

## **The complaint**

Miss D has complained that Monzo Bank Ltd ('Monzo') acted irresponsibly when it provided her with an overdraft and then went on to increase the overdraft limits. She says the overdraft was unaffordable and has asked for all interest and charges incurred on the overdraft to be refunded.

## **What happened**

In December 2022 Miss D took out an overdraft of £200 with Monzo. The level of overdraft went on to be increased, as well as decreased, on numerous occasions between then and October 2023 when it reached £2,000.

Monzo didn't uphold Miss D's complaint. It said that both the initial and final overdraft levels were affordable based on the checks it had carried out.

Our investigator partly upheld the complaint. But Monzo hasn't accepted our investigator's findings. It says that it's satisfied that Miss D's account didn't show signs of financial difficulty from what it says about the way Miss D was using her account.

The complaint has therefore been passed to me for an ombudsman's 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.

Having done so I will be upholding this complaint on the same basis as our investigator. I've considered the available evidence and information about each of the lending decisions relied on by Monzo. I have also checked it alongside what Miss D has told us about her financial circumstances. Based on that, I don't think Monzo ought to have agreed to any further overdraft lending beyond September 2023. I will explain why.

The rules lenders must follow are set out by the industry regulator, the Financial Conduct Authority, in its Consumer Credit Sourcebook ('CONC'). CONC 5D.2 and 5D.3 set out what a business must do to intervene where a customer is repeatedly using their overdraft.

I've kept this in mind when considering whether Monzo has acted fairly and in line with its obligations under CONC.

### *Overdraft increases up to August 2023*

Monzo carried out checks before granting the overdraft and each of the increases. These checks included relying on the information Miss D had put in each of her applications, alongside the information it obtained from a credit reference agency about what she owed to other lenders. It also used statistical information to gain an indication about what her other monthly committed expenditure was likely to be. The basic information provided by Miss D in

each application during this period was broadly the same – namely that she was living at home and had an annual income of £20,800. Her other monthly credit commitments remained at around £160.

Looking at the details about each of the applications for the overdraft increases, including the credit file data relied on by Monzo and the affordability assessment calculations it used, it was calculated that Miss D would have disposable income of around £500 for overdraft limits going up to £1,800.

I appreciate that Miss D had a minimal level of committed expenditure, given that she lived at home, making a regular contribution of £100 towards household costs. Her other credit commitments remained stable at that time. But given that her monthly income worked out to be around £1,500 there was a risk that if she became over-reliant on using overdraft funds, her financial situation could deteriorate. So I agree with our investigator that up to the point she was given an overdraft increase to £1,200 on 8 June 2023, it was likely that the overdraft would be affordable to her, as long as her other financial commitments didn't materially change.

But from 17 June 2023, when her overdraft application for £1,300 was approved by Monzo, I don't think that relying on credit reference agency information plus statistical data was enough to gain a reasonable and proportionate picture of Miss D's financial situation. So from this point – and going forward with the subsequent increases – Monzo should have been doing more to gain a better understanding of Miss D's financial circumstances. And I think a key factor here is that Miss D's Monzo account was not the account into which her monthly income was being paid. Yet Miss D continued to use her Monzo overdraft facility consistently between January and July 2023. So it's clear that Miss D was reliant on it and that in turn raises the risk that she would become over-reliant to the point that her ability to meet her financial commitments could easily become overstretched.

As part of our investigation, Miss D sent our investigator bank statements that showed her income and gave an indication of how she was spending that income, be it on credit and non-credit monthly commitments or on non-essential items such as those arising from leisure spending. It's not possible to be absolutely sure about what Monzo would have found if it had performed more proportionate checks at the time. But in the absence of anything else, I think it's reasonable to place reliance on the information contained in her bank statements. These show that Miss D in fact often earned more than the £1,500 she told Monzo about. For example, she received a net salary of £1,750 in April 2023. During this period, Miss D's level of credit remained stable, as did her non-credit committed expenditure. So I think that the overdraft increases going all the way through to late July 2023 looked to be affordable. And I think this is something that Monzo would have discovered to if it had carried out better enquiries.

