

The complaint

Miss B complains that Monzo Bank Ltd ought not to have approved her application for a revolving credit account in July 2022 and ought not to have approved the credit limit increases she applied for afterwards.

Plus, Miss B complains that Monzo took five months to reply to her complaint.

What happened

Miss B had a Monzo current account and applied for a Flex Account as well which was approved on 8 July 2022. Miss B applied for a loan after that in December 2022.

Miss B has brought other complaints in relation to the current account overdraft and the loan with Monzo and they are being looked at independently of this. But it's important that the lending decisions surrounding this Flex account are viewed within the context of the whole lending relationship. I have duplicated the table supplied to me by Monzo here.

Overdraft	3 March 2021	£500
Overdraft increase	10 March 2022	Increase to £1,000
Monzo Flex	8 July 2022	£3,000 limit
Overdraft Increase	7 August 2022	Increase to £2,000
Loan	17 December 2022	£3,000
Monzo Flex	26 February 2023	Increase to £5,000
Monzo Flex	4 April 2023	Increase to £5,100
Monzo Flex	8 April 2023	Increase to £6,000

Miss B raised her complaint about the Flex account in June 2023. On 31 May 2023 Miss B had informed Monzo that she was having difficulty making all the payments for all her credit products with Monzo and she was having difficulties paying for her external debt.

Miss B was informed that the final response letter would be with her by 17 August 2023. She received it on 28 November 2023.

In the FRL, Monzo did not uphold her complaint. During this time Miss B had received notices of arrears, a 60 day Notice of Closure on 25 September 2023 and eventually a Notice of Default in early December 2023. The accounts were closed. Miss B is in repayment plans to pay off the debts.

Miss B referred her complaint to the Financial Ombudsman Service. Miss B mentioned to us

that she'd made her complaint five months before. At first our investigator treated the product as if it were an overdraft and then as a credit card. As I explain later – this Flex account is neither. It's a revolving credit account of a kind.

Our investigator did not uphold Miss B's complaint. The unresolved complaint was passed to me to decide.

On 17 October 2024 I issued a provisional decision giving reasons why I think that the Flex account ought not to have been approved for Miss B. That is duplicated here for ease of reading.

What I've provisionally 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. I have considered the law, any relevant regulatory rules and good industry practice at the time the credit was offered.

Before lending money to a consumer or approving a credit limit a lender should take proportionate steps to understand whether he or she will be able to repay what they are borrowing in a sustainable manner without it adversely impacting on their financial situation. A lender should gather enough information for it to be able to make an informed decision on the lending. Although the guidance and rules themselves did not set out compulsory checks, they did list several things a lender could consider before agreeing to lend. The key element was that any checks needed to be proportionate and had to consider several different things, including how much was being lent and when the sum being borrowed was due to be repaid.

The Monzo Flex account is a type of revolving credit facility which is in the same category as a credit card but does not operate in the same way. It is a facility attached to an account which allows the holder to draw down on funds up to a pre-ordained limit and pay it off in large or smaller payments depending on the account holders preference. The credit is unsecured and with no fixed duration. The interest is calculated each day. The funds could be used in two ways – either as a 'Flex transaction' two weeks after purchasing an item or use a 'virtual Flex card' to pay for transactions directly. The Flex account funds could not be used for certain types of transactions.

A minimum repayment each month is expected by Monzo and this is calculated in a specific manner and set out in the terms of the agreement and the instalment plan can be chosen by the account holder. The minimum payment is described in the terms and conditions as '...the total of your lowest monthly instalment amounts available across all of your instalment plans.'

Monzo has sent to us documents and explanations to say that when Miss B applied for the Flex account she declared her income was £48,100 each year which it verified as £3,023 each month after tax. It used a used a formula to calculate a MAC which it says is a 'Monthly Affordability Capacity.' Monzo has explained further to us:

'We work out the MAC score by reviewing the customer's net monthly income, then their estimated monthly spend, other monthly debt obligations and then the affordability buffer on the account.'

