

## The complaint

Mr P complains that Monzo Bank Ltd irresponsibly gave him an overdraft he couldn't afford to repay.

## What happened

Mr P held a current account with Monzo and in February 2022 he applied to have an overdraft facility on the account. Monzo approved an overdraft of £1,000. Mr P later complained that appropriate affordability checks hadn't been completed before granting him the overdraft. He said that Monzo should have seen he wouldn't be able to afford the borrowing.

Monzo didn't agree it had acted unfairly. It said it had completed adequate affordability checks which didn't show any concerns about his ability to repay the borrowing.

I sent Mr P and Monzo my provisional decision on 18 January 2024. I explained why I didn't think this complaint ought to be upheld. I said:

*Before lending to Mr P, Monzo were required to complete proportionate affordability checks. What is considered proportionate will vary with each lending decision as there isn't a one-size-fits-all approach. In deciding how detailed the checks ought to have been Monzo needed to take into consideration things such as (but not limited to): the amount of credit, the type of credit, the cost of borrowing and the consumer's circumstances. In the case of an overdraft, which is an open-ended facility, I'd also expect Monzo to think about the consumer's ability to repay the whole borrowing in a reasonable period of time.*

*As part of the application Mr P declared an income of £37,500 per year, which Monzo calculated to be around £2,400 using information it already held about him from his current account. He also declared that he paid nothing towards rent or a mortgage. Monzo then completed a credit check which it says showed that his existing credit commitments were around £670 per month. Lastly, Monzo said it estimated his monthly essential living costs to be around £666. It said that based on these figures it was satisfied that Mr P had sufficient disposable income to be able to afford an overdraft of £1,000.*

*Monzo hasn't provided us with a detailed breakdown (to individual account level) of the credit checks it completed. However, from what I can see from Mr P's Monzo account statements the figure Monzo stated to be Mr P's existing credit commitments appears to be broadly accurate.*

*As Mr P was an existing current account customer of Monzo's and it appears to have been his main current account (in that his salary was paid into it and most of his living expenses were paid out of it), it had access to more detailed and specific information about Mr P's financial circumstances than if Mr P had applied for lending with a different provider. As part of any proportionate affordability check, I would have expected Monzo to take into account what it already knew about Mr P from that*

account activity.

*It appears that Mr P managed his Monzo current account reasonably well, in that he didn't go overdrawn and there doesn't appear to be any obvious signs of financial difficulty. Mr P was regularly depositing and withdrawing relatively large sums of money between this and his other current accounts, and the Monzo statements show that in the six months prior to applying for the overdraft he had paid off several existing credit commitments with one-off lump sum repayments.*

*I've noted Mr P did have other existing credit commitments in the form of loans and credit cards. However, his Monzo account activity suggested he was able to afford these repayments without difficulty and there was a large amount of non-essential spending on his account on top of this without him going overdrawn. It appears he was also regularly paying more than the contractual minimum repayments required by his credit card providers.*

*Monzo could see that the income Mr P declared appeared to be accurate and there wasn't anything in the account activity to suggest that he had given incorrect information about not having any rent or mortgage commitment.*

*While I accept Mr P was regularly borrowing from other providers, he was also paying some of these off early. His outstanding debt also didn't appear to be significant when compared to his income and other essential outgoings. Overall, I've not seen anything to suggest that Monzo ought to have reached a different lending decision or seen that an overdraft of £1,000 was likely to be unaffordable or unsustainable for Mr P.*

*Mr P says that he was gambling heavily at the time and Monzo should have realised he was vulnerable and not lent to him. While I accept what Mr P has said about his gambling, I don't think Monzo could reasonably have known about this. There weren't any signs of gambling transactions on his Monzo account. I've not seen any reason for it to have been proportionate and reasonable for Monzo to have insisted on reviewing his transactions on other current accounts before providing him with an overdraft.*

Mr P didn't accept that outcome. In summary, he said:

- Monzo should provide a more detailed breakdown of the credit checks it did. He was in a cycle of debt and borrowing from one lender to pay the next.
- His other current account statements show he was in financial difficulty and in trouble with his gambling addiction. Monzo should have requested statements from those other accounts before lending to him.
- He was borrowing from payday lenders and these would have been visible on his Monzo bank statements showing he couldn't manage his finances well.
- The account didn't go overdrawn prior to the application because he had no overdraft facility. The account didn't have credit balances for long as these were transferred out to other current accounts he held.
- A debt recovery company had set up a monthly direct debit claim on his Monzo account in February 2022 which ought to have prompted Monzo to ask more questions.

- The large amount of transfers going to other current accounts should have also alerted Monzo to a potential problem and prompted them to ask more questions before lending.

Monzo didn't confirm whether it agreed with my provisional decision. However, it supplied a more detailed breakdown of its credit checks down to individual account level.

### **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.

Having considered Mr P's additional comments and the further credit check evidence Monzo has provided, the overall outcome I've reached hasn't changed. I still don't consider Monzo to have acted unfairly when it provided Mr P with an overdraft facility. I'll explain why.

The more detailed credit check information shows that at the time of applying for the overdraft, Monzo could see that Mr P held four current accounts (three with overdraft facilities), five credit cards, three loans and a further revolving credit facility. The total amount owed across these accounts was around £8,000. The monthly repayment figure of £670 per month that Monzo calculated appears to be broadly accurate.

While there were several separate credit commitments, there was no recent history of missed or late payments. Where there were credit limits (such as on the overdrafts and credit cards) these limits weren't particularly high – the largest being £750, and most of the balances were not near their respective limits and many were regularly cleared to zero balances. The history of repayments and account management didn't show any significant concerns. While some of the accounts had some historic use of cash withdrawals, there wasn't any significant recent activity that ought to have caused Monzo to be concerned, particularly when taking in all the other relevant circumstances (such as Mr P's income, his existing debt levels, his account conduct and credit history).

Mr P says he was borrowing from payday lenders and that this borrowing was visible on his Monzo bank statements. But I disagree. In the six months prior to applying for the overdraft there are no payments in or out towards a payday loan. There are entries for several high-cost lenders, but these are all for longer term loans or running account credit – not payday loans. That borrowing was also visible on the credit checks Monzo completed.

Just because Mr P was borrowing from high-cost lenders does not in and of itself mean that Monzo shouldn't have provided him with an overdraft or that it ought to have done more thorough checks. This is because Mr P's overall unsecured debt wasn't significant when compared to his income, he was repaying credit commitments early, had a history of paying on time, a history of paying significantly more than the minimum payments on his credit cards and his Monzo current account showed no obvious signs of financial distress.

Mr P has referred to a debt collector appearing on his Monzo account statements in the months prior to his overdraft application. However, the company he refers to is a government recovery company for reclaiming (predominantly) historic benefit overpayments. And as the amount was only £25 per month, I don't think this ought to have caused Monzo any concerns about Mr P's financial circumstances.

Overall, while I agree that any manual scrutiny of Mr P's bank statements on his other current accounts would likely have led Monzo to a different lending decision, I've seen no reason why it would have been reasonable or proportionate for Monzo to have gone this far before approving the overdraft borrowing. The checks it did didn't reveal any concerns about

Mr P's ability to repay the overdraft borrowing and there weren't any clear signs he was already struggling financially.

### **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 Mr P to accept or reject my decision before 28 May 2024.

Tero Hiltunen  
**Ombudsman**