

## **The complaint**

Mr V complains that Monzo Bank Ltd irresponsibly lent to him.

## **What happened**

Mr V says that Monzo should have never approved an account for him with such a large overdraft (£500). He says that when he applied for the account, if they would have checked his credit file, they would have seen missed payments towards other debts and saw he used other overdraft facilities and had taken several payday loans. Mr V made a complaint to Monzo.

Monzo did not uphold Mr V's complaint, but they said they added £25 to his account due to an admin error in delaying the complaint response. Monzo said they were confident that they lent in a responsible manner based on the information available to them, that he earned £1,505 net per month and they estimated he had £340 a month affordability capacity.

Monzo said when they performed their manual review they noticed a bug in this calculation in that they didn't take into account the balance of any credit cards or overdrafts with other banks. They said reviewing this now, using data from when he applied, they estimated he had £182.12 a month affordability capacity. Mr V brought his complaint to our service.

Our investigator partially upheld Mr V's complaint. He said the checks Monzo did before giving Mr V the overdraft were reasonable and proportionate, and he didn't think there would have been any concerns that Mr V wouldn't be able to repay this. So he couldn't say that Monzo acted irresponsibly when they gave Mr V the overdraft facility. Our investigator said Monzo have recognised that an overdraft isn't suitable for long term borrowing. But Mr V had been using all of his overdraft for around 18 months and he hadn't demonstrated any ability to be able to manage the debt, and he wasn't gaining any benefit from having the overdraft because he never had any credit available, and he was mostly paying overdraft fees.

Our investigator said that Monzo were aware that Mr V had been experiencing financial difficulties, and our investigator thought Monzo should have taken more effective measures at this point. He said there was a reference to a Notice of Default on 29 January 2021, and it was unclear whether this was sent or the terms of repayment that might have been set out in the notice. But he thought that calling in the debt, applying appropriate forbearance measures and coming to a sustainable arrangement for the outstanding balance would have been a sensible thing to do. So he said the default should be backdated to 29 January 2021, any fees/charges/interest from this date should be removed, and for them to make a repayment arrangement with Mr V.

Monzo asked for an ombudsman to review the complaint. They said it did appear Mr V was experiencing financial difficulties, but as this wasn't his main account, they never had a full picture of his financial circumstances. They said they made many attempts to contact Mr V to provide support. When he messaged them, they always responded, but he never engaged in further questioning. Monzo said if Mr V does not engage, they are limited in what they can do.

As my findings differed in some respects from our investigator's, I issued a provisional decision to give both parties the opportunity to consider things further. This is set out below:

*"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.*

*Before agreeing to approve or increase the credit available to Mr V, Monzo needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances. I've listed below what checks Monzo have done and whether I'm persuaded these checks were proportionate.*

*Monzo have said as part of their creditworthiness assessment they use a variety of data including data from Mr V's credit file and credit score from a named credit reference agency (CRA), information on his profile, information he supplied as part of the application process, and information about his usage of the Monzo account. They did not identify any defaults or instances where Mr V recently missed two payments. They identified he had six accounts.*

*But Monzo have admitted that due to an error, they didn't take into account the balance of any credit cards or overdrafts with other banks. So I'm not persuaded that the checks they carried out at the application stage were proportionate.*

*So I asked Mr V for a copy of his credit file which I thank him for providing me. This is to see what Monzo should have seen about his accounts with other lenders prior to them approving him for a £500 overdraft. The credit file shows that Mr V already had a £2,300 overdraft with another company.*

*So as part of a proportionate check, I'm persuaded that it would've been proportionate for Monzo to take a closer look at Mr V's credit file to see how much or if any of this overdraft was being used for the three months prior to approving him for a £500 overdraft with themselves. As Mr V already had an overdraft which was nearly five times the amount of the overdraft they approved him for.*