For July 2022, the Flex account MAC figure was just under £535. But I'm unclear why this figure could be considered a realistic one when multiple and high levels of transactions were being made out of her Monzo current account which appear not to have been factored into this calculation. Plus, I'm unclear why Monzo would consider it necessary to estimate her monthly spend when it had access to her accounts to be able to see these.

I've received a summary of the Monzo credit search it carried out and for the Flex account application and I can see that Monzo was aware that Miss B's external debt had increased

from just over £7,000 to £12,500 between 10 March 2022 and her application date in July 2022. My view that was a steep increase in four months.

Considering Miss B had asked for an overdraft, then an increase in that overdraft earlier in 2022 and then was approaching Monzo for a Flex account with a £3,000 limit in July 2022, Monzo ought to have reviewed her financial situation in more detail to discover why Miss B was obtaining and needing more credit. So, I appreciate that it carried out checks but I think that these checks ought to have initiated further review before approving a £3,000 Flex account credit limit.

As Miss B had her current account with Monzo it had easy access to it. Monzo ought to have reviewed the management of that current account and the transactions on it. I have reviewed those bank statements from 1 May 2022 to 8 July 2022 as I considered a two month period leading up to the application date was a fair and reasonable period to review. I looked to see what it is that Monzo would have seen if it had done that review. And further, from the account notes and/or complaint investigation notes I've been sent I think it did do that and had concerns. I have too.

Miss B's bank account was credited with two high cost loans for £2,000 and £3,000 in June 2022 which were in the weeks leading up to Miss B applying for the Flex account in early July 2022. A review of her transactions shows that Miss B was already paying for at least five other high cost lenders and had two, possibly three, organisations which are well known (or easily discovered) as being debt collectors. These organisations were taking payment too.

My view is that a brief look at Miss B's transactions on her current account would have demonstrated to me that there was an underlying issue. Monzo ought to have established the root cause before approving any further credit for Miss B.

As part of what appears to be the Monzo investigation for the complaint, a number of documents and notes relating to Miss B's applications and account management have been sent to us. The document I have seen shows that an alert was registered because the checks had revealed that there was evidence of Miss B having made repayments to payday loans.

The account notes indicate that an analysis was carried out of all the different lenders Miss B was making payments to, and it had been noted that most were loans from high cost lenders. A concern was noted as to the amount of loans being paid into the account. Another account note indicates that Monzo had thought that there was

'...transactional evidence before the lending was approved to suggest it wasn't appropriate' and that led to a concern about the 'amount of loan usage.'

So, it seems to me that Monzo's own complaint investigation indicated that some concern was noted or ought to have been noted before lending.

Miss B has explained that the multiple and high level transfers out of the account was to send money to a different bank account for her to use for gambling. That may have been the case. But even without becoming aware of the gambling issue, I consider that Monzo had enough evidence to have been concerned before approving the Flex account. Just on that evidence I consider that it was enough not to lend further.

But if Monzo had gone further to discover the reason for the additional credit being needed I think it would have appreciated that the reason for her multiple applications for credit was her gambling issue and asking her about the transfers to the other bank account would have revealed it.

My view is that the Flex Account application ought to have been refused and the credit of £3,000 never extended to Miss B. It follows that I need not review the credit limit increase

applications as I consider that Monzo should put things right for Miss B in relation to that account from 8 July 2022 onwards. I plan to uphold Miss B's complaint.

The complaint handling

On 31 May 2023, the chat bot notes indicate that Miss B contacted Monzo to say that she was in financial difficulties. She was asking for help.

Miss B complained on 22 June 2023. She was assured more than once that the investigation would be over and an FRL sent to her by 17 August 2023. She was retold this on 31 July 2023. On 19 September 2023 Miss B asked what had happened to her complaint as more than eight weeks had passed. I've seen nothing to show me that Miss B was informed that she could have referred her complaint to the Financial Ombudsman Service without the FRL. Instead, she continued to receive multiple communications from Monzo about her triple set of debts and her lack of payments. Eventually, Miss B received the FRL in late November 2023.

