

## The complaint

Mr C complained that Monzo Bank Ltd (“Monzo”) irresponsibly granted him a personal loan in July 2023 that he couldn’t afford to repay.

## What happened

On 13 July 2023, Mr C took out a loan of £25,000 over a term of 40 months, with a monthly repayment of £800. Mr C said the purpose of the loan was wedding and honeymoon expenses.

In summary, Mr C said that Monzo approved the loan without conducting responsible affordability checks, leaving him burdened with an unaffordable loan. He went on to say that he now relies heavily on credit cards and parental support to meet day-to-day living expenses, to ensure that he can make the monthly loan payments. He feels that Monzo failed to consider the loan amount in relation to his financial capacity and unique circumstances, and didn’t take into account his financial history and his practice of only meeting the minimum payments on two credit cards. Mr C also said that Monzo used a net monthly income figure of £4,137, whereas his actual monthly income is £2,650. He further said he is struggling to meet the monthly repayments, and this is causing him considerable anxiety. Mr C would like the loan to be written off.

Mr C complained to Monzo about this. Monzo said it had carried out appropriate checks before granting the loan, and told Mr C that it did not uphold his complaint.

Mr C then brought his complaint to this service. Our investigator looked into it, but didn’t think it should be upheld. Mr C didn’t agree, and asked for it to be reviewed by an ombudsman.

## 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided not to uphold Mr C’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer’s circumstances. So I’ve considered whether Monzo completed reasonable and proportionate checks to satisfy itself that Mr C would be able to make the repayments on the loan account in a sustainable way.

Mr C sent in a copy of his credit file, and later provided copies of statements from his current account with another bank. Monzo sent in copies of the loan agreement and Mr C’s bank

statements for the period leading up to the loan, along with details of the checks it carried out and notes of its contact with Mr C.

Monzo said in its final response to Mr C that, as part of its assessment, it used a variety of data, including data from his credit file and credit score from one of the credit reference agencies, information on his profile, information he supplied as part of the application process, and information about his usage of the Monzo account.

It further said that to assess affordability it used a search with one of the credit reference agencies that gave it information on Mr C's income and debt levels with other lenders. Monzo said it combined that data with its own model for expenditure based on Mr C's income, age, and the area of the country he resided in.

Monzo told us that Mr C stated his gross salary as £70,000 on the affordability questionnaire he completed online. It used a net monthly income of £4,137, which was verified by its own view of transactions on Mr C's account. Monzo also said that Mr C stated his mortgage cost (or his share of the mortgage cost) as £500 each month. Its estimate of Mr C's essential spend on living costs was £1,115.66, and it used a figure of £316.35 for his other credit commitments. After allowing a buffer of £250, this left a disposable income of £1,954.99. Against this, the monthly payment on the new loan was £800.

Mr C disputed some of these figures. As I noted above, he said his monthly income was £2,650. He said he had two buy-to-let mortgages, with monthly repayments totalling £2,270.60, and the income figure used by Monzo included rent that was used to cover the mortgage payments. He also referred to his credit history, and to his record of only making the minimum payments on his two credit cards.

I've looked at the credit file Mr C provided, along with the bank statements for both of his current accounts.

The credit file does indeed show two buy-to-let mortgages, both opened in April 2022, with a total amount outstanding of around £342,700. It looks as though these were arranged on an interest-only basis, as the balances have remained constant over time.

There are two credit cards, taken out in 2016 and 2017, and a buy-now-pay-later arrangement (BNPL) taken out in August 2022. In July 2023, when Monzo granted the loan, the credit card balances totalled just under £5,000, and the BNPL now-pay-later arrangement balance was just under £1,000. As Mr C said, the credit card repayments generally seem to be for the minimum required, although there are occasional larger payments shown (for example £1,000 in June 2023 on one card)

There is a further credit card shown, but as this was not opened until October 2023 (so after Monzo granted the loan) it is not relevant to the affordability assessment.

There's a missed payment on one of the credit cards, but this was nearly six years ago, and otherwise payments on all of the current credit commitments are shown as being up to date. There are two defaulted accounts shown on the credit file, but the defaults were in 2018, and the accounts show as having been settled. The amounts involved were not particularly large. Given the age and amounts of the defaults I don't think it was unreasonable for Monzo to disregard these.

