

## The complaint

Mr P complains that Monzo Bank Ltd irresponsibly gave him a credit card account that he couldn't afford to repay

## What happened

Mr P held a current account with Monzo. In February 2022, he applied for a credit card that would be linked to his current account. Monzo gave him an initial credit limit of £500. The limit was increased three times until it reached £3,500 in December 2022.

Mr P complained to Monzo to say appropriate affordability checks hadn't been completed before granting him the credit card. He said that Monzo should have seen he wouldn't be able to afford the borrowing. He said Monzo had also given him an overdraft of £1,000 the day before accepting his application for the credit card. The complaint about Mr P's overdraft is being dealt with under a separate complaint so I won't make any finding on that lending decision here.

Monzo didn't think it had acted unfairly when lending to Mr P. It said it had completed appropriate checks when opening the account and when increasing his credit limit. It said these checks didn't show any affordability concerns.

I sent Mr P and Monzo my provisional decision on 18 January 2024. I explained why I was planning to uphold the complaint in part. I said:

*Prior to granting credit (including significantly increasing a credit limit) Monzo were required to complete proportionate affordability checks. What's considered proportionate will vary with each lending decision. 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 a credit card, which is an open-ended facility, I'd also expect Monzo to think about the consumer's ability to repay the whole credit limit in a reasonable period of time.*

*Mr P applied for the account one day after he was approved for a £1,000 overdraft with Monzo. As I've set out above, that lending decision is being dealt with under a different complaint. However, it provides relevant context to Monzo's lending decision here.*

*Mr P declared an annual income of £37,500, 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 £720 per month. This figure included an allowance of £50 per month towards his Monzo overdraft.*

*Monzo said it estimated Mr P's 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 a credit card limit of £500 (as well as the £1,000 overdraft it had approved a day earlier).*

*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 (until he applied for the overdraft) 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 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.*

*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. Overall, it appears from what Monzo could see, that Mr P could comfortably afford to take on this additional borrowing without financial difficulty.*

*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. I therefore don't think Monzo acted unfairly in granting Mr P the initial credit limit of £500.*

*However, I think Monzo did act unfairly when it increased his borrowing from October 2022 onwards. I'll explain why.*

*At this stage Monzo doubled the credit limit it was providing to Mr P to £1,000. I think at this stage it ought to have been apparent that Mr P had become reliant on borrowing to meet his essential expenditure and that further borrowing was unlikely to be affordable and sustainable for him.*

*Since granting him the overdraft and credit card, Mr P had been consistently overdrawn up to his limit on the current account (within days of being given the overdraft), only dipping into a credit balance briefly when his salary was paid in. He had also occasionally gone over his agreed overdraft limit. Monzo was also now on notice that Mr P was responsible for rental payments each month (something he said he didn't have when applying for the account initially). Further, as soon as he was given the additional credit card limit of £500 Mr P had utilised it almost in full within the first day. The balance remained at, close to, or occasionally over the limit, until*

*Monzo increased it in October 2022.*

*Reviewing Mr P's Monzo accounts, it ought to have been clear to Monzo at this point that Mr P was not managing his finances well. An overdraft is designed for short term borrowing, Monzo says so on its own literature about overdrafts. While it is debatable whether eight months is 'short term' or not, clearly Mr P had made no meaningful difference in that time to the amount he was borrowing. He was regularly relying on his overdraft, as well as his Monzo credit card to meet his essential expenditure. This should have caused Monzo concerns about the sustainability of extending the credit limit further.*

*While Monzo hasn't given us the account specific detail of its credit checks, I'm aware Mr P held at least three other current accounts at this time, all of which were also near or at their limit. This had been the case for at least the time since he held the Monzo overdraft. I think its likely Monzo would have been able to see this too from the credit checks it completed.*

*This ought to have told Monzo that Mr P was relying on overdraft borrowing as well as other forms of credit to meet his day to day essential expenditure. I therefore think it acted unfairly by increasing the limit from this point and needs to put things right.*

