

Complaint

Mr W has complained about a flex credit card which Monzo Bank Ltd (“Monzo”) provided to him and then increased the credit limit on.

He says the credit card he was provided with, which then had its limit increased, shouldn’t have been provided as the total amount he would owe was around £10,000.00.

Background

Mr W has also complained about Monzo’s decisions to provide him with an overdraft and a personal loan. But we’ve already looked at those complaints separately and Mr W has already received answers on those cases.

So this decision is solely looking at Mr W’s credit card and whether Monzo acted fairly and reasonably when initially providing it and then increasing the credit limit.

Monzo initially provided Mr W with a credit card with a limit of £400 in January 2022. The limit on the account was then increased to £2,000.00 in July 2022.

One of our investigators reviewed what Mr W and Monzo had told us. And she thought Monzo ought to have realised that it shouldn’t have provided the credit card. So she thought that Mr W’s complaint should be upheld.

Monzo disagreed and asked for an ombudsman to look at the complaint.

My provisional decision of 12 August 2024

I issued a provisional decision – on 12 August 2024 - setting out why I was not intending to uphold Mr W’s complaint.

In summary, I wasn’t intending to uphold Mr W’s complaint because I was satisfied that proportionate checks would not have shown the credit card or the subsequent limit increase to have been unaffordable for him.

Monzo’s response to my provisional decision

Monzo didn’t respond or provide anything further for me to consider ahead of my final decision.

Mr W’s response to my provisional decision

Mr W asked for additional time to respond after the initial time for responding had already passed. I nonetheless provided Mr W with additional time to respond and the investigator also reminded him of the time he had left just before the time had passed.

Despite this and Mr W saying that he would respond by the end of the extended time period, Mr W did not provide anything further for me to consider ahead of my final decision.

My findings

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

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr W's complaint.

Having carefully considered everything provided, including the correspondence since my provisional decision, I'm still not upholding Mr W's complaint. I'll explain why in a little more detail.

Monzo needed to make sure it didn't lend irresponsibly. In practice, what this means is Monzo needed to carry out proportionate checks to be able to understand whether Mr W could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

I understand that Monzo agreed to Mr W's initial application and the limit increase after it obtained some information on his income and expenditure and also carried out a credit search. And the information obtained indicated that Mr W would be able to make the payments required for this credit card as well as the subsequent credit limit increase to be repaid within a reasonable period of time.

On the other hand Mr W says that he shouldn't have been initially lent to or had his limit increased.

I've considered what the parties have said.

Mr W's credit card was opened in January 2022 with a limit of £400. Mr W's credit card, under the regulator's rules and guidance, is also known as a revolving credit facility. As Mr W was being provided with a revolving credit facility, this meant that Monzo was required to understand whether he could repay around £400 within a reasonable period of time. Not whether he could pay the entire amount in one go.

I understand that Monzo carried out a credit check before initially agreeing to provide this credit card. Monzo's credit check showed that Mr W had no significant adverse information - such as defaulted accounts or county court judgments ("CCJ") - recorded against him. Furthermore, the information Monzo had also suggests that it had been sometime since Mr W missed consecutive payments to credit.

I suspect that Monzo looked at whether consecutive payments were missed because, according to the regulator's guidance - set out in CONC 1.3 - missing consecutive payments to a credit account is considered to be an indication that a borrower may potentially be

experiencing financial difficulty. In any event, I'm satisfied that the information on the credit search did not indicate that Mr W shouldn't have been lent to.

What is also important to note is that a credit limit of £400 would have required low monthly payments in order to clear the full amount owed within a reasonable period of time. Our investigator reached the conclusion that while Monzo's checks were proportionate in this instance, the information it gathered suggested that Mr W only had a disposable income of £63 a month and this meant that the payments to the credit card were unaffordable.

I've considered the conclusions that the investigator reached. However, I'm afraid that I disagree with them for more than one reason. In the first instance, in my view, given the low limit provided here I'm not necessarily persuaded that £63 was insufficient to repay what Mr W could end up owing on the credit card within a reasonable period of time.

It's also my understanding that the £63 the calculation left, was after Monzo's calculations allowed an additional amount of £100 for any unforeseen expenses; and the monthly payment that could be required for this agreement was added to Mr W's existing credit commitments as well as living costs and then deducted from the funds he received.

So it seems to me that the information Monzo gathered, in relation to Mr W's circumstances, does suggest that it was reasonably entitled to believe he had the funds to make the low monthly payments required to clear a balance of £400 within a reasonable period of time.

As this is the case, I'm satisfied that it wasn't unreasonable for Monzo to have agreed to open a credit card for Mr W with a credit limit of £400.

