

## **The complaint**

Mr I says Monzo Bank Ltd ("Monzo") didn't carry out appropriate checks when lending to him.

## **What happened**

Mr I made an application for a personal loan in November 2022. Monzo approved the application and agreed to lend Mr I £25,000 over 60 months. The monthly repayments owed under the agreement were £562.32.

In April 2023, Mr I complained to Monzo. He said Monzo had unlawfully granted him a loan and he wanted it nullified. He said his application took around 10 minutes to complete and he was given access to a life changing amount of money. He said this was irresponsible and reckless. He said around a month before receiving the loan, his sister passed away. Mr I said he was in a poor emotional state and fell into Monzo's trap or predatory in-app advertisements. He said Monzo coerced him into accepting the amount of £25,000. He said he didn't understand the repercussions of taking out the loan.

Monzo issued its response to Mr I's complaint but said it had lent to Mr I in a responsible manner. It confirmed it obtained information from a credit reference agency and provided Mr I with affordability data it obtained from the credit file. It also said it asked questions around Mr I's financial circumstances to enable it to provide Mr I with support with his borrowing. It also said it had eight weeks to consider a complaint and it considered Mr I's complaint within this timeframe.

Unhappy with this, Mr I referred his complaint to this service. He reiterated his complaint and said he wanted the entire amount written off.

Our investigator looked into the complaint and didn't think Monzo carried out proportionate checks when lending to Mr I. He said Monzo should have obtained further information such as obtaining a thorough knowledge of Mr I's financial circumstances and verification of this. He said if Monzo had verified the information it obtained, it would have found Mr I's income was significantly less and his disposable income didn't cover the repayments owed under the loan. So our investigator recommended that Mr I should only have to repay the capital amount borrowed and any interest and charges should be removed from the loan. He said Monzo should arrange an affordable repayment plan and once Mr I had repaid the capital, any adverse information should be removed from his credit file.

Monzo agreed but queried how our investigator wanted it to put things right. Following its queries, Monzo repaid the £2,600 Mr I had already paid towards the loan directly to him and said Mr I needed to repay the remaining amount of £25,000.

Mr I disagreed. He said whilst it was a step in the right direction, he said he shouldn't have to pay the £25,000 back to Monzo. He said Monzo went against Financial Conduct Authority ("FCA") rules in granting him the loan and he was unable to repay the loan. He said if he was to accept our investigator's assessment, then this would be an admission of his own wrongdoing.

Our investigator told Mr I that this service wasn't the regulator and so we can't punish businesses. He said the recommendation he had made would put him back in the most

reasonable position he would have been in, had he not been granted the loan. He said it would be unfair to ask Monzo to write off the capital amount as Mr I had received the funds.

Mr I disagreed and said the only conclusion to this matter would be for Monzo to write off the remaining £25,000.

As Mr I remains in disagreement, the case has been passed to me to decide.

### **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.

Where evidence is incomplete, inconsistent or contradictory, I reach my view on the balance of probabilities – in other words, what I consider most likely to have happened in light of the available evidence and wider circumstances.

I've read and considered the whole file and acknowledge that Mr I has raised a number of different complaint points. I've concentrated on what I think is relevant. If I don't comment on any specific point it's not because I've failed to take it on board and think about it – but because I don't think I need to comment on it in order to reach what I think is the right outcome. The rules of this service allow me to do this.

In this case, both Monzo and Mr I agree that Monzo could have done further checks when deciding to lend to Mr I. And Monzo has agreed with our investigator in that if it did carry out further checks, it would have likely found Mr I's disposable income didn't cover the monthly repayments owed under the loan. So, the outstanding dispute here is about how Monzo should put things right. Mr I says the loan should be written off, but Monzo agrees with our investigator that Mr I should repay Monzo the capital amount only, over an agreed affordable repayment plan.

We've set out our approach to unaffordable/irresponsible lending complaints on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach while deciding Mr I's complaint.

Our general approach is that Mr I should be put back in the position he would have been in had Monzo not approved the loan. However, this isn't always possible. The funds were provided to Mr I and they've been spent. So it's simply not possible to just unwind things by Mr I returning the funds to Monzo and the loan account being closed, as Mr I no longer has them. As this is the case, I have to think about some other way that Monzo should put things right in a fair and reasonable way. Monzo believes that directly paying back Mr I any repayments he has made under this loan, is a fair and reasonable method of doing so and therefore it would be reasonable for Mr I to pay the capital amount of £25,000, as he had use of these funds.

Mr I believes that what Monzo has done so far is merely a step in the right direction. He says that the remaining balance on the loan should also be written off because at the time the loan was approved, he was in a poor emotional state due to the death of his sister and he fell into the trap of predatory in app advertisements. He said he was struggling to make ends meet and this was a quick fix solution. He said he didn't truly understand the repercussions of taking this loan out and he didn't understand the true financial risk.

I'm sorry to hear about Mr I's personal circumstances at the time the loan was taken out. I appreciate this was a difficult time for him. I also accept that Monzo didn't carry out proportionate checks when lending to Mr I. However, having taken all the circumstances into account and what Mr I has told us, I'm satisfied that it is fair and reasonable to expect Mr I to repay the capital amount he was lent.

I say this because Mr I, although he disagrees, has benefitted from taking the loan out. He's had the use of £25,000 which he wouldn't have done had he not applied for the loan and

had it not been (albeit irresponsibly) granted. Mr I made a decision to apply for the loan and whilst he believes he was coerced, I've seen what his app likely showed at the time he applied for his loan and the number of steps he was required to take before it was granted. And having seen this, although I accept Mr I might not agree, I don't consider the literature to be predatory and neither do I consider Mr I was coerced into taking out this loan. Instead, I consider that Monzo simply used general advertising which is typically employed by firms across the industry. It is standard business practice for banks and other financial institutions to offer the opportunity to apply for other financial products – such as loans – which it considers might be useful to its customers.

I also note that when the loan amount was paid to Mr I by Monzo, one of the things he purchased, was cryptocurrency. So it's difficult for me to say that Mr I's loan balance should be written off, after he's been paid some £2,600 and that he should also get to keep what he used the funds for. It seems to be that this would unjustly enrich Mr I and place him in a far more advantageous position than he would be in now had Monzo not lent to him.

Overall having considered all the circumstances of Mr I's complaint, I'm satisfied that it would not be fair and reasonable for me to require Monzo to write off the remaining £25,000 left to pay. Having said this, considering that Mr I has said he is currently in financial difficulties, Monzo are obliged to treat Mr I with forbearance and due consideration.

This is likely to mean that Mr I won't be required to repay the capital amount according to the original loan terms. Instead, Monzo needs to arrange an affordable repayment plan with Mr I taking into account his actual income and his necessary expenditure. This should be reviewed at regular intervals to check the repayments Mr I is required to make are affordable to him.

I also note that Mr I has received a refund of around £2,600 from Monzo, which should have been deducted from the capital amount he owes instead of being paid directly to him. Mr I can make lump sum repayments towards his capital amount outstanding, should he wish to reduce his outstanding liability.

### **My final decision**

My final decision is that I uphold Mr I's complaint and so, Monzo Bank Ltd should do the following, if it hasn't done so already:

- Reduce the amount Mr I owes under the loan to the capital amount of £25,000 with no further interest or charges being applied; and
- Arrange an affordable and suitable repayment plan with Mr I.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I to accept or reject my decision before 30 January 2024.

Sonia Ahmed  
**Ombudsman**