*Mr V's credit file shows that prior to Monzo approving the £500 overdraft for him that he was exceeding his credit limit. So it would appear that Mr V could not manage his existing overdraft, and this was before Monzo increased his borrowings by £500. So I'm persuaded it would have been proportionate to take a closer look at his overdraft elsewhere as part of a proportionate check to see if the £500 was affordable and sustainable for him.*

*The credit file Mr V has provided me with shows that he regularly exceeded his overdraft for a longer time period than just three months prior to being accepted for the Monzo overdraft. But there is also information on his credit file that could evidence that Mr V was experiencing financial difficulties prior to the overdraft being approved by Monzo.*

*I say this because Mr V's credit file shows that only 15 months prior to Monzo approving the £500 overdraft, his overdraft elsewhere was at £1,000, but only three months later – the year before Monzo approved his overdraft – he increased this by 50% to £1,500, which could indicate he was needing to borrow more money to meet his outgoings. But the following month – 11 months prior to Monzo approving the overdraft – he increased the overdraft by more than another 50%, so the total overdraft on his current account elsewhere was £2,300.*

*So as Mr V had recently increased this twice within a short period of time and twice within the 12 month period prior to Monzo approving the £500 overdraft limit, I'm persuaded that*

*there were signs that Mr V could not manage his own overdraft, and therefore he would be unlikely to be able to afford a new £500 overdraft with Monzo.*

*Mr V's credit file shows that he often exceeded his overdraft limit. And given that Monzo's figures showed Mr V received £1,505 a month net income, then the reality is that for Mr V to pay back his Monzo overdraft, he would need to use debt to pay this debt back, which is not sustainable. So I do think that if Monzo had made proportionate checks prior to the overdraft being approved, they would have been able to foresee what actually did happen – that Mr V almost immediately used the overdraft limit and often exceeded it, which was the same behaviour as he displayed with his other overdraft.*

*While this alone would suggest that Monzo did not make a fair lending decision, Mr V's credit file shows he also opened another current account just over four months before he opened his Monzo account. While information is limited on this account on the credit file, this account may have also been approved with an overdraft which in light of the recent overdraft increases on his main current account would have supported what I'm persuaded that happened with Mr V not being able to meet his outgoings from his income, hence the constant, frequent increasing of his debt, but I'm unable to say this for certain based on the information on his credit file.*

*But I suspect this is a possibility given his credit file shows this current account defaulted with a balance of £529. And while based on Mr V's previous behaviour, it's likely he always had an overdraft on this account, I also accept that it's possible Mr V applied for an overdraft after his Monzo overdraft had been approved, but regardless of this there were signs that Mr V was already in financial difficulty prior to the Monzo account being opened. So I'm not persuaded that Monzo made a fair lending decision here, so it follows I intend to ask them to put things right for Mr V."*

I invited both parties to let me have any further submissions before I reached a final decision. Monzo did not respond to the provisional decision, Mr V accepted the provisional 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.

As neither party have provided me with any further information to consider, then my decision and reasoning remains the same as in my provisional decision.

### **Putting things right**

In my provisional decision I said I intend to uphold this complaint. I said I intend to ask Monzo Bank Ltd to do the following;

Monzo should arrange to transfer any debt back to themselves if it has been passed to a debt recovery agent or liaise with them to ensure the redress set out below is carried out promptly;

Rework the account removing all interest, fees, and charges, that have been applied;

If the rework results in a credit balance, this should be refunded to Mr V along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Monzo should also remove all adverse information regarding this account from his credit file;

Or, if after the rework there is still an outstanding balance, Monzo should arrange an affordable repayment plan with Mr V for the remaining amount. Once Mr V has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

I'm still satisfied this is a fair outcome for the reasons given previously

\*If Monzo consider that they are required by HM Revenue & Customs to deduct income tax from that interest, they should tell Mr V how much they've taken off. They should also give Mr V a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

### **My final decision**

I uphold this complaint. Monzo Bank Ltd should settle the complaint in line with the instructions in the *"putting things right"* section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr V to accept or reject my decision before 5 January 2024.

Gregory Sloanes  
**Ombudsman**