

The complaint

Mr S has complained about Monzo Bank Ltd's decision to increase the limit on his 'Flex' account with Monzo, which provided running account credit for transactions Mr S made on his current account, which was also held with Monzo.

Mr S has experienced financial difficulties and has complained about how Monzo treated him, including its decision to apply a default to his credit file after he fell behind with his repayments.

What happened

I issued a provisional decision about this complaint on 23 September 2024. In my decision, I set out the background to this complaint as follows:

"In December 2021, Mr S took out a 'Flex' account with Monzo. Initially, this account offered £450 running account credit. Monzo then provided the following increases to the account limit:

- £1,000 on 1 August 2022
- £3,000 on 29 April 2023
- £4,500 on 10 June 2023

At the time of each application, Monzo said Mr S had 'monthly affordability capacity' based on information recorded on Mr S's credit file and his current debt obligations.

In June 2023, Mr S contacted Monzo. He said he was currently in financial hardship and asked to consolidate his arrears and pay them off monthly. Mr S said he had applied for a larger overdraft on his current account, also held with Monzo, but that was declined. Monzo declined to offer Mr S a consolidated loan but offered a repayment plan for the Flex and overdraft. Monzo asked Mr S about his income and expenditure.

On 14 July 2023, Monzo asked Mr S further questions about his income and expenditure, and he offered to repay £30 a month each towards the Flex and current accounts. Monzo confirmed:

- *It would reduce Mr S's overdraft limit by £30 a month, and it would freeze fees during the plan. Monzo also said it would record the repayment plan with credit reference agencies.*
- *Mr S's Flex account would default within the next six months. To avoid a default, Mr S would need to repay £62 per month.*

On 16 July 2023, Mr S complained and asked Monzo to look into why he couldn't increase his overdraft limit but it had increased his Flex limit to its current level. Mr S said another bank had offered him a debt consolidation loan. Monzo reiterated the Flex account would default unless he made repayments of £62 per month – Monzo added Mr S needed to make repayments of £13.71 to his overdraft to avoid that account defaulting. Monzo went on to explain different providers have different lending criteria and it would not offer him a loan

based on his income and outgoings. Mr S asked for repayment plans for £62 to the Flex account and £13.71 towards the overdraft to begin on 1 August 2023.

Monzo didn't receive Mr S's repayment on 1 August 2023. On 2 August 2023, it reminded him about the payment. Mr S asked for his repayment plan to be put on hold until his complaint was resolved. On 7 August 2023, Monzo told Mr S that cancelling his plans whilst waiting for his complaint to be resolved would result in Monzo reporting missed repayments on his credit file. Mr S confirmed he would like the plans to now begin on 1 September 2023.

Monzo sent Mr S confirmation of his £62 per month repayment plan for the Flex account and that it would report his account as being in a repayment arrangement to CRAs.

On 4 October 2023, Monzo contacted Mr S as he didn't make his £62 repayment to his Flex account. Mr S said he had been off work for a month so hadn't been able to make the payment but hoped to get on track next month – he asked for a payment holiday for October 2023. Monzo said it would not offer a month's payment holiday and asked if the £62 per month repayment plan was still suitable – Mr S said it was so the repayment plan was set up to begin on 1 November 2023.

On 1 November 2023, Monzo tried to take Mr S's payments as planned, but they didn't go through. Monzo contacted Mr S, who asked to reduce the payments. So, Monzo asked Mr S to update his income and expenditure so it could work out what he can afford.

On 7 December 2023, Monzo told Mr S he was now £2,885 behind on his Flex payments and he would soon default on his agreement. On 14 December 2023, Mr S said he could afford a maximum of £50 per month towards his Flex and overdraft.

On 7 December 2023, Monzo sent Mr S a default notice, saying it would apply a default to Mr S's Flex account on 6 January 2024. Mr S then contacted Monzo to let it know he was struggling and wanted a repayment plan. Monzo collected information about Mr S's income and expenditure. Monzo said it asked Mr S about "flexible spending" in December 2023, but Mr S did not resubmit his budget. Monzo reiterated Mr S needed to complete its budget assessment to check what was affordable. Mr S did this, and on 19 December 2023 Monzo queried some of the figures he had given but didn't get a response from Mr S.

On 5 January 2024, Mr S complained as Monzo has applied a default notice to his Flex account on his credit file. Mr S complained, saying he asked for a debt consolidation loan to repay the balance owed to Monzo. Mr S said Monzo was irresponsible to increase his Flex account limit but refused to increase his overdraft limit.

On 7 January 2024, Monzo explained Mr S would have received a default because of the arrears on his Flex account. Mr S reiterated he wanted to agree a repayment plan to avoid the default – he offered £40 a month towards the Flex.

