DRN-4288911

The complaint

Miss S has complained that Monzo Bank Ltd ("Monzo") acted irresponsibly by providing her with an overdraft and increasing her limit to something she couldn't afford. She says the fees and charges applied to her account made her financial position worse.

What happened

Miss S held an account with Monzo and was approved for an overdraft with a limit of £550. This was steadily increased from December 2021 until it reached its highest limit of £2,000 in July 2022.

Miss S complained to Monzo that it acted irresponsibly by approving an overdraft facility for her. Monzo didn't uphold the complaint. And as Miss S was dis-satisfied she referred the complaint to our service.

One of our adjudicators looked into Miss S's complaint and thought that the initial overdraft lending was reasonable based on the information Monzo had, but they felt that Monzo ought to have known Miss S was in financial difficulty by July 2022 as Miss S hadn't been able to see or maintain a credit balance on her account and her overdraft limit was now more than her monthly income. They thought Monzo had acted unfairly when it continued to charge overdraft fees from July 2022.

Monzo disagreed. It says that Miss S's affordability calculation shows that she had a balance of £281 a month she could put towards her overdraft and that the repayment of the overdraft would be more than possible within a year. So the complaint was progressed for an ombudsman's decision.

I issued my provisional decision on 13 July 2023. In my provisional decision, I explained why I was proposing to uphold Miss S's complaint. I invited both parties to let me have any further submissions before I reached a final decision and neither Monzo or Miss S have added any new information.

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.

In my provisional decision I said that:

"Monzo needed to make sure that it didn't lend irresponsibly. In practice, what this means is it needed to carry out proportionate checks to be able to understand whether Miss S would be able to repay what she was being lent before providing any credit to her. Our website sets out what we typically think about when deciding whether a lender's checks were proportionate.

Miss S's overdraft is what we refer to as an open-ended credit facility. This means the checks Monzo carried out had to provide enough for it to be able to understand whether Miss S would be able to repay her overdraft within a reasonable period of time.

Miss S applied and was approved for an overdraft with an initial limit of £550 in 2021 increasing to £2,000 in July 2022. It is not clear from the information provided when Miss S was first approved for her overdraft, but Monzo says when assessing overdraft applications it checks for both credit risk and affordability. This includes carrying out credit checks with external agencies as well as taking into account information Miss S provided about her income and expenditure and how she had managed her account with it. And based on this information Monzo was satisfied the overdraft facility she requested was affordable for her.

I accept that Miss S's financial position may well have been worse than the credit checks carried out showed or in any information she disclosed to Monzo at the time. And it is possible that further checks might have told Monzo this. But Monzo was reasonably entitled to rely on the credit check it carried out.

And having viewed Miss S's statements leading up to the initial granting of the overdraft of £550 I can see that Miss S was managing her account with Monzo and given the relatively modest overdraft limit requested I think Monzo's checks went far enough and I don't think Monzo acted unfairly in agreeing the overdraft facility for Miss S.

But I think it was evident that by April 2022 Miss S was in financial difficulty and was struggling to pay off her overdraft. Miss S's statements showed that she hadn't seen or maintained a credit balance for an extended period of time and overall her overdraft was just increasing rather than reducing. And by June/July 2022 Miss S had gone over her limit. Indeed, Monzo's internal notes record that Miss S's average account balance started dropping significantly at the start of 2022.

Overdrafts are for unforeseen emergency borrowing not prolonged day-to-day expenditure. Miss S's statements show she was clearly struggling to manage her overdraft limit with Monzo, there was little money coming in and when it did come in it went straight out again to service other accounts or pay for bills and day to day living.

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.

And having carefully considered everything provided, think that Monzo acted unfairly when it continued charging overdraft interest and associated fees from 1 April 2022. By this point, it ought to have been clear that Miss S was in no position to sustainably repay what she owed within a reasonable period of time. Despite Miss S's statements showing her struggling to pay off her overdraft or reduce it, Monzo continued to increase her limit and charge for it making her financial situation worse.

So I think that Miss S's overdraft usage should have prompted Monzo to have realised that Miss S 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 S's overdraft usage early enough I think it failed to act fairly and reasonably.

Miss S 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 currently think that Monzo didn't treat Miss S fairly and she lost out because of what Monzo did wrong."

As neither party has provided any further evidence or arguments for consideration, I see no

reason to depart from the conclusions set out in my provisional decision. It follows that I uphold this complaint.

Putting things right

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

- Reworking Miss S's overdraft balance so that all interest, fees and charges applied to it from April 2022 are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Monzo should contact Miss S to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Miss S'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 2022.

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 S 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 S's credit file.

† HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Miss S 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 S's complaint against Monzo Bank Ltd and direct it pay the fair compensation as outlined above..

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 5 September 2023.

Caroline Davies
Ombudsman