

The complaint

Miss S complains that Monzo Bank Ltd irresponsibly gave her an overdraft she couldn't afford to repay.

What happened

In March 2021, Miss S applied for a current account with Monzo and requested an overdraft facility on the account of £300. Monzo accepted her application for the account and overdraft. Miss S applied for an increase to the overdraft limit one month later to £750. This application was also accepted.

Miss S got in contact with Monzo in April 2021, the day after her overdraft limit had been increased. She said she had been the victim of a scam and a payment she had made as part of that scam had caused her to incur charges and a larger than expected balance on her account. She asked for a temporary increase to her overdraft to £1,000.

Monzo said it couldn't offer her a further overdraft increase but asked her for more details about her financial circumstances as she had indicated she was experiencing some short term financial difficulty. After a number of discussions throughout early May 2021, Monzo agreed a repayment plan with Miss S whereby the overdraft limit would be gradually reduced by £50 each month.

There was no activity on the account throughout May, June and July 2021. From August 2021 onwards, Miss S kept to the agreed £50 arrangement and her overdraft usage reduced by the agreed amount until May 2022. Overdraft usage charges were suspended during this time. In April 2022, Miss S asked for the arrangement to be paused by one month because she had an unexpected bill. A few months later Miss S stopped using the account and it was eventually defaulted with an outstanding balance of around £330.

I sent Miss S and Monzo my provisional decision on 28 November 2023. I explained why I wasn't planning to uphold the complaint. I said:

Prior to lending to Miss S, Monzo needed to ensure it completed proportionate affordability checks. What is considered proportionate will vary with each lending decision as there isn't a set list of checks that had to be completed every time. In deciding what would be proportionate, Monzo needed to take into account things such as (but not limited to): the amount borrowed, the size of any reasonable regular repayments and the consumer's circumstances.

As part of both applications Miss S declared she was employed full-time and living at home with her parents. The amount she declared as her annual income was £15,000 per year on the first application and £20,000 per year on the second application. However, from what I've seen of Miss S' income on her account statements, the higher figure she declared appears to be broadly accurate.

Monzo also completed a credit check which showed that Miss S' existing credit commitments were well maintained with no recent history of repayment difficulty. Her

existing monthly credit commitments were recorded as less than £50 per month. Monzo also used statistical data to estimate Miss S' likely essential living costs which it calculated to be around £450 per month.

I've not seen anything to demonstrate that Monzo attempted in any way to verify the income Miss S had declared on her applications. Given the large discrepancy between the figures she gave just one month apart, I would consider that proportionate checks on the second overdraft application ought to have included some attempt to verify what Miss S had declared. However, as I've stated above, it appears Miss S' income was broadly in line with what she had declared on that second application. This means that even if Monzo had done more, it wouldn't have revealed any different information.

Taking into account what evidence and information was (and should have been) available to Monzo prior to each lending decision, I don't think there was anything that ought to have caused it concern about Miss S' ability to repay an overdraft of up to £750. I therefore don't think it acted unfairly when it lent to Miss S.

I've also considered whether throughout the lending relationship Monzo acted fairly and reasonably towards Miss S. Having done so, I think it did.

As I've set out in the background to this decision, Miss S contacted Monzo in late April 2021 to say she had been the victim of a scam, and then, through further probing by Monzo, that she was in short term financial difficulty. Miss S initially explained that she would be able to repay most of her current overdrawn balance once she got paid in around a week. Over the coming week Monzo tried to get a better understanding of Miss S' finances to see if it could do more to assist her. However, Miss S then said she would pay the overdraft off in full by the end of June.

Miss S then told Monzo that she had been temporarily signed off work and therefore her income was reduced. She asked what help Monzo could provide regarding her overdraft. Monzo asked Miss S to complete an income and expenditure document so that it could assess what her financial circumstances were. Miss S completed the form but filled out her debts inaccurately. Monzo asked for clarity around these debts, but Miss S didn't respond for a month. During this time Monzo had paused overdraft charges.

When the overdraft charges began debiting again, Miss S got in touch with Monzo. She said by the end of June she would be receiving her usual income again and would begin to reduce the overdraft by £100 each month. A few days later she said she could reduce it by £50 per month.

Monzo said this was something it could potentially agree to. It asked Miss S to complete an updated income and expenditure assessment and for further information about her circumstances. The payment arrangement was agreed between Miss S and Monzo to begin in August 2021. While Miss S was on the payment arrangement Monzo agreed to freeze all overdraft interest and charges. Miss S began paying down her overdraft as agreed, and the limit was reduced by £50 each month.

Having reviewed the correspondence between Miss S and Monzo during this time, I think Monzo acted fairly when treating Miss S' financial difficulty. It put in place an affordable arrangement to bring down her overdraft borrowing and also agreed to waive all charges while she was on the plan. I don't think it needed to do more at that time.

Miss S got in touch with Monzo in late April 2022 as she had received an unexpected bill and was therefore unable to reduce her overdraft by the planned £50 the following month. I can see that like the previous year, Monzo tried to assist Miss S by obtaining more detailed information about her circumstances and finances and it agreed to re-start her overdraft reduction plan a month later, albeit without the freeze on overdraft charges.

Given that at this time Monzo could see that Miss S' salary had been coming into this account (it had previously been paid into a different bank account), and that each month her salary comfortably cleared the overdraft in full, I don't think its actions were unreasonable. It was still allowing Miss S to reduce her overdraft limit each month by £50, but there wasn't anything to indicate that the overdraft fees and interest (of around £7 per month) would cause her any difficulty.

A few months later Miss S stopped using the account and left an overdrawn balance of around £330. Within a month, Monzo had stopped applying any further overdraft interest and fees and a little later, it defaulted the account due to non-payment. As Miss S stopped communicating with Monzo and stopped making payments towards the account, I don't think Monzo acted unfairly when it did so.

Neither Miss S nor Monzo responded to my 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 responded to my provisional decision with any further information or evidence, I've seen no reason to reach a different conclusion. I therefore don't think Monzo acted unfairly in lending to Miss S. I also don't think it acted unfairly towards her when she was in financial difficulty.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 11 January 2024.

Tero Hiltunen
Ombudsman