

The complaint

Miss M says that Monzo Bank Ltd (“Monzo”) acted irresponsibly by providing her with an overdraft that she couldn’t afford, then acted unfairly by continuing to apply charges to her account when she was in financial difficulty.

What happened

Miss M held an account with Monzo with an overdraft limit of £700. This was increased to £1,000 on 9 July 2019. Miss M’s account was closed and defaulted in June 2022 after being in unarranged overdraft for 120 days.

Miss M complained to Monzo that it provided her with an overdraft irresponsibly. Monzo didn’t uphold her complaint – it says Miss M was assessed for credit risk and affordability and passed these tests. Monzo said it offered support on numerous occasions by text alerting her to the status of her account and webchat, but that Miss M didn’t respond.

Miss M was dis-satisfied with this and referred her complaint to this service.

Miss M’s complaint was considered by one of our adjudicators. They thought having reviewed Miss M’s statements that Monzo should refund all fees and charges applied to Miss M’s account from 9 January 2020 because had Monzo manually reviewed Miss M’s overdraft usage it would have been clear Miss M wasn’t in a position to sustainably repay what she owed within a reasonable period of time.

Monzo didn’t replay, so Miss M’s complaint was progressed for an ombudsman’s 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 in agreement with our adjudicator and I think Monzo acted unfairly when it continued charging overdraft interest and associated fees on Miss M’s account from 9 January 2020.

By this point Monzo had already sent Miss M alerts about being over her overdraft limit and in unarranged overdraft and ought to have realised that Miss M’s use of her overdraft was unsustainable and that Miss M was in no position to repay what she owed within a reasonable period of time.

Miss M’s statements show that she had no regular income coming into the account to service the overdraft and that she was at the top of her limit and hadn’t seen a credit balance since her overdraft limit had been increased to £1,000 in July 2019. In these circumstances,

Monzo ought to have realised that Miss M was at a significant risk of being unable to repay what she already owed.

Monzo say it contacted Miss M on numerous occasions about her overdraft usage and that she never responded. But Monzo has provided me with a record of its contact with Miss M for the period in question and it shows that although she received text alerts about the status of her account there was no other contact.

Monzo was aware Miss M had entered unarranged overdraft and if it had reviewed her statements it would've seen she was at the top of her limit and was unable to bring her overdraft down and wasn't using the overdraft as intended but it still took no proactive action until June 2022. Monzo should have stopped providing the overdraft on the same terms and treated Miss M with forbearance rather than charge even more interest, fees and charges on the overdraft.

Miss M 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 M 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 M's complaint for Monzo to put things right by:

- Reworking Miss M's current overdraft balance so that all interest, fees and charges applied to it from 9 January 2020 are removed.

AND

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

† HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Miss M 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 uphold Miss M's complaint against Monzo Bank Plc and direct it put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 21 September 2023.

Caroline Davies
Ombudsman