

The complaint

Mr K has complained that Monzo Bank Ltd acted irresponsibly when it provided him with an overdraft facility on his current account in March 2023.

Background

Mr K opened a bank account with Monzo in later 2019. At that time, he contacted the bank and asked it to apply a block preventing him from being approved for any lending as he had previously struggled to manage his finances. However, in March 2023 he was able to apply for an overdraft facility and says this resulted in him running up a debt of £2,000. He has since repaid this in full but thinks it was irresponsible of Monzo to provide him with access to credit when he had previously asked for applications to be blocked. He's requested that Monzo refund all the linked charges applied to his account as well as the £2,000 he has repaid.

Monzo has said that at the time Mr K asked for the lending block to be added it was. However, it says he then contacted the bank in early 2022 asking for the block to be removed so he could apply for an overdraft facility. Monzo says at that time it queried why Mr K wanted the block removed now and what had changed for him. It says that Mr K explained he'd had a change in circumstances and was in 'better employment' meaning he could now afford the facility. However, Monzo declined his application for an overdraft due to affordability concerns. It says the facility wasn't added to the account until March the following year by which stage Mr K's credit scoring had improved and there was a stable and regular income being deposited into his account. Monzo has said that the application for the overdraft facility was fully checked at the time and there was nothing in Mr K's circumstances that indicated it was unaffordable or would be unsustainable. So, it didn't think it had done anything wrong in relation to providing the credit and didn't uphold that aspect of Mr K's complaint.

Unhappy with Monzo's response Mr K brought his complaint to our service. One of our investigators looked into it already. She found that at the time Mr K had applied for the overdraft he had provided assurances to Monzo that his circumstances had improved, and the bank ran sufficient affordability checks. Having done this she agreed that there was nothing in Mr K's circumstances at the time that indicated the facility wasn't affordable or that it would be unsustainable for him. So, she didn't uphold his complaint.

Monzo accepted the investigator's findings, but Mr K didn't. He responded to say that he quickly became reliant on the overdraft and that it caused him financial hardship. He says his account remained consistently overdrawn and it took a long time for him to repay the debt he accrued.

As he didn't agree with the investigator Mr K asked for an ombudsman to review his complaint and so it's been passed to me to consider.

My findings

I've considered all the available evidence and arguments to decide what's fair and

reasonable in the circumstances of this complaint.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, the total cost of the credit and what it knew about the consumer at the time of application.

Mr K has said that when he opened the account with Monzo he asked the bank to apply a block preventing him from being given access to credit. He says he did this because he had a history of struggling to manage his finances and so it was a preventative measure to ensure he didn't run into difficulty. Therefore, he believes it was inappropriate for Monzo to ever provide him with credit.

Monzo has confirmed that this was noted on Mr K's account in November 2019 shortly after it was opened, and a lending block was duly applied. However, in January 2022 Mr K contacted the bank to ask if he would be eligible for an overdraft. Monzo responded to this query the following day asking what had changed in Mr K's circumstances, particularly in light of the previous request to block all lending. Mr K then gave the bank some assurances that the request for the facility was linked to a pending holiday and that he had changed employment and was in better position financially. So Monzo removed the lending block in February 2022 following further assurances from Mr K that he would be able to repay it if asked.

Having reviewed the interaction between Mr K and Monzo at this point I think the bank responded in a measured and appropriate way to his request to remove the lending block. I say this because it would be unfair for a bank to apply a block on permanent basis and not be prepared to consider a change in circumstances for consumers. More than a year had passed since Mr K had opened the account and he had given assurances that his financial circumstances had changed. And the removal of the block wasn't an automatic guarantee that an application for credit would be approved, merely that it would be considered. So, I can't say Monzo was wrong to remove the block in early 2022 when Mr K asked it to.

It is also worth noting that when Mr K first applied for an overdraft facility following the removal of the block it was declined on the basis that it wasn't affordable to him at that time. It wasn't until Mr K applied in March the following year that the facility was eventually added.

When Mr K applied for an overdraft in March 2023 he was initially given a £750 facility. This was increased twice the following June, initially to £1,500 and then to £2,000. At the time Mr K was earning approximately £50,000 a year, which provided him with a take home salary of over £3,100 per calendar month. He was living with his parents with minimal outgoings and had existing credit obligations of less than £1,000 a month, both at the time of the initial application, and at each limit increase. In addition, Mr K's credit file showed no evidence of any arrears or missed payments. So, I don't think there was anything in Mr K's circumstances at the time he applied for the initial £750 limit, or when he applied for the subsequent increases, that indicated the facility wouldn't be affordable for him.

It is clear that Mr K used the overdraft facility as soon as it was applied to his account. However, each month the account was brought back into credit when Mr K's salary was paid into it and I can't see that there were any signs he was becoming over extended such as returned direct debits or an over reliance on other forms of credit. So, while I don't disagree that Mr K did use the facility regularly and often close to his limit, it appears he did this on

non-essential spending and not out of necessity or because he was struggling to manage his finances.

I am satisfied that Monzo treated Mr K's application with due consideration, in particular I think it did question his previous request to block lending and what had changed and why he wanted the block removed in 2022. And I'm also satisfied that when Mr K did apply for the credit, the application was fully considered, and the facility was only added to his account once Monzo had run full checks to ensure it was affordable. And I don't think those checks showed anything that should have alerted the bank that the facility would be problematic for Mr K or result in financial hardship. So, while I can understand why Mr K regrets adding the facility to his account, I don't think this is the result of any failing on the part of the bank and so I'm not upholding his complaint.

My final decision

For the reasons set out above I'm not upholding Mr K's complaint against Monzo Bank Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 10 October 2024.

Karen Hanlon
Ombudsman