

The complaint

Mr Y complains that Monzo Bank Ltd (“Monzo”) acted irresponsibly by providing him with an overdraft and also granting him a running credit account.

What happened

Mr Y was given an overdraft with his current account in April 2022 with an initial overdraft limit of £500. This was increased to £1,000 in July 2022 and then to £1,500 in December 2022.

The overdraft went into default in October 2023. At around the same time Mr Y was also experiencing difficulties with other borrowing.

In March 2022 Monzo granted Mr Y a flex running credit account with an opening credit limit of £2,000. There were no limit increases after that.

Mr Y complained to Monzo, saying it should have known he was already in financial difficulty and would struggle with the credit.

One of our investigators looked into the overdraft and didn’t recommend that Mr Y’s complaint be upheld. More recently another investigator looked into the credit account and again didn’t recommend that the complaint be upheld.

As Mr Y is unhappy with both outcomes, the complaint has been passed to me for 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.

I’ve read and considered the whole file, but I’ll concentrate my comments on what I think is relevant. If I don’t comment on any specific point it’s not because I’ve failed to take it on board and think about it, but because I don’t think I need to comment on it in order to reach what I think is the right outcome.

Monzo will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I will look at each of the products complained about in turn.

overdraft

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 Mr Y could afford to repay before agreeing to any credit. 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 agreed to Mr Y's overdraft application after carrying out credit checks and searches to ensure the overdraft limit was likely to be affordable. Monzo used a credit reference agency for this. Monzo then went on to agree to two increases after Mr Y applied for them.

The credit checks and searches carried out by Monzo suggested that the opening overdraft amount of £500 was affordable. The checks were used to assess affordability by looking at what Mr Y had told Monzo in his application about his monthly income and mortgage costs, alongside the data it had obtained about how much he already owed on credit. This showed Mr Y was on a relatively good income and had a mortgage of around £650 to pay. His monthly income was verified as being around £4,600. The checks also showed there had been no recent issues that suggested he might have had difficulties with managing his available credit. In particular, there were no adverse markings on his credit file, such as a default or county court judgment. There was an occasional missed payment in his credit history but when balanced against Mr Y's level of income and generally good credit record, Monzo felt able to offer the overdraft.

Monzo also used statistical information alongside its credit checks to establish what Mr Y's monthly household costs were likely to be. Based on that, it found that the initial overdraft limit was likely to be affordable. After allowing for housing costs of £650, existing credit commitments of around £2,200 and estimated non-credit spending of around £1,000, Monzo's checks showed that Mr Y had around £600 available in disposable income each month. This suggested that the opening overdraft would be affordable.

Similar checks were carried out when the overdraft was increased. I'm mindful though that Mr Y had made two applications for overdraft increases within a very short period of time of the initial overdraft being granted. So I think there is an argument for saying that Monzo should have taken a closer look at Mr Y's financial circumstances before agreeing to each of the increases. But on the other hand I can see that Mr Y had been managing his account relatively well. And again, there were no significant factors that I would expect to have caused Monzo to have pause. It also appears that Mr Y's annual income had increased significantly by the time of the second overdraft increase, based on the information he set out in his application. Monzo therefore calculated that Mr Y had around £700 in disposable income available each month and so the further overdraft increase looked to be affordable.

Having looked through Mr Y's Monzo statements covering this period, I don't think that there were issues apparent that might suggest that the overdraft facility and the increases that followed ought not to have been granted, or that further checks should have been carried out. So I think, given the level of disposable income Mr Y appears to have had at the relevant times, it wasn't unreasonable for Monzo to readily agree to each of the overdraft limit increases.

I've seen that Mr Y's monthly income wasn't paid into his Monzo account. So Monzo relied on what Mr Y told them about it. The payslips Mr Y recently sent us indicate he may have been receiving a lower income. But given the level of overdraft he'd been granted and the information Monzo gathered at the time, I don't think it needed to carry out further checks. My view is that the checks were reasonable and proportionate and there were no issues identified as a result of those checks that suggested Mr Y couldn't afford to sustainably repay the initial overdraft limit or the increases to it that followed.

It follows that on balance I don't think that Monzo treated Mr Y unfairly or irresponsibly when providing him with his initial overdraft and then the two increases that followed.

running credit account

Mr Y also complains that Monzo provided him with a flex running credit account that wasn't affordable given his financial circumstances. The flex account works a bit differently to most credit cards, with customers having the option to move items across to it from their spending on the Monzo current account if they wish, or to pay for items or services by way of an instalment plan option of up to 12 months.

Again, Monzo has explained it carried out a credit check using the information Mr Y provided as well as information obtained from a credit reference agency. His monthly income was verified as around £4,600 and his mortgage costs were around £650. It was then able to work out what credit it could offer. Mr Y again told Monzo he was earning a relatively good income and was paying a mortgage.

Monzo also looked into Mr Y's credit history which again didn't show up any significant problems, such as recent arrears or account defaults. Monzo also relied on statistical information to help it to work out approximately what Mr Y's other monthly spending was likely to be. Based on all this, and given that Mr Y's debt commitments were around £2,000 each month, it estimated that Mr Y would have disposable income of around £750.

Having thought about all this, I agree with our investigator that Monzo's checks were reasonable and proportionate. I've also kept in mind that relative to Mr Y's stated income – which was verified as part of Monzo's checks - the opening credit limit was not excessive, allowing for the fact that if used to its fullest extent it would need to be paid off in a year. However, just because I think it carried out proportionate checks, it doesn't automatically mean it made a fair lending decision. So, I've thought about what the evidence and information showed.

Again, having looked at Mr Y's Monzo current account usage, I think the checks that were completed showed that the account limit was likely to be affordable. It seemed likely that Mr Y would be able to meet his existing credit costs plus other essential spending whilst still being left with sufficient disposable income. And I've kept in mind the way the flex account operates, so that Mr Y would need to be in a position to clear his flex balance within 12 months. I've seen he was making regular use of his overdraft – which is always a potential issue of concern - but I've not seen enough evidence to suggest that Mr Y's financial situation was at immediate risk of deteriorating.

It follows that I don't think Monzo's actions in opening the flex account for Mr Y caused him to lose out.

Mr Y has told us about some challenging personal circumstances which have had an impact on his financial situation. I am sorry to learn of this. But from all the evidence and information I've seen, I can't say that there were any particular factors that might have given rise to Monzo making further enquiries before making credit available to him.

Finally, I've considered whether the relationship between Mr Y and Monzo might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Monzo lent irresponsibly to Mr Y or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

For the reasons I've given above, I don't uphold Mr Y's complaint about his overdraft or running credit account. And so I don't think Monzo Bank Ltd needs to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Y to accept or reject my decision before 22 August 2024.

Michael Goldberg

Ombudsman