

The complaint

Mr D complains that Monzo Bank Ltd lent to him irresponsibly. He says Monzo didn't do enough to check he could afford to repay the lending sustainably. Mr D says the loan was unaffordable.

What happened

Mr D applied for a loan of £7,000 with Monzo in October 2021. This was to be repaid over 60 months at around £150 per month.

Mr D complained to Monzo about the lending, and it explained it believed it had done the appropriate checks when it agreed to provide him with the loan. Mr D was unhappy with this response and referred the case to this service.

One of our investigators looked into Mr D's complaint. She thought that given Mr D's financial circumstances at the time of the lending, Monzo should have understood that he would be paying the loan back using other credit and this indicated the loan would be unsustainable.

Whilst Mr D accepted the investigators view, Monzo didn't and said it believed on the information available to it the loan was affordable. So asked for the complaint to be referred to an ombudsman.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance, and good industry practice - on our website. I've taken that into account when considering Mr D's complaint.

Monzo needed to take reasonable steps to ensure that it didn't lend irresponsibly to Mr D. This means that it should have carried out proportionate checks to make sure he could afford to repay what he was being lent in a sustainable way. These checks could take into consideration several different things, such as how much was being lent, the amount of the repayments and Mr D's income and expenditure.

Where the amount being lent to a customer is moderate, less thorough checks might be reasonable and proportionate. However, there are some factors which are likely to indicate that more thorough checks are needed, such as:

- Long term or running credit
- The number and frequency of loans and other credit accounts the customer has

I've taken all of this into account when considering Mr D's case. Having done so I don't think Monzo has acted fairly for broadly the same reasons as the investigator.

Given the circumstances of this case I think Monzo unfairly lent to Mr D. I say this because having reviewed all the information, it's clear that whilst Mr D had taken the loan for debt consolidation, he had a considerable number of credit accounts that weren't being maintained in a sustainable way and Mr D would only have been able to use other forms of credit to repay the loan.

I don't think Monzo did enough to ensure he could sustainably repay the debt. Monzo has shown Mr D had around 19 accounts at the time of application, was spending around 40% of his income on debt and was significantly and continually overdrawn on his current account with Monzo. So, I think it would have been reasonable for them to find out more about his financial circumstances, to understand whether a debt consolidation loan of £7,000 was going to be sustainable.

There's no definitive list of checks that a business must do, but I think it would have been reasonable for Monzo to gain a better understanding of Mr D's financial circumstances, perhaps by asking him for information about his income and expenditure. As Monzo didn't ask Mr D more about this at the time it agreed to the loan, we must rely on the information now available. Mr D has provided our service with his bank statements for all three of his current accounts from the time the loan was taken out. One of these accounts was with Monzo and the others were with another provider. I think it's reasonable for us to rely on these to obtain an understanding of what Monzo would likely have found had it completed reasonable and proportionate checks.

Had Monzo carried out more thorough checks, they would have seen that Mr D was significantly overdrawn on all three of his accounts and had over £20,000 worth of debt in various forms including his overdrafts, revolving credit, and a loan.

Monzo would have seen Mr D was reliant on his overdrafts and is using them to pay other debts. It's clear from his statements that there was a strong possibility he would also be using the overdrafts to repay the loan Monzo approved.

Although Monzo may not have been aware of the historic position of his other accounts it's clear Mr D had been significantly overdrawn on his Monzo current account for more than a year. Reviewing the statements available to me, I can see the account hadn't gone into credit in that time. This suggests Mr D wasn't sustainably managing the debt he already had and would be unlikely to be able to sustainably repay the loan from Monzo.

Although Mr D did use the funds to pay off some of his credit card debts, this still left him significantly overdrawn on all three of his current accounts and this situation continued. This meant that he was still using debt to service debt which isn't sustainable in the long term.

The unsustainability of the loan is further demonstrated by the fact that Mr D has had nine failed payments between October 2021 and December 2023. The first of these occurring within just 3 months of him receiving the loan funds.

Had Monzo carried out proportionate checks I think it would have understood that approving the loan, would likely lead to him not being able to sustainably repay the debt. So, I don't think it reached a fair decision to lend to Mr D.

Putting things right

When I find that a business has done something wrong, I'd normally direct that business to put the complainant in the position they would be in now if the mistake it made hadn't happened, as far as is reasonably practical.

However, Mr D was given the loan and used the money, so it's right that he should repay what he borrowed as he has had the benefit of those funds. However, I think it's fair and reasonable for Monzo to refund any interest and charges incurred by Mr D as a result of the credit unfairly extended to him. So, I think Monzo should:

- Calculate the total amount Mr D received from Monzo and deduct from that figure the repayments he's made to the loan.
- If this results in Mr D having repaid more than he received, any overpayments should be refunded to him. Interest at a rate of 8% simple per year should be added to any over payments from the date they were made until the date of settlement*.
- If the calculation means there's still a balance for Mr D to pay, Monzo should let him know how much is outstanding and reach a suitable and affordable payment plan with him.
- Remove any negative information recorded on Mr D's credit file regarding the loan once any outstanding balance has been repaid.

*HM Revenue & Customs requires Monzo to deduct tax from any award of interest. It must give Mr D 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.

My final decision

I think Monzo acted unfairly when it extended a loan to Mr D in October 2021. To put this right, I direct Monzo Bank Ltd to settle the complaint as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 14 May 2024.

Charlotte Roberts
Ombudsman