

The complaint

Miss S complains that Monzo Bank Ltd lent irresponsibly when it approved her overdraft application.

What happened

In August 2019 Miss S applied for a bank account and associated overdraft with Monzo. An income of £1,737 after tax was used and Monzo says it applied estimated monthly outgoings of £990. In addition, Monzo carried out a credit search and found Miss S had existing debts with monthly repayments totalling around £287. Monzo applied a £100 buffer and says that left Miss S with around £360 after her commitments and regular outgoings were paid. Monzo approved an overdraft of £500.

Miss S went on to use the overdraft facility. Account statements show Miss S was consistently overdrawn. And by September 2020 the balance of the account had been overdrawn for around nine months without entering a credit position.

Last year, Miss S complained that Monzo lent irresponsibly when it approved her overdraft application. Monzo issued a final response on 14 September 2023 but didn't agree it had lent irresponsibly. Monzo offered Miss S £75 due to delays in issuing its final response.

An investigator at this service looked at Miss S' complaint. They weren't persuaded that Monzo lent irresponsibly. But the investigator thought that Monzo should've done more to assist Miss S when her account balance was overdrawn for an extended period. The investigator asked Monzo to refund all interest, fees and charges applied from September 2020 onwards.

Monzo ultimately agreed to settle in line with the investigator's recommendations. Miss S asked to appeal and said she still felt Monzo had lent irresponsibly when it approved her overdraft facility. As Miss S asked to appeal, her complaint has been passed to me to make a decision.

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.

Before agreeing to lend, the rules say Monzo had to complete reasonable and proportionate checks to ensure Miss S could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

Monzo has provided evidence to show the information it used when considering Miss S' application. It took details of Miss S' income and employment and applied estimated living costs that were obtained from nationally recognised statistics. The estimated living costs were £990 and I'm satisfied that was a reasonable figure to use. In addition, Monzo checked Miss S' credit file and found she had no recent adverse credit. Monzo found the details of Miss S' existing debts and took the monthly repayments she was making into account. In addition, Monzo applied a £100 buffer for emergencies to its assessment. Overall, Monzo found Miss S had around £360 a month in disposable income.

I note that whilst Monzo was providing an overdraft facility, the limit of £500 was reasonably modest. Given Miss S' declared income and outgoings, I'm satisfied she appeared to have capacity to afford an overdraft of £500. I'm sorry to disappoint Miss S but I haven't been persuaded that Monzo failed to complete reasonable and proportionate checks before approving her overdraft application or that it lent irresponsibly.

Our investigator upheld Miss S case in part as he felt there were clear signs by September 2020 that she'd become reliant on the overdraft and had remained overdrawn for an extended period. As a result, the investigator asked Monzo to agree to refund all interest, fees and charges applied from that point. I agree with the investigator that September 2020 is a fair place to say Monzo should've done more to intervene. And I can see that Monzo has confirmed it's willing to settle in line with what the investigator said.

As Monzo has already agreed to settle by refunding all interest, fees and charges applied from September 2020 onwards and I'm satisfied that's a fair way to resolve Miss S' complaint, I'm going to proceed on that basis. As a result, I'm upholding Miss S' complaint.

My final decision

My decision is that I uphold Miss S' complaint and direct Monzo Bank Limited to settle as follows:

- Re-work Miss S' current overdraft balance so that all interest, fees and charges (that haven't already been refunded) applied to it from 3 September 2020 onwards are refunded.

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 for this. If it considers it appropriate to record negative information on Miss S credit file, it should backdate this to 3 September 2020.

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. †

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 3 July 2024.

Marco Manente
Ombudsman