#### *Overdraft increases from September 2023*

Miss D cleared her existing overdraft at the end of July 2023. This was after she'd taken out a loan of £5,500. Part of this loan was also used to repay other creditors. At around the same time her annual income appeared to increase to £24,000, as stated in the overdraft applications that were made on and following the July 2023 application for her overdraft to be increased to £2,000.

As I have mentioned above, CONC 5D.2 sets out a business's obligation to identify and monitor repeat use of overdrafts and its obligation to identify customers in actual or potential financial difficulty. Some examples of things that might indicate financial difficulties given are use of other products which may indicate a fall in disposable income, an upward trend in a

customer's use of the overdraft over time or where a customer has become or remained overdrawn in every month over a 12-month period.

Whilst I've already commented on the upward trend in Miss D's overdraft usage and that Monzo ought to have carried out better checks from June 2023, her decision to take on a loan for £5,500 in July 2023 was something that would be very likely to put stress on her financial situation. And it would likely mean that she would suffer a fall in the level of disposable income available to her. So I agree that when she applied to increase her overdraft limit from £500 to £800 in September 2023, Monzo should have intervened at that point. And it's not the size of the increase or its affordability that is the issue here. Rather, it's the fact that all the signs suggest Miss D was once again using the overdraft for long term use. This time, however, the overdraft borrowing was taking place against a background of other borrowing having been taken out, part of which had already been used to clear her previously existing overdraft of around £1,700.

I therefore consider, and agree with our investigator, that Miss D's application to increase her overdraft limit in September 2023 ought to have prompted Monzo to take further action.

Where there are signs that a customer is (or might potentially be) suffering financial difficulties, CONC 5D.3 sets out that a business must get in touch with the consumer and request that they engage with it. And if that doesn't happen the business needs to contact the consumer again, setting out options designed to help them. And finally, if the consumer still hasn't engaged with the business after a reasonable period, it can consider whether it wishes to continue offering the level of overdraft or whether to reduce it. So I broadly agree with our investigator's findings that Monzo ought to have taken steps to assist Miss D with her overdraft borrowing and then taken action to help prevent her financial position from deteriorating. I've seen that Monzo says it sends regular comms to customer to ensure they are aware of the cost of their overdraft and what they can do if they are struggling. But in the specific circumstances of Miss D's case, I think Monzo needed to recognise that her resumed overdraft usage after taking out the loan raised a risk of financial harm if it were to continue.

To summarise, Monzo didn't do enough to help Miss D when it became reasonably apparent that her finances were at real risk of becoming overstretched. So, I don't think it reached a fair decision when it agreed to increase her limit to £800 in September 2023. Monzo should have done more to help her explore different options to reduce the debt, rather than increasing the amount she was able to borrow.

Monzo didn't follow the guidance as set out in CONC, and I don't think it did enough to help her when Miss D's account was showing signs of financial difficulties. So, I don't think Monzo's decision not to refund charges is fair and reasonable.

I've considered whether the relationship between Miss D and Monzo might have been unfair under S.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Miss D results in fair compensation for her in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

#### **Putting things right – what Monzo needs to do**

For the reasons set out, I think it's fair and reasonable for Monzo to refund interest and charges incurred by Miss D as a result of the credit unfairly extended to her. Therefore Monzo should rework the account and:

- Taking account of any refunds already made, rework the account so any charges and interest applied to it on sums from 6 September 2023 are refunded. This

refund should be used to reduce any outstanding balance on the account.

- If the refund clears the adjusted balance any funds remaining should be refunded to Miss D along with 8% simple interest per year\* - calculated from the date of overpayment to the date of settlement.
- If after all adjustments have been made Miss D no longer owes any money, then all adverse information regarding this account should be removed from her credit file from 6 September 2023.
- Or, if an outstanding balance remains, Monzo should look to arrange an affordable payment plan with Miss D for the outstanding amount. Miss D should note any payment arrangement will affect her credit file until the debt is repaid. Once Miss D has cleared the balance, any adverse information should be removed from the credit file and backdated to 6 September 2023.

\*HM Revenue & Customs requires Monzo to deduct tax from any award of interest. It must give Miss D certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

### **My final decision**

My final decision is that I partly uphold this complaint and require Monzo Bank Ltd to settle the case as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 19 September 2024.

Michael Goldberg  
**Ombudsman**