Monzo and Mr S agreed a repayment plan to begin on 16 January 2024. Monzo said:

"Due to the amount of your monthly repayment and the time it will take to repay, your Flex will default in the next 6 months. Defaults can have a serious impact on your credit score and may show on your credit file for 6 years, making it harder to borrow money in the future..."

As part of your repayment plan, we'll freeze interest on your Flex... Please confirm that you understand what we've said, and that you'd like to start this repayment plan."

Monzo went on to offer Mr S an arrangement to freeze any charges on his overdraft until

April 2024 and asked him if he could afford to repay £13.26 per month. In response, Mr S asked Monzo how much he would need to repay to avoid his Flex account defaulting – Monzo told him it as £61 per month but its assessment of Mr S's budget showed he could not afford this. Monzo said there was "some confusion" about how much Mr S wanted to repay, and it asked Mr S to confirm how he wanted to split his £40 per month repayments between his Flex and overdraft but it didn't hear back from him.

On 26 January 2024, Monzo told Mr S it had applied a default to his Flex account. Mr S complained again. Monzo acknowledged the confusion but said it would not remove the default as Mr S had not offered to repay the account would not have prevented it from defaulting.

On 7 February 2024, Monzo said it would update Mr S's Flex account as satisfied only once he had repaid the outstanding balance of £4,527.83 – Mr S could not avoid the default as it had already happened. And on 17 February 2024, Monzo said:

"I can confirm that you initial offered to pay £40 towards Flex and £13.25 towards overdraft, which will make the amount of £53.25. You then reached out to ask what the flex minimum payment amount would be to stop your account from defaulting.

We responded on the 17th of January 2024, to let you know that to avoid default the minimum amount would be £61 towards flex. We received a response from you stating "yes pls".

Because at this moment we have your initial offer to pay every month at £53.25. We had to confirm that the plan you want to set up will be at £40 towards flex and £13.25 towards overdraft and not include the £61 to avoid default. Due to this, we had to send the confirmation out to ensure that we set up the plan for the correct amount."

Mr S told Monzo its decision to default his Flex account had damaged his credit file and made it harder for him to access other forms of credit.

Monzo did not issue a response to Mr S's complaint in the time allowed, so he referred it to our Service. Mr S says he feels strongly that he should be entitled to some form of compensation due to the stress, anxiety, and financial difficulties he faced since Monzo applied a default to his credit file.

One of our Investigators reviewed Mr S's complaint about his Flex account. Mr S's complaint about the overdraft on his current account has been considered by our Service under a separate complaint reference.

Our Investigator thought Monzo failed to carry out reasonable and proportionate checks on Mr S's income and expenditure before offering to increase his Flex account's credit limit. They said that if Monzo had carried out reasonable and proportionate checks, it would have seen Mr S was already making use of the majority of his overdraft prior to his application for a Flex account. Our Investigator thought proportionate checks would have shown there were signs from the account conduct that increasing Mr S's credit may lead to him getting into financial difficulties – so, Monzo should not have offered Mr S a Flex account or increased his credit limits.

To put things right, our Investigator said Monzo should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.*
- If the rework results in a credit balance, this should be refunded to Mr S along*

with 8% simple interest per year calculated from the date of each overpayment to the date of settlement.*

- Monzo should also remove the default regarding this account from Mr S's credit file.*
- If after the rework there is still an outstanding balance, Monzo should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the balance, any adverse information in relation to the account should be removed from his credit file.*
- Pay Mr S £200 to reflect the distress and inconvenience caused.*

Mr S accepted most of our Investigator's recommendation, adding he thought Monzo remove the default immediately. Monzo did not accept, saying it lent to Mr S in line with its procedures and expectations, but it was prepared to offer Mr S £200 compensation. So, this has come to me for a decision."

I then set out my provisional decision:

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

I have considered Monzo's initial decision to offer Mr S a Flex account. In doing so, I have considered the relevant regulatory framework that required Monzo to lend responsibly. Monzo had to assess whether Mr S could afford to meet the repayments in a sustainable way over the relevant term. And Monzo's assessment of Mr S's circumstances had to be 'borrower-focused' – which means that, while you weren't prevented from assessing your own risk as a lender, you had to assess the risk to Mr S of the borrowing.

As a result, there are a number of overarching questions to consider when deciding a fair and reasonable outcome to this complaint – which we've set out on our website. And with those questions in mind, I think this complaint should be upheld because I think the original lending decision, and the subsequent credit limit increases, were unaffordable.

Our Investigator said Monzo should not have lent Mr S £450 in December 2021. But I want to explain why I agree Monzo should not have offered Mr S the Flex account in the first place in more detail.

