

## **The complaint**

Mr C complains that Monzo Bank Ltd lent irresponsibly when it approved his loan application.

## **What happened**

The background to this complaint and my initial conclusions were set out in a provisional decision. I said:

*Mr C applied for a loan with Monzo in September 2021. In his application, Mr C said he was living with family at a cost of £100 and employed with an income of £40,000. Monzo calculated Mr C's net income as £2,571. Monzo applied Mr C's housing cost of £100, regular living expenses of £666.10 and a £125 buffer to Mr C's income. Monzo also carried out a credit search and found Mr C had existing repayments to unsecured creditors of around £811.70 a month. Monzo says Mr C had around £686 left as disposable income after his commitments were met. Monzo approved a loan of £5,000 with monthly repayments of £268.05.*

*Mr C made repayments to his loan and it was repaid in full in July 2023.*

*Earlier this year, representatives acting on Mr C's behalf complained that Monzo lent irresponsibly when it approved his loan application in September 2021. The complaint was later referred to this service and passed to an investigator.*

*The investigator asked Monzo to provide copies of the lending checks it completed and supporting evidence. Monzo provided details of its lending assessment and information it took into account when considering Mr C's application but no copy of Mr C's credit file was provided. The investigator wasn't persuaded Monzo had carried out reasonable and proportionate checks when looking at Mr C's application as it didn't provide a copy of the credit report it obtained at the time. The investigator went on to review Mr C's bank statements and found his income was significantly lower than the figure used by Monzo in his application.*

*The investigator reviewed Mr C's bank statements but felt the total income being received was sufficient to cover his ongoing expenses and a new loan with a monthly repayment of £268.05 and didn't uphold his complaint. Mr C's representatives submitted an income and expenditure assessment that showed Mr C was operating at a loss in the months before his application to Monzo and asked to appeal. As Mr C's case has been appealed, it's been based to me to make a decision.*

## **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.*

*Before agreeing to lend, the rules say Monzo had to complete reasonable and proportionate checks to ensure Mr C could afford to repay the debt in a sustainable way. These*

*affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:*

- The amount of credit;*
- The total sum repayable and the size of regular repayments;*
- The duration of the agreement;*
- The costs of the credit; and*
- The consumer's individual circumstances.*

*That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.*

*In this case, Monzo's provided evidence of the figures it used when looking at the affordability of Mr C's loan. But no credit file showing what was found when looking at Mr C's existing commitments was supplied. So I can't reliably see what Monzo saw when considering Mr C's application. I haven't seen evidence that shows Monzo carried out reasonable and proportionate checks and agree with the investigator that a review of Mr C's bank statements, or some other kind of additional checks, would've been reasonable. I note Mr C banks with Monzo so it had access to his current account statements. I've looked at Mr C's current account statements for the three months preceding his loan application.*

*Having reviewed Mr C's bank statements it's clear his income was significantly less than the figure used in his application. In the three months before Mr C's application, his income averaged out at £1,891. I can see our investigator also used credits that were received from a third party as part of Mr C's regular income. But I'm not persuaded that was right as whilst Mr C did receive regular payments from the third party, they also made regular payments to them that largely cancelled out the funds received. And I'm not persuaded Monzo could reasonably have used informal third party credits as income when approving a loan application unless it was very clear on what basis they were being made. So I've only used Mr C's regular earned income in my assessment.*

*Mr C's outgoings for credit commitments varied but on average came to around £1,185 a month in the three months before his application was made. I've taken payments collected by direct debit payment and buy now pay later payments Mr C made into account. Mr C also confirmed he was paying around £100 a month towards his housing costs and I can see Monzo uses a £125 affordability buffer in its assessment of his loan. In addition, Monzo used an estimated monthly spend of £666, based on typical essential spending for Mr C's income, age and location. I see no reason not to use Monzo's estimate for Mr C's estimated monthly spending on essential living expenses in this assessment. Taking all Mr C's outgoings as calculated above into account, they come to £2,076, which is already more than his average income over the previous three months. I accept there will be some months where Mr C's income may be higher or outgoings lower, but overall, it appears to me that he was already either at capacity or over committed at the point of making his application in September 2021. I haven't been persuaded that Mr C's bank statements show he had room to make additional repayments of £268.05 a month to Monzo for a new loan.*

*I accept Mr C's loan was repaid without arrears. But Mr C's credit file shows he went on to secure a significant amount of other credit during the period his loan was active. I'm satisfied there are signs the loan Monzo approved contributed to Mr C's financial difficulties.*

*I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the*

*Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr C in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.*

*Based on the information I've seen, my view is that Monzo ought to have completed better checks before approving Mr C's loan application. And if Monzo had gone further, like looking at Mr C's bank statements, I'm satisfied it's more likely than not it would've found further borrowing was likely to be unsustainable and declined to proceed. In my view, Monzo lent irresponsibly when it approved Mr C's loan application.*

I invited both parties to respond with any additional information or comments they wanted me to consider before I made my final decision. Mr C's representatives confirmed receipt of the provisional decision. Monzo responded to confirm it accepted.

### **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 neither party has provided new information I see no reason to change the conclusions I reached in my provisional decision. I still think Mr C's complaint should be upheld, for the same reasons.

### **My final decision**

My decision is that I uphold Mr C's complaint and direct Monzo Bank Ltd to settle as follows:

- Refund/remove all interest and charges and treat all repayments Mr C made as repayments of the capital
- If this results in any overpayment this should be refunded to Mr C along with 8% simple interest (calculated from the date the overpayments were made to the date of settlement)\*
- If this results in there being an outstanding capital balance Monzo must agree an affordable repayment plan with Mr C, treating him fairly and with forbearance if appropriate
- Remove any adverse information from Mr C's credit file once any outstanding capital balance has been repaid

\*HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Mr C a certificate showing how much tax it's taken off if he asks for one. If it intends to use any refund to reduce the capital balance outstanding it must do so after deducting tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 12 December 2024.

Marco Manente  
**Ombudsman**