I now turn to Monzo's decision to increase Mr W's credit limit to £2,000.00 in July 2022. I know that by this stage Mr W's overdraft limit had been increased to £1,500.00 and he had also been provided with a loan of £5,000.00. However, Mr W's complaint about these lending decisions has already been upheld. And Monzo has already agreed to compensate him for this.

I've kept this in mind in terms of my assessment of what's fair in reasonable all the circumstances of the credit card limit increase.

The information provided indicates that Monzo carried out similar checks to those it carried out in January 2022. The credit check provided broadly similar results insofar that Mr W still had no significant adverse information - such as defaulted accounts or county court judgments ("CCJ") - recorded against him and Mr W hadn't missed payments to credit in the period since the card had been granted.

I appreciate what our investigator has said about Mr W being over the limit on an overdraft with another provider, by this stage. But our investigator determined this was the case by obtaining the bank statements for that account, which Monzo did not have and nor was it required to have either.

Mr W being over the limit on his other overdraft does not appear to have been present on the credit search which Monzo carried out. I don't think that this is inaccurate, unreasonable, or down to Monzo given the full credit report which Mr W has provided us with shows that the provider for that account hadn't reported any adverse information, to credit reference agencies, in relation to it, since the summer of 2020.

So I don't think that Monzo was aware of Mr W having had any recent difficulty with credit and once again, I don't think that the information on the credit search in itself indicated that Mr W shouldn't have been lent to.

Nonetheless, I'm mindful that Monzo determined that Mr W had an increased monthly income. It says that it determined this by considering information from credit reference agencies on the amount of funds which Mr W was receiving into his main bank account. But as Mr W was an existing Monzo current account holder, I would have expected it to have cross checked any declaration of income against this information rather than third-party information.

I know that Mr W says that he wasn't working at the time and I note that he was in receipt of universal credit. However, Mr W was also in regular receipt of other credits into his Monzo account and when these are factored in, it looks like he was in receipt of roughly the amount that Monzo used in its income and expenditure assessment.

Nonetheless, given Monzo was increasing Mr W's credit limit to £2,000.00 and it had access to this, I do think that it needed to find out about Mr W's actual regular living costs instead of relying on estimates of them. But having considered Mr W's Monzo account statements, I think that it is fair to say that Mr W didn't really have much in the way of living expenses going out of his account. Furthermore, once the living expenses which I can discernibly identify are added to Mr W's non-Monzo credit commitments, I'm satisfied Mr W was able to make the payments required to clear £2,000.00 within a reasonable period of time.

I'm mindful that there is an argument that Mr W wasn't in a position to afford the repayments required to an increased credit card limit of £2,000.00 as well as the payments to his Monzo loan and his increased Monzo overdraft. But as I've explained, Mr W's complaint about those products has already been upheld and he's already been compensated for this. So I don't think that it would be fair and reasonable for me to now 'double count' these products by now including them in my assessment of this complaint.

This is particularly as I'm satisfied that Mr W was not in a position where he couldn't have afforded any of the credit which Monzo provided to him at all and that would, in effect, be the result of the finding I would be making, were I to uphold this complaint. Indeed, I'm also mindful that throughout the course of his complaint, Mr W's argument has been he shouldn't have been provided with £10,000.00 – his overdraft, his loan and credit card – not that Monzo shouldn't have provided him with any credit at all.

I fully accept it's possible that Mr W's position might have been worse than what it looks like on the information that is in his statements, or that it worsened after the limit increase took place. But it wouldn't be fair and reasonable for me to use hindsight here, or say that Monzo should have known that Mr W would struggle with his credit card at the time it was making its lending decisions. This is especially as the available information indicates that Mr W could repay what he could owe at the time the lending decisions were made.

In reaching my conclusions, I've also considered whether the lending relationship between Monzo and Mr W might have been unfair to Mr W under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I'm satisfied that Monzo did not irresponsibly lend to Mr W or otherwise treat him unfairly in relation to the matter of his flex credit card. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here. As this is the case, I'm not upholding Mr W's complaint.

I appreciate this will likely be very disappointing for Mr W – particularly as his other complaints have been upheld and the investigator, albeit erroneously, said that this

complaint should also be upheld. But I hope he'll understand the reasons for my likely decision and that he'll at least feel his concerns have been listened to.

Although I'm not upholding Mr W's complaint, I would remind Monzo of its continuing obligation to exercise forbearance and due consideration, given what Mr W now says about his financial position should he have difficulty making his payments going forward.

I would also encourage Mr W to get in contact with and co-operate with any steps that may be needed to review what he might be able to repay to his credit card. Mr W may be able to complain to us – subject to any jurisdiction concerns – should he be unhappy with Monzo's actions in relation to exercising forbearance going forward.

My final decision

For the reasons I've explained above and in my provisional decision of 12 August 2024, I'm not upholding Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 7 October 2024.

Jeshen Narayanan
Ombudsman