

The complaint

Mr Q has complained that Monzo Bank Ltd provided him with an overdraft without doing the right affordability checks. He says the overdraft was unaffordable and has asked for all interest and charges incurred on the overdraft to be refunded.

What happened

Mr Q took out an overdraft of £500 with Monzo in May 2019. This increased to £750 in November 2019, and finally to £2,000 in July 2022. Mr Q complained to Monzo in April 2023 that the additional lending extended to him in 2022 was unaffordable.

Monzo didn't initially respond to Mr Q with its answer to his complaint and so he referred the complaint to this service. We requested Monzo's file on the complaint but when we received no response, one of our investigators issued a view upholding the complaint.

After this Monzo issued a final response to Mr Q but made no further contact with us until the complaint was referred for decision. Shortly after this Monzo provided us with a file and didn't accept the investigators first view.

The investigator reviewed the information Monzo had shared with us and issued a second view. She upheld the complaint on the basis that when Monzo increased the overdraft limit in 2022, the account was already persistently in debt.

Monzo didn't accept the investigators second view either and pointed out that when completing their checks, the overdraft was affordable, and much of the spending on the account was non-essential. Monzo also said that although the account was overdrawn prior to the increase there were regular transfers in, and the account was never over the limit available and not often at the limit. It said that it wasn't possible to get a full picture of Mr Q's circumstances as the account appeared to operate as a spending account with only transfers from another account being paid into it.

Our investigator let Monzo know the further comments it made didn't change her view. As Monzo didn't accept the investigators opinion it asked an ombudsman to review the case.

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.

Having done so, I've reached a slightly different conclusion to the investigator. I issued a provisional decision saying:

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so I'm minded to reach a slightly different conclusion to the investigator in this case. I'll explain why.

Irresponsible lending

I appreciate what Monzo has said about Mr Q's spending on the account, but overdrafts are an expensive form of borrowing and are designed for short term emergency spending. It's clear from the account usage that this isn't how the account was being used and that Mr Q was struggling to sustainably repay the debt. Whilst on the face of the affordability check Monzo undertook in July 2022, it may have appeared affordable, given the account conduct I think Monzo needed to ask Mr Q more about his circumstances before deciding to lend.

Monzo has said it was hard to get a full picture of Mr Q's finances because of how he used the account and transfers in from another account elsewhere. I agree with that. As the limit increase requested was significant and bearing in mind the performance of his account with it, I think Monzo ought to have asked further questions to ensure the new limit would be repayable on a sustainable basis. There's no set list of checks it ought to have done, but I think Monzo needed to do more to get a better picture of Mr Q's financial situation before agreeing to increase the limit.

I've seen statements for Mr Q's other account and credit card from around the time of the increase in 2022. There isn't a substantial balance in the other current account, and this too becomes overdrawn. Mr Q also utilises almost all of his available balance on his credit card and makes minimum payments. He also increased his credit card limit around the same time and used this almost immediately.

Had Monzo completed more thorough checks I think it would have understood Mr Q wasn't showing he could sustainably repay the debt he had with it and other providers, and it shouldn't have agreed any further lending. So, I don't think it reached a fair decision to increase his limit in 2022.

Persistent debt

The rules lenders must follow are set out by the industry regulator, the Financial Conduct Authority, in its Consumer Credit Sourcebook (CONC). CONC 5D.2 and 5D.3 set out what a business must do to intervene where a customer is repeatedly using their overdraft.

CONC 5D.2 sets out a business's obligation to identify and monitor repeat use of overdrafts and its obligation to identify customers in actual or potential financial difficulty. Some examples of things that might indicate financial difficulties are given here. For instance, use of other products which may indicate a fall in disposable income, an upward trend in a customer's use of the overdraft over time or where a customer has become or remained overdrawn in every month over a 12-month period.

CONC 5D.3 sets out what interventions the business should take in cases of repeat overdraft users.

Where there are signs that a customer is (or might potentially be) suffering financial difficulties, CONC 5D.3 sets out that the business must:

- Communicate with the customer highlighting the pattern of use and whether this is resulting in high avoidable costs AND encourage the customer to contact them about their situation AND provide contact details of debt advice charities.*

- *If after a reasonable period of time the pattern continues and the customer hasn't made contact, the business must take reasonable steps to contact the customer to set out suitable options designed to help the customer.*
- *If the customer still doesn't engage with the business the business must after a reasonable period, consider whether to continue offering the overdraft facility and whether to reduce it, so long as this doesn't cause the customer financial hardship.*

Given this, I've considered whether Monzo has acted fairly and in line with its obligations under CONC.

Looking at the account statements I can see that Mr Q consistently used his overdraft between July 2021, and October 2023. For much of this period, he was only ever in credit for a few days at a time.

I can see that the overdraft was cleared on occasion, but except for a very few days in some months, the account remained overdrawn between July 2021 and July 2022. After this point Mr Q remains consistently overdrawn with the account not going into credit again.

I think it's clear from July 2021 Mr Q starts to become reliant on the overdraft. His usage increases and the number of days the account is in credit decrease significantly. So, I think from the information available to it Monzo should have identified that Mr Q was in (or potentially in) financial difficulty when he applied for further lending in July 2022.

Taking into consideration Monzo's obligations under CONC, I'm not satisfied it did enough to support Mr Q. I've seen no evidence that Monzo took any steps to contact Mr Q with suitable options to help him reduce his reliance on the overdraft, until he made a complaint. So, it follows I don't think Monzo has acted fairly in offering the appropriate support to Mr Q.

Given this, I don't think Monzo's decision not to refund interest and charges is fair. I say this because I think Mr Q was showing signs of potential financial difficulty. So, Monzo should have done more to help him explore different options to reduce the debt, rather than increasing the amount he was able to borrow.

Monzo didn't follow the guidance as set out in CONC, and I don't think it did enough to help him when Mr Q's account was showing signs of financial difficulties. So, I don't think Monzo's decision not to refund charges is fair and reasonable.

My provisional decision

For the reasons set out, I think it's fair and reasonable for Monzo to refund interest and charges incurred by Mr Q as a result of the credit unfairly extended to him, therefore Monzo should rework the account and:

- *Taking account of any refunds already made, rework the account so any charges and interest applied to it on sums above £750 are refunded. This refund should be used to reduce any outstanding balance on the account.*

- *If the refund clears the adjusted balance any funds remaining should be refunded to Mr Q along with 8% simple interest per year* - calculated from the date of overpayment to the date of settlement.*
- *If after all adjustments have been made Mr Q no longer owes any money, then all adverse information regarding this account should be removed from his credit file from July 2022.*
- *Or, if an outstanding balance remains, Monzo should look to arrange an affordable payment plan with Mr Q for the outstanding amount. Mr Q should note any payment arrangement will affect his credit file until the debt is repaid. Once Mr Q has cleared the balance, any adverse information because of the unfair lending should be removed from the credit file.*

**HM Revenue & Customs requires Monzo to deduct tax from any award of interest. It must give Mr Q a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.*

Monzo didn't respond and Mr Q let us know he accepted my provisional decision.

So, in the absence of any further evidence or arguments, I see no reason to depart from my provisional decision. Monzo should settle the complaint in line with my provisional decision.

My final decision

My final decision is that I uphold this complaint and require Monzo Bank Ltd to settle the case as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Q to accept or reject my decision before 6 May 2024.

Charlotte Roberts
Ombudsman