I do consider that the late issuing of the FRL plus what seems to be no indication to Miss B that she could refer her complaint to us after eight weeks was an error by Monzo and for which Miss B ought to be compensated. I plan to award £100 for that delayed complaint investigation and the late issuing of the FRL.

How did the parties respond?

Miss B replied to say that she agreed with my findings and asked a question about what would happen to her credit file record:

'I agree with the decision and have no further information to add. Can I ask will the default be removed from my credit file as the credit should never have been granted even though there is still a balance left to pay?'

Monzo responded to my provisional decision but had got two complaints mixed up. It replied on this case about the Monzo overdraft complaint case and so I allowed Monzo another week to reply having pointed out the mix-up. I have received nothing further from Monzo on the merits of this complaint.

In my provisional decision I specifically said in the redress section that my understanding was that the current state of the Flex account was that there is an outstanding balance. I asked Monzo to inform me within the reply period if the debt has been sold or a third party was administering the debt. I have received nothing further from Monzo on the redress point.

Miss B's response appears to confirm that there is an outstanding balance and looking at the figures it seems likely that even after the redress section is actioned there will be a balance left for Miss B to pay to Monzo.

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.

As Monzo has replied about the incorrect complaint then I don't consider that it's points are relevant to this complaint. In the absence of anything further then for the same reasons given in my provisional decision and duplicated here I uphold Miss B's complaint.

I award £100 to Miss B for the distress and inconvenience for the late issue of the FRL.

As for Miss B's question about her credit file record, the starting point should be that as far as possible, we try and put the consumer back into the starting position she would have been in had the lending decision not occurred – but in irresponsible lending cases that isn't always possible. It's a case of doing the best we can at this stage.

So, where a consumer has a balance they're expected to repay it's only fair for this to be reflected on their credit file so that future lenders can take into account what a consumer already owes when deciding whether to lend. Equally removing a default, won't stop a lender from re-recording one, should the consumer once again fall behind or fail to pay what's owed. And this could lead to a default appearing on their credit file for longer than the usual six years.

So, as I said in my provisional decision, if an outstanding balance remains on the credit facility once the redress adjustments have been made Monzo should arrange a suitable repayment plan with Miss B if one is not already in place. And no alteration to the credit file should be made as the account is highly likely still to be outstanding even after the redress section is actioned. And for the default (or other adverse information) to be removed while Miss B still has an amount to repay, means that there's a risk Miss B falls into difficulties with the repayments in the future and a further adverse may be entered going forward. That may include a further and later default which would not be fair to Miss B.

Putting things right

My understanding is that there is an outstanding balance on the Flex account. Monzo needs to do as follows:

- re-work Miss B's Flex credit facility balance so that all interest, fees, and charges applied to it from its inception in July 2022 onwards are removed.
- AND
- if an outstanding balance remains on the credit facility once these adjustments have been made Monzo should arrange a suitable repayment plan with Miss B if one is not already in place. No alteration to the credit file as the account is still outstanding.
- OR
- if the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss B, along with 8% simple interest* on the overpayments from the date they were made (if they were) until the date of settlement.

If no outstanding balance remains after all adjustments have been made, then Monzo should remove any adverse information from Miss B's credit file July 2022. But considering Miss B's balance, I doubt that this will be the scenario which fits Miss B's situation, but I insert it here for completeness.

- AND
- I make a money award to Miss B of £100. This is to be paid to Miss B directly and not used to reduce any outstanding balance she may have with Monzo.

*HM Revenue & Customs requires Monzo to take off tax from this interest. It must give Miss B a certificate showing how much tax it has taken off if she asks for one.

My final decision

My decision is that I uphold the complaint and I direct that Monzo Bank Limited, does as I have outlined in the 'putting things right' section of the decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept

or reject my decision before 6 December 2024.

Rachael Williams
Ombudsman