*It isn't possible to put Mr P back in exactly the same position he would have been but for Monzo's unfair lending decision. As Mr P has spent the money he borrowed, I think it's fair he pays that back. However, as Monzo shouldn't have increased the credit limit beyond £500, I think it should refund all interest, fees, charges and insurances (if applicable) that were applied against any borrowing that exceeded the initial £500 limit.*

*Following this refund and once Mr P has repaid the borrowing, Monzo should also remove any adverse information from his credit file that it may have recorded since October 2022 (when it increased the limit). This is because Mr P should not have been in a position where he was asked to repay more than £500 of credit.*

Mr P responded to say he didn't agree with the provisional decision. 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. Monzo should have questioned why he needed this new £500 credit limit one day after applying for a £1,000 overdraft.
- 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 fact he was also requesting two separate lines of credit within a day of each other from Monzo ought to have indicated concerns about his borrowing.
- 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 respond to say whether it accepted the provisional decision or not. However, it supplied a more detailed breakdown of its account opening credit checks down to individual account level. It didn't provide the detailed breakdown for checks completed at the time of the credit limit increases.

### **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 the initial credit limit of £500, but it did act unfairly when it increased that limit.

The more detailed credit check information shows that at the time of applying for the initial £500 credit limit, Monzo could see that Mr P held four current accounts – all of which had overdrafts (including the Monzo overdraft granted the day before), 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 £720 per month that Monzo calculated (which included an amount of £50 towards the Monzo overdraft) appears to have been 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 £1,000 (the Monzo overdraft), 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).

I accept that Mr P did apply – and was accepted – for a £1,000 overdraft the day before and that this ought to have given Monzo some pause when thinking about the overall affordability of the new £500 credit limit. However, considering everything that Monzo could see about Mr P's financial circumstances, including his income, Monzo current account management, regular expenditure and the credit checks, I don't think there was anything to suggest that a further £500 of revolving credit would likely be unaffordable or unsustainable.

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.

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 – or indeed further back than this.

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 the initial £500 credit facility 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.

Although I accept Mr P had gone overdrawn on the Monzo account for the first time in the few days leading up to his overdraft application, this appears to have largely been caused by him transferring large sums to another current account. An overdraft is intended for short-term borrowing needs and Mr P had a history of making these types of transfers with money often coming back quickly to repay amounts that had been transferred out. I therefore don't think that this behaviour ought to have caused Monzo concerns in lending to Mr P at this time, taking into account the very specific circumstances of this case.

I've already set out in my provisional decision why I think Monzo acted unfairly when it increased the credit limit beyond £500. Neither Mr P nor Monzo has disagreed with my conclusions on that point. However, for completeness, when Mr P then maxed out his Monzo overdraft borrowing and the new £500 running account facility and after several months had made no progress in reducing this debt, that ought to have concerned Monzo. And combined with all the other factors at the time of those limit increases, it should not have increased the credit limit further. I therefore think it should put things right in the way I set out in my provisional decision.

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 regarding the initial £500 credit limit, I've seen no reason why it would have been reasonable or proportionate for Monzo to have gone this far before approving that opening limit. The checks it did didn't reveal any concerns about Mr P's ability to repay a credit limit of £500 and there weren't any clear signs he was already struggling financially.

### **My final decision**

For the reasons given above, I uphold this complaint in part and direct Monzo Bank Ltd to:

- Re-work the account to refund all interest, fees, charges and insurances applied to balances above £500.
- If the re-work results in the account going into a credit balance, those overpayments should be refunded to Mr P, adding 8% simple interest per year on that refund from the date the account would have first gone into a credit balance to the date of settlement. Monzo should also remove any adverse information it has recorded on his credit file in relation to the account since October 2022. Or;
- If the re-work results in there still being an outstanding balance, Monzo should set up an affordable repayment plan for the remaining amount. Once Mr P has repaid the full balance Monzo should remove any adverse information it has recorded on his credit file in relation to the account since October 2022.

If Monzo has sold the debt to a third party, it should either buy back the debt to carry out

these directions or ensure the third party carries them out promptly on its behalf.

If Monzo considers tax should be deducted from the interest element of my award it should provide Mr P with a certificate showing how much it has taken off, so he can reclaim that amount, if he is eligible to do so.

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**