

Complaint

Miss S has complained that Monzo Bank Ltd (“Monzo”) irresponsibly provided her with an overdraft which it continued applying charges on even when she was in financial difficulty.

Background

Miss S was provided an overdraft with an initial limit of £500 by Monzo in August 2020. Miss S’ overdraft limit was increased to £1,000.00 in December 2020 (made up of increments to £650, then £800 and then £1,000 over the course of a week or so); £1,250.00 in May 2022; £1,500.00 in June 2022 (made up of increments to £1,400.00 and then £1,500.00 over the course of a week); and then £2,000.00 in April 2023.

One of our investigators looked at Miss S’ complaint and thought that Monzo hadn’t done anything wrong when initially providing Miss S with her overdraft or increasing her limit to £1,000.00 in December 2020.

However, she also thought that Monzo should have realised that Miss S’ overdraft had become demonstrably unsustainable for her by August 2021 and that it needed to refund all the interest, fees and charges it added to the account from this point onwards. Monzo disagreed with the investigator’s assessment and asked for an ombudsman’s review.

My findings

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

Having carefully considered everything, I’m partially upholding Miss S’ complaint. I’ll explain why in a little more detail.

Monzo’s initial decision to provide Miss S with an overdraft and then increase its limit to £1,000.00

We’ve set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Miss S’s complaint.

Monzo needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Monzo needed to carry out proportionate checks to be able to understand whether Miss S would be able to repay what she was being lent before providing any credit to her.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of

it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Monzo has said that it obtained some information on Miss S' income and her expenditure before deciding to lend to her. It says that it cross-referenced this against information it obtained on the funds going into Miss S' main bank account and her existing credit commitments which it obtained from credit reference agencies. On the other hand Miss S says that this overdraft caused her hardship and that Monzo shouldn't have continued allowing her to use her overdraft. I've carefully thought about what both parties have said.

Miss S' overdraft was an open-ended (running account) agreement (in other words, while Monzo was required to periodically review the facility, there was no fixed end date) where there was an expectation that she'd repay what she borrowed plus the interest due within a reasonable period of time.

CONC didn't set out what a reasonable period of time was. So I think it's important to note that a reasonable period of time will always be dependent on the circumstances of the individual case.

It's fair to say that overdraft limits of £500 and £1,000.00 required not unreasonably sized repayments in order to clear the full amount that could be owed within a reasonable period of time. Furthermore, I've seen that Monzo deemed Miss S to be earning around £1,300.00 a month and that she had monthly expenditure of around £500 a month.

This would have left her with around £670 each month and Monzo arrived at this figure by taking steps to cross-reference its information against what credit reference agencies had about Miss S at the time. I'm satisfied that this was a reasonable amount to cover sustainable repayments to an overdraft as well as cover anything which may not have been included in Monzo's affordability assessment.

I am concerned that the limit increases in December 2020 were granted when Miss S income had reduced to around £1,000.00 a month. And her disposable income clearly must have reduced accordingly. Nonetheless, I'm satisfied that the checks carried out before Miss S was granted her overdraft and the limit increases to £,000.00 were proportionate.

And as these checks just about show that Miss S would be able to sustainably repay an overdraft of £1,000.00 within a reasonable period of time, I'm not upholding Miss S' complaint about initially being provided with an overdraft or the limit increases in December 2020.

The position from August 2021 onwards

In addition to carrying out an assessment of affordability before providing Miss S with an overdraft and any limit increases, Monzo was also required to continue reviewing Miss S account usage to see whether any limit remained sustainable for her going forwards.

Monzo will be familiar with all the rules, regulations and industry codes of practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges. So I don't consider it necessary to set all of this out in this decision.

Having carefully considered everything provided, I'm satisfied that Monzo acted unfairly when it continued charging overdraft interest and associated fees from August 2021 onwards. While Miss S might not have got in touch to confirm this, nonetheless by this point, it was evident Miss S' overdraft had become demonstrably unsustainable for her.

A cursory look at her statements leading up to this period shows that Miss S had been hardcore borrowing for an extended period. Indeed Miss S was not only hardcore borrowing but she was also regularly exceeding her existing overdraft limit. So it's unclear to me how Monzo concluded Miss S would be able to repay higher overdraft limits of amounts of up to £2,000.00 when she was already proving herself unable to clear what she had.

In my view, the activity on Miss S' account indicated that there was little prospect of her being able to repay what she owed within a reasonable period of time, let alone higher amounts. And while Monzo's initial checks meant that it was initially reasonably entitled to conclude that Miss S could repay limits of £500 and £1,000.00 within a reasonable period of time, her account activity was now suggesting otherwise. Furthermore, in my view, Monzo ought to have seen from Miss S' overdraft usage that she wasn't using her overdraft for short-term emergencies and that she was instead using it over a much longer and unsustainable term.

I've seen that Monzo has argued that it didn't simply allow Miss S to continue using her overdraft. And it is relying on having sent Miss S communications about her overdraft usage as evidence of this. I've thought about what Monzo has said. But the mere fact that Monzo felt the need to send Miss S so many communications within such a period means that it recognised there was a problem with the way that Miss S was using her overdraft.

And if I take Monzo's argument to its logical conclusion here, I see it as being that it acted fairly and reasonably towards Miss S because it sent her notifications, as it had identified that her overdraft usage had become a problem. But as Miss S didn't respond to these communications it was fair and reasonable to continue allowing her to use her overdraft in the same way, notwithstanding that it had identified her usage as being problematic.

In my view, this ignores the fact that there comes a point where a lender cannot continue simply relying on a borrower not wanting to discuss the situation. After all there are many reasons why a consumer might not want to get into discussions about their finances even though they're in a situation where they're struggling, or they may even go further and say they can and will make payment when the reality is they can't.

While Miss S didn't contact Monzo, most likely because she didn't realise the impact failing to deal with the matter at hand was having, I don't think it was reasonable for Monzo to conclude that her problematic overdraft usage would correct itself. Monzo says it didn't receive responses to its communications. But I don't see that this shows Miss S was in a position where she could afford the charges that went on to be applied, or the subsequent limit increases.

As Monzo didn't react to Miss S' account usage and take corrective action in relation to her account activity, I'm satisfied that it failed to act fairly and reasonably towards her.

Miss S ended up paying interest, fees and charges at a time when her overdraft was already unsustainable. So I'm satisfied that Miss S lost out because of what Monzo did wrong and that Monzo now needs to put things right.

Fair compensation – what Monzo needs to do to put things right for Miss S

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of Miss S' complaint for Monzo to put things right by:

- Reworking Miss S' current overdraft balance so that all interest, fees and charges applied to it from August 2021 onwards are removed. This is to reflect the fact that Monzo ought to have taken corrective action in relation to the facility.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Monzo should contact Miss S to arrange a suitable repayment plan, Miss S is encouraged to get in contact with and cooperate with Monzo to reach a suitable agreement for this. If it considers it appropriate to record negative information on Miss S' credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in August 2021. Monzo can also reduce Miss S' overdraft limit by the amount of any refund if it considers it appropriate to do so, as long as doing so wouldn't leave her over any new limit.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss S along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Monzo should remove any adverse information from Miss S' credit file. Monzo can also reduce Miss S' overdraft limit by the amount of refund if it considers it appropriate to do so.

† HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Miss S a certificate showing how much tax it has taken off if she asks for one.

My final decision

For the reasons I've explained, I'm upholding Miss S' complaint. Monzo Bank Ltd should put things right in the way I've directed it to above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 1 May 2024.

Jeshen Narayanan
Ombudsman