

The complaint

Miss H has complained that Monzo Bank Ltd irresponsibly lent to her and unfairly continued applying charges to her overdraft when she was in financial difficulty.

What happened

Miss H was provided with an overdraft on her Monzo account, and the limit was then increased. She says that she shouldn't have been provided with the overdraft as her credit file showed she had missed payments to other creditors. In February 2023, Miss H's overdraft limit was increased even though she was at her limit and had been using the overdraft for the previous year. She says the lending was unaffordable and has made her financial situation worse and has caused her stress and affected her mental health.

Monzo issued a final response letter dated 19 December 2023. It said that as part of its assessment it used a variety of data including information supplied through the application process and information received from the credit reference agencies to assess affordability and credit worthiness. It said Miss H applied for a £1,000 overdraft in October 2021. She then applied for limit increases to £1,500 and then £2,000. It said that based on its checks the overdraft limits provided were affordable.

Our investigator upheld this complaint. They didn't think that Monzo was wrong to provide the initial overdraft or the increase to £1,500. However, they didn't think that Monzo should have increased the overdraft limit to £2,000 in February 2023. They said at this point it was evident that Miss H was struggling to manage her overdraft limit and that the overdraft wasn't being used as intended and there was a significant risk she wouldn't be able to repay it within a reasonable timeframe. Because of this they recommended that Monzo remove all interest, fees and charges applied to the overdraft from 9 February 2023 when the limit was increased to £2,000.

Monzo didn't agree with our investigator's view. It said that the rules and guidance didn't support the position that an overdraft needed to be able to be cleared by one month's salary and that when it conducted an affordability assessment with Miss H her answers supported the overdraft being affordable. It said that it had sent repeat use letters to Miss H but that it didn't consider her to be in financial difficulty and so didn't accept it needed to take further action. It said Miss H had enough disposable income to repay her overdraft over a reasonable period of time as well as managing her other debts.

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.

Monzo will be familiar with all the rules, regulations and good industry practice we consider when considering irresponsible lending and 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.

Miss H was provided with a £1,000 overdraft on her account in October 2021. Monzo has said that before lending it carries out a credit check and assesses information provided through the application process. I have looked at Miss H's application and she is recorded as working full time with an annual income of £23,957. She said she was living with parents and had monthly accommodation costs of £250. The credit check showed that she had no recent defaults or recent missed payments. Miss H's income was verified with a credit reference agency and her other credit commitments identified. Having considered the overdraft limit provided, Miss H's income and that Miss H's credit check didn't suggest she was struggling financially, I find the checks carried out were reasonable. As these didn't suggest the lending to be unaffordable, I do not find I can say Monzo was wrong to provide the initial overdraft limit of £1000.

In April 2022, Monzo increased Miss H's overdraft limit to £1,500. At this time, Miss H was still recorded as working full time and her annual salary was £21,000. Her net monthly income was verified with a credit reference agency as £1,486. Miss H said she was a tenant with monthly housing costs of £350. A credit check was carried out and this didn't record any recent defaults or issues that I think meant Monzo was required to carry out further checks. I have looked at Miss H's bank statements for the months leading up to this increase and while I can see she was spending the majority of the previous two months in her overdraft, she did still appear able to clear this. So, on balance I find that the checks were reasonable and as these didn't suggest the additional lending to be unaffordable I do not find I have enough to say that Monzo was wrong, at this time, to provide the overdraft limit increase to £1,500.

In February 2023, Miss H's overdraft limit was increased to £2,000. Miss H's annual income remained at £21,000 and this was verified with a credit reference agency giving a monthly net income of £1,525. Miss H was recorded as living with parents with monthly accommodation costs of £250 and the credit check showed she had monthly debt obligations of around £380. I do not find that the credit check suggested she was in financial difficulty.

The rules, guidance and good industry practice in place typically require a bank to review an account on an ongoing basis. And it is generally accepted that a bank should review a customer's overdraft usage on an annual basis. Miss H was provided with an overdraft in October 2021 and the limit was increased in April 2022. So, by February 2023, the overdraft had been in place for over a year and given the request for the limit increase, I find it reasonable that Monzo would have assessed Miss H's overdraft usage before deciding whether it was responsible to continue to provide the overdraft on the same terms and to increase the limit.

I have looked at Miss H's account statements for the months leading up to February 2023. These show that Miss H's account didn't have a credit balance for an extended period of time. Her monthly income wasn't enough to clear the overdraft each month. Miss H did receive some additional payments into her account towards the end of January 2023 which did put the account in credit for two days before the account returned to overdraft, but I do not find this changes the pattern that had emerged which showed her not having a credit balance for an extended period. I note the comments Monzo has made acknowledging Miss H's repeat use of her overdraft but saying there weren't signs of financial difficulty. But as Miss H was using the overdraft to near its limit each month and wasn't able to clear the outstanding balance, I think this should have raised concerns that the overdraft wasn't being used for its intended purpose of short term / emergency borrowing and instead had become hardcore debt. As Miss H's account hadn't been in credit for an extended period of time, I think this also raised concerns about whether she was able to sustainably repay her overdraft without help.

All of this means that Monzo should have realised in February 2023, that Miss H wasn't using her overdraft as intended and as the account conduct had suggested it had become unsustainable shouldn't have continued offering it on the same terms. Instead of increasing the overdraft limit at that time, Monzo should have reacted to Miss H's situation and not continued to charge in the same way. So, in this case, I think Monzo failed to act fairly and reasonably, and it should now rework Miss H's account from February 2023.

Putting things right

Monzo should:

- Re-work Miss H's current overdraft balance so that all interest, fees and charges applied to it from 9 February 2023 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Monzo should contact Miss H to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Miss H's credit file, it should backdate this to 9 February 2023.

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 H, 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 H's credit file.

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

My final decision

My final decision is that Monzo Bank Ltd should take the action set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 13 May 2024.

Jane Archer
Ombudsman