

## **The complaint**

Mr S complains that Monzo Bank Ltd lent to him in an irresponsible manner.

## **What happened**

This complaint relates to a loan that was given to Mr S by Monzo in June 2023. Mr S has also complained about an overdraft and credit card that he held with Monzo. Those complaints have been dealt with separately. So, in this decision, I am only dealing with what happened when the loan was given to Mr S.

Mr S borrowed £2,000 in June 2023 that he agreed to repay in 20 monthly instalments of £120 plus a final repayment of £40.29. Mr S repaid his loan early around three months later in September 2023. Mr S later complained that Monzo shouldn't have agreed to give the loan to him.

Monzo didn't agree with Mr S's complaint. It said that it thought its checks had been sufficient and that they showed Mr S could afford to meet his repayments. But it said that it hadn't dealt with his complaint as quickly as it would have wanted – so it paid Mr S £50 for the inconvenience he'd been caused. Unhappy with that response Mr S brought his complaint to us.

Mr S's complaint has been assessed by one of our investigators. She didn't think, based on the information it had received from its checks, that Monzo should have agreed Mr S's loan. So she asked Monzo to repay all the interest and charges that Mr S had paid on the loan.

Monzo accepted the investigator's findings. But Mr S said that Monzo's lending decision had caused him severe worry and stress, and subsequent embarrassment. So he thought the lender should pay some compensation for his distress and inconvenience. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr S accepts my decision it is legally binding on both parties.

## **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.

We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr S's complaint.

The rules and regulations at the time Monzo gave this loan to Mr S required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be “borrower” focused – so Monzo had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr S. In practice this meant that Monzo had to ensure that making the repayments wouldn’t cause Mr S undue difficulty or adverse consequences. In other words, it wasn’t enough for Monzo to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr S.

Checks also had to be “proportionate” to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer’s income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should’ve been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I’ve kept all of this in mind when thinking about whether Monzo did what it needed to before agreeing to lend to Mr S.

Monzo has accepted that it shouldn’t have given this loan to Mr S. I have independently reviewed our investigator’s conclusions and agree with them. I think the results of Monzo’s checks showed the increasing pressure on Mr S’s finances. His already heavy reliance on credit suggested that it might be increasingly difficult for him to meet any new repayments in a sustainable manner. So I too don’t think this loan should have been agreed.

Clearly in this case I cannot put Mr S back into the position he would have been had the loan not been agreed. He had the benefit of the money he borrowed, albeit for a relatively short period of time. And he no longer owes anything to Monzo in respect of the loan. But I agree with the investigator that it wouldn’t be right for Monzo to profit from its lending decision. So I too will direct that Monzo refunds any interest or charges that Mr S has paid on the loan.

But Mr S thinks that Monzo should do more. He says that Monzo should pay some additional compensation to reflect the severe worry and stress, and subsequent embarrassment that its lending caused to him. I’ve carefully thought about what Mr S has said, both in response to our investigator’s assessment, and in his original complaint.

But I am sorry to tell Mr S that I don’t think Monzo’s actions, in agreeing this loan, should result in any additional compensation being paid to him for any distress and inconvenience he’s been caused.

I am satisfied that it was Mr S that requested the loan be given to him. And I am mindful that he only had the loan for a relatively short period of time – Monzo's records indicate that Mr S only made two of his scheduled repayments before then paying off the remaining balance over the following week. So whilst I have no doubts that the entirety of Mr S's credit obligations to Monzo might have caused him a difficult time, I don't think this loan greatly added to, or increased, any problems.

For completeness I've also considered whether Monzo acted unfairly or unreasonably in some other way in relation to the loan given what Mr S has complained about, including whether its relationship with him might have been viewed as unfair by a court under s.140A of the Consumer Credit Act 1974. But I'm satisfied the redress I am directing results in fair compensation for Mr S in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

So I think that the redress our investigator proposed, and Monzo agreed to, is a fair and reasonable way to put things right here. I'm not persuaded that it would be right for me to make an additional award for distress and inconvenience.

### **Putting things right**

I don't think Monzo should have agreed to give this loan to Mr S. So, to put things right, Monzo should;

- Refund all the interest, and any charges (including any arrangement or early settlement fees), paid by Mr S on this loan.
- Add interest of 8% simple a year to any refunded interest and charges from the date they were paid (if they were) to the date of settlement. HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Mr S a certificate showing how much tax it's taken off if he asks for one.
- Remove any adverse information recorded on Mr S's credit file in relation to the loan.

### **My final decision**

My final decision is that I uphold Mr S's complaint and direct Monzo Bank Ltd to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 23 August 2024.

Paul Reilly  
**Ombudsman**