The circumstances in which it's reasonable to conclude that a less detailed affordability assessment is reasonable and proportionate are more likely to be limited to applicants whose financial situation was stable and whose borrowing was relatively insignificant given their overall financial circumstances. Whilst the initial borrowing limit was low, given what Monzo knew about Mr S's wider financial circumstances in December 2021, I think Monzo should have carried out further checks to ensure Mr S could repay the borrowing sustainably. Monzo has not shown it verified Mr S's income and expenditure as part of his credit application. However, Monzo has shown Mr S declared his income and housing expenses, and provided estimates of his spending and debt repayments based on information provided by a CRA but has not shown it asked for more information from Mr S about his income and expenditure. I think Monzo should have verified Mr S's income and expenditure here as I think it ought to have known Mr S might already have been struggling financially. Mr S had applied for several increases to the overdraft limit on his current account (at least one application was declined for affordability) in the months prior to applying for extensions to his Flex account. And once the increases to Mr S's overdraft limits were approved, he quickly used up all of the available credit. So, I do not think the checks Monzo has carried out were reasonable and proportionate.

It isn't possible to determine with certainty what such checks would have shown Monzo. As a

result, I have considered what I think reasonable and proportionate checks would likely have shown.

I've reviewed Mr S's current account statements from 2021, prior to his application for the Flex account. Mr S's salary paid into his current account was an average of £1,322.23 in the three months before his application for the Flex account. This is lower than monthly income Monzo had recorded, which it says was verified by a CRA.

Monzo recorded Mr S as having the following monthly expenditure:

- £400 on housing (taken from Mr S's Flex account application)
- £365.06 on monthly debt obligations, based on information from a CRA
- An estimated £541.30 monthly spend on essentials. The estimate was based on typical essential spending for Mr S's income, age, and postcode.

This totals £1,306.36, without the £112.50 'buffer' from Mr S's overdraft application being taken into account. This would, at best, leave Mr S around £18 per month to put towards repaying his Flex account. If I were to include Monzo's £112.50 buffer, Mr S's monthly expenditure would have exceeded his income. Even if Mr S's income was slightly less than the amount estimated by the CRA, the following examples show he was already using all of the £1,000 overdraft limit on his current account and his monthly spending accounted for almost all of his monthly income.

- Mr S's account was £995.59 overdrawn against a £1,000 limit on 20 September 2021, prior to Mr S's salary returning the account to £342.19 credit on 24 September 2021.
- Mr S's account was £997.94 overdrawn on 26 October 2021, against a £1,000 limit prior to Mr S's salary returning the account to £293.30 credit on 26 October 2021.
- Mr S's account was £998.20 overdrawn against a £1,000 limit on 16 November 2021, prior to Mr S's salary returning the account to £339.58 credit on 25 November 2021.

On balance, I do not think the three months prior to Mr S's application for the Flex account show he could afford to repay £450 without relying on credit. So, I agree with our Investigator that Monzo should not have accepted Mr S's application for a Flex account with a £450 limit.

Given I do not think Monzo should have offered Mr S his Flex account, it follows that I do not think it should have offered him the subsequent credit increases. I note that by August 2022, when Monzo increased Mr S's Flex limit to £1,000 Mr S was still using the majority of his £1,000 overdraft and was using the majority of the £450 Flex account limit.

In the months before Monzo increased Mr S's limit to £3,000, in April 2023, his monthly income had risen to an average of around £2,750 per month. But it remains that Monzo should still have verified he could afford to repay £3,000. And if it had, Monzo would have noted Mr S had exceeded his £1,000 Flex limit and was still using the majority of his overdraft. So, he had used all of the credit extended to him when his Flex and overdraft limits had been increased. And when Monzo increased Mr S's credit limit by 50% to £4,500 less three months later, in June 2023, Mr S had again used all of the Flex account limit and using the majority of his overdraft. Mr S by now had an established history of using all of the credit offered to him – and a reliance on credit, operating both his current and Flex accounts near to their limits. Mr S has indicated he previously applied for an increased overdraft – Monzo has not explained why it approved increases to his Flex account but not his overdraft, but I don't think this changes anything significantly. Mr S's testimony suggests he was

struggling financially and was relying on borrowing – including using his overdraft – to make ends meet.

Conclusion

I have thought about whether Mr S lost out. After all, he has had the benefit of the money lent to him. But, on balance, I think Mr S has lost out because when he increased his borrowing, he increased his indebtedness at a time when it looks like he may have been struggling financially. Mr S has said the repayments have been a challenge for some time – there are many months of conversations with Monzo describing his difficulty in repaying the borrowing. So, I think the borrowing proved to be unsustainable and harmful as a result.

