

Complaint

Mr D has complained that Monzo Bank Ltd (“Monzo”) irresponsibly provided him with an overdraft which it continued applying charges on even when he was in financial difficulty.

Background

Monzo initially provided Mr D with an overdraft facility of £500, which had a credit limit of £500, in May 2021.

Monzo then increased the credit limit on the facility to £1,500.00 in September 2021 before once again increasing it to £2,000.00 in September 2023.

One of our investigators looked at Mr D’s complaint and thought that Monzo hadn’t done anything wrong when initially providing Mr D with his overdraft.

However, the investigator also thought that Monzo should have realised that Mr D’s overdraft had become demonstrably unsustainable for him by the time that it agreed to increase his credit limit in September 2021. So she recommended that Mr D’s complaint should be partially upheld and that it needed to refund all the interest, fees and charges it added to the account from September 2021 onwards.

Monzo disagreed with the investigator’s assessment and asked for an ombudsman’s review.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I’m partially upholding Mr D’s complaint. I’ll explain why in a little more detail.

Monzo’s initial decision to provide Mr D with an overdraft

We’ve set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Mr D’s complaint.

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 D would be able to repay what he was being lent before providing any credit to him.

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 has said that it obtained some information on Mr D's income and his expenditure before deciding to lend to him. It says that it cross-referenced this against information it obtained on the funds going into Mr D's main bank account and his existing credit commitments which it obtained from credit reference agencies.

On the other hand Mr D says that this overdraft caused him hardship and he shouldn't have been lent to begin with.

I've carefully thought about what both parties have said.

Mr D's overdraft was an open-ended (running account) agreement (in other words, while Monzo was required to periodically review the facility, there was no fixed end date) where there was an expectation that he'd repay what he borrowed plus the interest due within a reasonable period of time.

CONC didn't (at the time of the lending decisions) and still doesn't set out a definition of a reasonable period of time. So I think it's important to note that a reasonable period of time will always be dependent on the circumstances of the individual case. I've therefore kept this in mind when evaluating whether it was fair and reasonable for Monzo to provide Mr D with an overdraft in May 2021. It's fair to say that an overdraft limit of £500 would not have required particularly large monthly credits in order to clear the full amount that could be owed within a reasonable period of time.

Furthermore, I've seen that Monzo deemed Mr D to be earning around £2,500.00 each month and that he had expenditure of £1,750.00. This would have left him with in excess of £750 each month and Monzo arrived at this figure by taking steps to cross-reference its information against what credit reference agencies had about Mr D at the time.

I'm satisfied that this was a reasonable amount to cover credits akin to a sustainable repayment to an overdraft, as well as meet any other commitments which may not have been included in Monzo's affordability assessment.

As this is the case, I'm satisfied that the checks carried out before Mr D was granted his overdraft were proportionate. And as these checks showed that Mr D would be able to sustainably repay an overdraft of £500 within a reasonable period of time, I'm not upholding Mr D's complaint about initially being provided with an overdraft facility.

The limit increases from September 2021 onwards and the overall position after this

In addition to carrying out an assessment of affordability before providing Mr D with an overdraft and any limit increases, Monzo was also required to continue reviewing Mr D account usage to see whether any limit remained sustainable for him going forwards.

Monzo will be familiar with all the rules, regulations and industry codes of practice we consider 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.

I wouldn't necessarily expected Monzo to have proactively reviewed Mr D's overdraft usage in September 2021 as the facility had only been granted some four months earlier. However, while Monzo didn't have to proactively review Mr D's overdraft in September 2021, I cannot

ignore the fact that it did in any event consider Mr D's ability to repay as a result of an application to increase the overdraft limit. And having carefully considered everything provided, I'm satisfied that Monzo acted unfairly when it increased Mr D's credit limit and continued charging overdraft interest and associated fees from September 2021 onwards.

While Mr D might not have got in touch to confirm this, by this point, it was nonetheless evident that there was a real risk Mr D's overdraft could cause him to experience significant adverse consequences, even before it was increased. In other words, Monzo ought to have realised that there was a real risk Mr D was unlikely to be able to clear £500, within a reasonable period of time, let alone the further £1,000.00 he was being offered access to.

A look at his statements from around the time shows that Mr D was gambling significant sums of money. So the transactions taking place on Mr D's account indicated that there was very real prospect that increasing Mr D's credit limit by a further £1,000.00 would cause him to experience significant adverse consequences. Monzo argues its checks left it reasonably entitled to conclude that Mr D could repay a limit of £1,500.00 within a reasonable period of time. But his account activity suggested otherwise. And I don't think that it was fair and reasonable for Monzo to ignore this in favour of conclusions drawn by its lending algorithm.

I've seen Monzo's argument that it didn't simply allow Mr D to continue using his overdraft in the same way. And it is relying on having sent Mr D communications about his overdraft usage in support of this. I've thought about what Monzo has said. But the mere fact that Monzo felt the need to send Mr D so many communications within such a period means that it recognised there was a problem with the way that Mr D was using his overdraft.

And if I take Monzo's argument to its logical conclusion here, I see it as being that it acted fairly and reasonably towards Mr D because it sent him notifications, as it had identified that his gambling may have been problematic. But because Mr D didn't respond to these communications and notifications it was fair and reasonable to increase his overdraft limit and continue allowing him to use in the same way, notwithstanding there was no change in the transactions that were being made, or the way that the overdraft was being used.

In my view, this ignores the fact that there comes a point where a lender cannot continue simply relying on a borrower not wanting to discuss the situation. After all there are many reasons why a consumer might not want to get into discussions about their finances even though they're in a situation where they're struggling, or they may even go further and say they can and will make payment when the reality is they can't.

While Mr D didn't contact Monzo, most likely because he was in a spiral and thinking that he was a win away from rectifying what was clearly a worsening financial situation, I don't think it was reasonable for Monzo to conclude that his problematic overdraft usage would correct itself. As Monzo didn't react to Mr D's account usage and take corrective action in relation to his account activity, I'm satisfied that it failed to act fairly and reasonably towards him.

Monzo increased Mr D's overdraft limit at a time when it ought to have realised that his existing limit already had a high potential to cause significant adverse consequences and Mr D ended up paying interest, fees and charges as a result. So I'm satisfied that Mr D lost out because of what Monzo did wrong and that Monzo now needs to put things right.

Fair compensation – what Monzo needs to do to put things right for Mr D

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of Mr D's complaint for Monzo to put things right by:

- Reworking Mr D's current overdraft balance so that all interest, fees and charges applied to it from September 2021 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Monzo should contact Mr D to arrange a suitable repayment plan, Mr D is encouraged to get in contact with and cooperate with Monzo to reach a suitable agreement for this. If it considers it appropriate to record negative information on Mr D's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in September 2021. Monzo can also reduce Mr D's overdraft limit by the amount of any refund if it considers it appropriate to do so, as long as doing so wouldn't leave him over any new limit.

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 Mr D 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 Mr D's credit file. Monzo can also reduce Mr D's overdraft limit by the amount of refund if it considers it appropriate to do so.

† HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Mr D a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm partially upholding Mr D's complaint. Monzo Bank Ltd should put things right in the way I've directed it to do so above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 8 July 2024.

Jeshen Narayanan
Ombudsman