Mr C referred to a mortgage commitment of £500 each month, in addition to the buy-to-let mortgage payments. But the credit file does not show an additional mortgage in Mr C's name (or in joint names with another party), so it seems that that mortgage is not in his name.

Turning to the bank statements, I've particularly looked at the three months leading up to the loan application. Mr C's income is shown on his Monzo account as £2,140 each month from what seems to be a property company (I take it that this is rental income) and an average of £2,850 each month from his employment. This comes to £4,990, so more than Monzo used in its calculations, and seems broadly in line with the gross annual figure of £70,000 that Mr C stated.

The BNPL payments and the buy-to-let mortgage repayments were made from Mr C's separate current account with another bank. He made regular transfers from his Monzo account to that account to cover those payments.

From the transactions on the Monzo account, I can't identify Mr C's mortgage payments of £500 each month, although there are a number of transfers to (and from) other individuals, so I've taken it that some of these payments relate to the mortgage. There are no direct debits relating to other living costs such as council tax, water, or utilities, so again it's possible that these were accounted for in some of these transfers to other parties. I can see Mr C's credit card payments each month, along with an insurance payment and what I take to be mobile phone costs.

From all this, I think it was reasonable for Monzo to use an income of £4,137 in its affordability assessment (and as I've noted above Mr C's total income was a little higher). The figure of £316.35 in relation to Mr C's unsecured credit is reasonable, based on the balances shown on his credit file – it allows for a little more than the minimum usually required.

I've thought about the figure Monzo used for Mr C's essential living costs. Monzo used a monthly figure of £1,115.66. It is usual for businesses to estimate such costs, but from my experience this is a rather higher figure than I have generally seen. However, I note Monzo said this was partly based on income, so it seems likely that the figure used in Mr C's case was inflated because of the rental income being included in the calculation.

The main issue here seems to be Mr C's mortgage payments. The two buy-to-let mortgages were shown on Mr C's credit file so would have appeared on Monzo's credit search. As I noted above, there was no other mortgage shown. Mr C stated his mortgage cost (or his share) to be £500. It's not clear why Mr C didn't state his full costs including the buy-to-let mortgages, to set against the annual income he stated of £70,000, which included rental income.

I accept that £500 each month is a low figure against mortgage balances of over £340,000. But mortgage costs are often shared, and as I explained above, the monthly mortgage payments were not made from Mr C's Monzo account, and there were no other payments identifiable as mortgage-related on his Monzo account. So I don't think it was unreasonable of Monzo to rely on the figure Mr C stated, and given the relatively low level of unsecured credit, and the level of disposable income it then identified in its calculation, I can't see anything that ought reasonably to have prompted more detailed enquiries. So I'm satisfied that Monzo carried out reasonable and proportionate checks before granting the loan.

Having looked at the checks, I've gone on to look at Mr C's overall situation taking account of his actual expenditure in the three months before the loan, and his income from employment, which averaged £2,850 during that period. Mr C said his monthly mortgage cost was £500, and his credit card and BNPL payments averaged around £200 each month. And the phone and insurance costs averaged around £120 each month. There was a shortfall of £130.60 between Mr C's rental income and the mortgage payments each month, so I've also taken this into account. This leaves just under £1,900 each month, and after deducting the Monzo loan payment of £800, Mr C was left with around £1,100 to cover his

living costs and any other expenditure – similar to Monzo's estimate. So I don't think there was anything to suggest that Mr C would have been unable to manage the loan repayments on a sustainable basis.

I do appreciate that Mr C feels strongly about this, but in summary, I don't think Monzo acted unfairly in terms of the checks it carried out, or in granting the loan to Mr C. So I don't uphold this complaint.

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

Finally, Mr C has said that he is now in financial difficulties, so I would encourage him to contact Monzo, as it outlined in its final response letter to him, if he has not done so already - businesses are required to treat customers in difficulties with forbearance and due consideration.

### **My final decision**

For the reasons given above I have decided not to uphold Mr C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 26 July 2024.

Jan Ferrari  
**Ombudsman**