Putting things right

When we uphold a complaint, we normally direct businesses – as far as it's reasonably practicable – to put the complainant in the position they would be in now if Monzo had decided not to offer Mr S his Flex account or subsequent credit limit increases. But here, I cannot do this as Mr S has used the funds, so I have thought about what I think Monzo should do to put things right fairly and reasonably given the circumstances of this complaint. So, Monzo should:

- 1. Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.*
- 2. If the rework results in a credit balance, this should be refunded to Mr S along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Monzo should also remove all adverse information regarding this account from Mr S's credit file.*
- 3. Or, if after the rework there is still an outstanding balance, Monzo should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the balance, any adverse information in relation to the account should be removed from their credit file.*
- 4. Pay Mr S £200 compensation for the trouble and inconvenience caused, if it has not already done so.*

**HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one.*

I note Mr S thinks Monzo should remove any adverse information recorded on his credit file and our Investigator agreed. However, I have not recommended Monzo remove all adverse information or the default registered on Mr S's Flex account from his credit file. I'll explain why.

I agree with Monzo it was entitled to register a default when it did. From the correspondence between Mr S and Monzo, which I set out in the background to this decision, I think it told him on numerous occasions that his account would default if he did not make the required repayments. In addition, the guidance provided by the Information Commissioner's Office (the ICO) says that a business should consider defaulting an account once three months of arrears have accrued, and generally by the time six months of arrears have accrued. Mr S's account was in arrears and Mr S told Monzo he was unable to make the required repayments. And where Monzo agreed repayment plans, Mr S (on multiple occasions) later said he could not afford the repayment plan and asked for it to be delayed or to pay lower amounts than agreed. Monzo also told Mr S that agreeing the repayment plan would still result in the account defaulting.

So, I think Monzo was entitled to notify Mr S of his account's default. I cannot see that Mr S has been treated any differently to other customers in similar circumstances. If I were to ask Monzo to remove a record of the borrowing or the default, Mr S's credit file would not be an accurate reflection of what has happened here. And applying the default sooner, rather than further delaying it, means it will be removed from Mr S's credit file sooner, bearing in mind Mr S was unable to repay the borrowing at a level that would avoid the default.

I accept there was some confusion where Monzo indicated it would not apply a default after it had already done so. If I were to put Mr S back in the position he should have been in, Monzo would have told him the default had already been applied and could not be changed more clearly. I also recognise that there were times when Monzo took a few days to respond to Mr S, but I think it also provided reasonable forbearance in agreeing to hold off chasing Mr S for the outstanding balance owed to it whilst his complaint was investigated – Monzo was not obliged to do so. So, overall, I agree with our Investigator that Monzo should pay Mr S £200 compensation for the distress and inconvenience caused by its actions, in addition to completing the steps I have outlined above."

Monzo didn't respond to my provisional decision. Mr S said:

- If Monzo hadn't offered him the Flex account, he wouldn't have had a default on his credit file.
- Mr S set up the payment plan to avoid the default and had funds available to meet the terms of the plan in January 2024 but the payment wasn't taken and his account still defaulted. Mr S assumed the plan was in place.
- Mr S wants to obtain a mortgage in the next two years and having a default on his credit file will hinder him.

So, I have reconsidered the complaint afresh.

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 have not changed the findings set out in my provisional decision above. Mr S said if he hadn't taken out the Flex account, he would not have had the default. And Mr S is concerned the default will prevent him from obtaining further borrowing. I do empathise with Mr S here. But his credit file must be an accurate reflection of the current state of his account. At present, there is borrowing that has not been repaid. But once Mr S has cleared the balance, any adverse information in relation to the account should be removed from his credit file. It is at this point, when the borrowing has been repaid, that Mr S's credit file will be back in the position he would have been in had he not taken out the Flex account.

Mr S said he set up the payment plan to avoid a default in January 2024. But as I said in my provisional decision, Monzo told Mr S he would need to repay £61 per month to his Flex account to avoid a default but its assessment of Mr S's budget showed he could not afford this. The arrears had already reached a level at which, in line with the ICO guidance, Monzo was entitled to apply a default. For the reasons explained in my provisional decision, I remain of the view Monzo was entitled to apply a default when it did.

So, I remain of the view that Monzo should do the following to put things right:

Putting things right

1. Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
2. If the rework results in a credit balance, this should be refunded to Mr S along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Monzo should also remove all adverse information regarding this account from Mr S's credit file.
3. Or, if after the rework there is still an outstanding balance, Monzo should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the balance, any adverse information in relation to the account should be removed from their credit file.
4. Pay Mr S £200 compensation for the trouble and inconvenience caused, if it has not already done so.

*HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one.

My final decision

For the reasons set out above, I uphold this complaint and require Monzo Bank Ltd to put things right by doing what I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 5 November 2024.

Victoria Blackwood
Ombudsman