charging overdraft interest and associated fees from April 2019. By this point, it was evident Miss H's overdraft had become demonstrably unsustainable for her. A look at her statements leading up to this period shows that Miss H barely saw a credit balance in the year since she'd starting her overdraft. There was also little in the way of income going into Miss H's account and she'd even exceeded her agreed overdraft limit.

In reaching my conclusions, I've seen what Monzo has said about it sending Miss H messages when she exceeded her limit, asking whether she was having any difficulty and that she didn't get in contact until June 2021. I don't know if that's the case, as I know Miss H says she got in contact much sooner than this. But in any event, irrespective of whatever contact Monzo may or may not have received from Miss H, by April 2019, it ought to have been apparent to Monzo that the overdraft had already become demonstrably unsustainable for Miss H. And it ought to have taken steps to impose a corrective solution at this point.

So I think that by April 2019 Monzo should have stopped providing the overdraft on the same terms and treated Miss H with forbearance rather than adding even more interest, fees and charges to the balance. As Monzo didn't react to Miss H's overdraft usage, and instead simply continued charging in the same way, I think it failed to act fairly and reasonably towards her.

### *Monzo's decision to take corrective action and default Miss H's account in July 2021*

Miss H is unhappy that Monzo decided to begin the process of taking corrective action in relation to her overdraft in June 2021.

I've thought about what Miss H has said. However, I've already explained that Monzo ought to have realised Miss H's had become demonstrably unsustainable for her by April 2019 at the very latest. And that I don't think it was fair, reasonable or proportionate for Monzo to have continued ignoring this indefinitely.

So while Miss H says that she tried engaging with Monzo before it decided to begin the process of taking corrective action, in June 2021, I'm, in any event, satisfied that Monzo ought to have already begun the process of taking such action more than two years earlier - in April 2019. After all while withdrawing a facility and recording a default or other adverse information, might be viewed negatively by other lenders, it does offer the borrower certain protections in relation to the overdraft debt – for example it stops interest and further charges being added.

I know that Miss H has said it was unfair for Monzo to default her account in July 2021 as it didn't give her enough time to repay the debt or help her. But I've already explained why Monzo needed to do more in April 2019 and that's why I've upheld that part of Miss H's complaint.

If I were to do what Miss H has asked here and direct Monzo to remove the default irrespective of whether an outstanding balance remains on Miss H's account after all adjustments have been made, this would require Monzo to instead record that Miss H's account was up to date and any debt was paid on time, in circumstances where this simply didn't happen. And it wouldn't mirror what I'm directing Monzo to do in terms of refunding the interest, fees and charges added to Miss H's overdraft balance from April 2019 onwards. I think that making such a direction here would arguably be counterproductive and not in Miss H's interests or that of any future lender. Therefore, it simply wouldn't be fair and reasonable in all the circumstances.

Bearing in mind all of this, and while I've thought about everything Miss H has said, I'm satisfied that Monzo should backdate the default it recorded to April 2019 – to match when it ought to have taken corrective action on Miss H's account, should an outstanding balance remain on Miss H's account after all adjustments have been made.

All of this means that I'm partially upholding Miss H's complaint. And Monzo should put things right for Miss H in the way that I've set out below.

### **Fair compensation – what Monzo needs to do put things right for Miss H**

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Miss H's complaint for Monzo to put things right by:

- Reworking Miss H's current overdraft balance so that all interest, fees and charges applied to it from April 2019 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Monzo should contact Miss H to arrange a suitable repayment plan, Miss H is encouraged to get in contact with and cooperate with Monzo to reach a

suitable agreement for this. If it considers it appropriate to record negative information on Miss H's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in April 2019.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss H along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Monzo should remove any and all adverse information recorded on Miss H's credit file as a result of this overdraft.

† HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Miss H a certificate showing how much tax it has taken off if she asks for one.

### **My final decision**

For the reasons I've explained, I'm upholding Miss H's complaint. Monzo Bank Ltd should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 15 August 2022.

Jeshen Narayanan  
**Ombudsman**