

The complaint

Miss D has complained that Monzo Bank Ltd (“Monzo”) acted irresponsibly by increasing her overdraft limit even though she couldn’t afford it and that the fees it applied made her financial situation worse.

What happened

Miss D applied and was approved for an overdraft on 2 January 2020. This overdraft limit was increased on multiple occasions until it reached its highest limit of £1,200 on 16 March 2020.

Miss D complained to Monzo that it lent irresponsibly and that the fees applied to her account caused financial difficulty. Monzo didn’t uphold the complaint. It says Miss D was assessed for credit risk and affordability and passed these checks. Miss D was dis-satisfied with this and referred her complaint to our service.

Miss D’s complaint was considered by one of our adjudicators. They thought that Monzo ought to have realised that Miss D was experiencing financial difficulty by March 2020 and so shouldn’t have added any more interest, fees and charges from this point onwards.

Monzo disagreed, it says it offered support by providing an interest free buffer on the first £500 of her overdraft for three months from May 2020 as well as freezing fees for periods of time. Monzo says it tried to put in place an affordable repayment plan but Miss D failed to respond and as such no action could be taken.

So Miss D’s complaint was passed to an ombudsman for 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.

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

Having carefully considered everything provided, I’m intending to find that Monzo acted unfairly when it continued charging overdraft interest and associated fees after it increased Miss D’s overdraft limit to £1,200 on 16 March 2020. By this point, it ought to have been clear that Miss D was in no position to sustainably repay what she owed within a reasonable period of time.

By this point, Miss D hadn’t seen or maintained a credit balance since her overdraft was granted. Monzo’s own literature suggests that overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure. Yet her overdraft application shows that she only had affordability capacity of £121.40 – meaning it would take her around 10 months to pay her overdraft back.

Miss D was already clearly struggling to manage her existing overdraft limit with Monzo when it once again agreed to increase her limit to £1,200. A cursory look at her statements show she wasn't able to bring down the overdraft from the limit she already had. The statements show that even after Miss D's salary and benefits were paid that once she had paid her bills, she would fall back into overdraft within days. I accept that Monzo offered help in the form of temporary interest freezes and tried to put in place an affordable repayment plan. But this help came too late – months after her bank statements were showing signs of financial difficulty.

So I think that Miss D's overdraft usage should have prompted Monzo to have realised that Miss D wasn't using her overdraft as intended and shouldn't have continued offering it on the same terms. As Monzo didn't react to Miss D's overdraft usage and instead increased her limit and continued charging in the same way, I think it failed to act fairly and reasonably.

Miss D ended up paying additional interest, fees and charges on her overdraft and this ended up exacerbating difficulties she already had in trying to clear it. So I think that Monzo didn't treat Miss D fairly and she lost out because of what Monzo did wrong. And this means that it should put things right.

Putting things right

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

- Monzo should re-work Miss D's current overdraft balance so all interest, fees and charges applied to it from 16 March 2020 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Monzo should contact Miss D to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Miss D's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft on 16 March 2020.

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 D 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 adverse information from Miss D's credit file.
- If Monzo has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

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

My final decision

For the reasons I've explained, I'm upholding Miss D'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 D to accept or reject my decision before 6 December 2022.

Caroline Davies
Ombudsman