

## **The complaint**

Miss B has complained that Monzo bank acted irresponsibly when it provided her with a number of different credit facilities, including an overdraft in 2021.

This decision will only consider what happened in relation to Miss B's overdraft facility as her concerns about the other credit facilities have been dealt with separately.

## **Background**

Miss B applied for an overdraft facility on her Monzo bank account in March 2021. She was approved with an opening limit of £500. In March 2022 the limit on the facility was increased to £1,000 and then in August that year it was increased again to £2,000.

Miss B has said that the lending decisions were all inappropriate and the overdraft was never genuinely affordable for her. She says separated from her partner which resulted in her experiencing financial difficulty and unable to maintain her repayments. She's asked that Monzo refund all interest, fees and charges associated with the facility.

Monzo has said that at the time of each lending application it completed all the necessary lending checks to make sure any credit it provided to Miss B would be affordable. Having done that it was satisfied that the overdraft facility would be both affordable and sustainable for Miss B and so it approved her applications.

As it didn't think it had done anything wrong in providing the facility to Miss B it didn't uphold her complaint. Unhappy with Monzo's answer Miss B came to our service.

I issued a provisional decision on Miss B's complaint on 3 October 2024. In it I explained that while I didn't think the lending decisions around the overdraft facility were inappropriate I did think that Monzo had missed clear signs of vulnerability and that the facility was no longer affordable by May 2023. So, I upheld the complaint at that point and asked Monzo to refund all the interest, fees and charges relating to the facility from that time on. I asked both parties to respond with any additional points they wanted me to consider by 17 October 2024.

Monzo didn't respond to my provisional decision, but Miss B did. She explained she disagreed with the findings and asked that I consider another lending complaint she had brought against Monzo that was upheld by a different ombudsman as it related to the same period of time as this complaint did.

## **My findings**

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

I've considered Miss B's response to my provisional decision, but it doesn't impact my findings. That's because the decision on the other complaint, while it relates to the same period of time, was in connection to a different type of credit facility and for considerably higher amounts of credit.

We look at each case on its own individual merits and so while I can understand why Miss B would assume if one complaint was upheld, all her complaints would be, I can only consider the circumstances surrounding her overdraft usage. Having done that I still feel the lending decisions in and of themselves were likely to have been appropriate, but that Monzo failed in its obligations under the rules that govern credit providers in the support it offered to her during the time she had the facility with it.

This means that I'm still partially upholding Miss B's complaint for the same reasons set out in the provisional decision. For the sake of clarity, I will repeat those findings here.

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.

Looking at the three credit applications in turn, I can see that when Miss B applied for the initial overdraft in March 2021 it was for a relatively low amount, £500, and there was nothing in either her declared income, or credit file, that would indicate the facility was unaffordable for her. So I don't think Monzo were wrong to approve the initial application so I'm not planning on upholding this part of Miss B's complaint.

Turning to the second application in March 2022, when the limit increased from £500 to £1,000, Monzo has provided evidence from the checks it completed. Miss B declared her annual income to be just over £48,000 and her monthly disposable income was calculated to be approximately £465 per month. It is evident that Miss B had multiple forms of credit by this time but there wasn't any sign that these were causing her problems or evidence of stress on the account, and so I don't think Monzo was wrong to approve that limit increase and so I won't be upholding that element of the complaint either.

The final limit increase took place in August 2022, only five months after the previous one and saw Miss B's overdraft limit double from £1,000 to £2,000. Again Monzo checked Miss B's credit file and verified her income, which was the same as it had been in March. Miss B's file remained in good order, she did have numerous forms of credit at this time, but they were all still being well maintained and there was no evidence of financial stress at this time. Miss B appeared to have about £680 a month in disposable income and so the limit increase was approved as it appeared to be affordable.

I know Miss B has told us by this time her finances were no longer affordable, but I can't see anything from the checks completed by Monzo at that time, that spoke to this. That doesn't mean I don't believe what Miss B is saying, but I need to consider what checks the business did and what those checks found. And in relation to the application for a credit limit increase in August 2022, I think the checks Monzo did were sufficient, and I don't think there was anything in the results of those checks that could have alerted it, at that moment in time, that Miss B was starting to lose control of her finances or that the credit limit increase would be inappropriate. And for that reason, I can't uphold this part of her complaint.

However, the lending relationship between Monzo and Miss B is a continuous one and it is obliged to ensure that products like overdrafts remain appropriate for consumers. The rules set out by the Financial Conduct Authority ("FCA") in its Consumer Credit Sourcebook, ("CONC"), states that businesses should consider when a financial review may be required to ensure credit facilities remain affordable for consumers.

CONC 6.7.2 specifically states the following:

*1. A firm must monitor a customer's repayment record and take appropriate action where there are signs of actual or possible repayment difficulties.*

Our investigator said that when Miss B applied for the final credit limit increase in August 2022 Monzo should have completed an annual review in August 2023 as there were signs of financial distress on the account by that time and it would have been a year since the account had been checked during the credit application. So, she upheld the complaint from that date and suggested Monzo refund all interest, fees and charges added to it from August 2023.

However, I think a review should have taken sooner. Miss B contacted Monzo on 31 May 2023 to tell it she was struggling to meet her non-priority bills following a change in her personal circumstances. This was following repeated requests by Miss B in April 2023 when she had asked Monzo to change the repayment date on a loan she had with it but hadn't clarified why that was necessary when asked.

But in the message Miss B sent to Monzo in May 2023 she clearly states she needs to make reduced payments for up to five months and asks that all interest, fees and charges be frozen during that time to give a chance to get things back in order and to prevent her from spiralling into more debt.

I can see that over the following months Monzo, and Miss B are in regular contact and various holds and freezes are placed on her different credit facilities. But at no point does a review of her overdraft usage take place. And I agree that the above provision in CONC does require businesses to review how consumers are using their overdraft facilities when there are signs of actual or possible difficulties. Miss B had contacted Monzo and explicitly informed it she was struggling financially in May. And by that time, she had not only used the entire overdraft facility on the account but had actually exceeded the agreed limit. Which resulted in her being charged additional fees on top of the regular overdraft fees she was already struggling to repay.

Had Monzo reviewed Miss B's overdraft usage at this time I think it would have resulted in Miss B either having a limit reduction, or repayment plans to remove the facility entirely, put into place. And while I acknowledge Monzo offered different types of support to Miss B during this time, including various points where interest fees and charges were frozen or removed, I don't think these were as effective as a full review would have been. And so I think it failed in its duties under CONC to offer her reasonable support.

I've also considered whether Monzo acted unfairly or unreasonably in some other way given what Miss B has complained about, including whether its relationship with her might have been viewed as unfair by a court under s140A Consumer Credit Act 1974.

However, because I'm upholding the complaint already for the reasons outlined above, I don't think I need to make a separate finding on this. I believe the redress I've suggested results in fair compensation for Miss B in the circumstances of her complaint.

### **Putting things right**

In order to put things right Monzo Bank Ltd should:

- Refund all interest and charges associated with Miss B's overdraft facility from 31 May 2023 to the date the account was closed.

- Monzo should add 8% simple interest per year from that date to the date of settlement for any refunded amounts\*
- Remove any adverse information recorded on Miss B's credit file relating to the overdraft facility after 31 May 2023

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

### **My final decision**

For the reasons set out above, and in my provisional decision of 3 October 2024, I partially uphold Miss B's complaint against Monzo Bank Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 15 November 2024.

Karen Hanlon  
**Ombudsman**