

The complaint

Mr C has complained that Monzo Bank Ltd acted irresponsibly when provided him with a £10,000 loan in March 2024.

Background

Mr C has a number of accounts with Monzo. In March 2019 he disclosed to the bank that he had a compulsive spending problem that can result in him gambling in a harmful way. He asked that Monzo place a gambling block on his accounts and add a 'no lending' note to prevent him from being able to apply for credit from the bank. The bank did this and Mr C managed his accounts well for the next few years. In November 2021 Mr C, who was still managing his spending well at that time, requested for the lending block to be removed in order to allow him to apply for an overdraft facility. Monzo agreed to do this but clarified Mr C wouldn't automatically be approved for any credit he applied for. The gambling block remained on his account.

In January 2024 Mr C requested the gambling block be removed from his account, which Monzo did without question. Then in March 2024 Mr C, who by this time had both an overdraft facility and a credit card with Monzo, applied for a £10,000 loan. The application for the loan was successful and Mr C received the funds into his account. Unfortunately, by this time Mr C was gambling in a harmful way again and by May 2024 he found himself in financial difficulty and needed to enter repayment plans on his loan, overdraft and credit card.

Mr C has said that Monzo shouldn't have given him the loan in March 2024. He believes the bank had sufficient information on file to know that he was a vulnerable consumer with a compulsive spending problem and that giving him access to so much credit would result in him experiencing harm. He has asked that the balance of the loan be written off and for the bank to pay him compensation to put him back into the position he was in before January 2024.

Monzo has said that at the time Mr C disclosed his vulnerability and history of compulsive spending it added the appropriate markers to his account and offered tailored support. It also says that when he asked for the lending block to be removed in 2021 it only did so after confirming he was managing his finances well and not gambling. It also noted it was more than a year before the bank approved any credit applications made by Mr C following the removal of the block. Regarding the application for the loan, it says that at the time Mr C applied for it, Monzo ran all the necessary checks to ensure the lending was affordable and sustainable for him. Having done so it didn't think it was wrong to approve the application and so it didn't uphold his complaint.

Unhappy with Monzo's response Mr C brought his complaint to our service. One of our investigators looked into it already. She found that the checks Monzo did when Mr C applied for the loan in March 2024 were insufficient. She also noted that the bank had placed markers on the account to help identify him as vulnerable and someone who had a history of compulsive spending but that this information wasn't taken into consideration before the lending was approved. She also noted that in the three months leading up to the loan

application the activity on the account had changed and Mr C started withdrawing large sums of money which was something he hadn't done before. So, she thought the bank had missed clear indicators that Mr C may be vulnerable and that his behaviour at the time would likely have made the lending unsustainable. So, she upheld the complaint and asked Monzo to refund all of the interest from the loan and pay Mr C £500 compensation for the distress caused.

Monzo accepted the investigator's findings, but Mr C didn't. He repeated that he had explicitly told Monzo about his vulnerabilities and that it had failed to properly query whether the lending would result in harm before providing him access to the funds. He asked again for the balance of the loan to be written off.

As Mr C didn't accept the findings of the investigator the case has now been passed to me for consideration.

My findings

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

For the sake of clarity this decision is only considering the £10,000 loan Mr C applied for and not the overdraft facility or credit card he also held with Monzo. I would also like to thank Mr C for his submissions as I appreciate compulsive spending and problem gambling can be extremely difficult to speak about and Mr C has done so honestly and has provided additional context around his personal health and circumstances in early 2024.

It is also worth clarifying that I've summarised the events of Mr C's complaint. But I want to assure both parties that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

With that in mind, given Monzo has accepted the investigator's findings around why she believed the lending decision was irresponsible, I won't repeat those here as they are no longer being contested by either party. Instead, I will consider whether the proposed redress is sufficient or whether Monzo ought to write off the balance of the loan as Mr C has requested.

Mr C has argued that Monzo knew he was a vulnerable consumer at the time he applied for the lending and ought to have realised that providing him access to the loan would have resulted in him experiencing harm. He has explained that in early 2024, due to an unexpected change in the medical support he was receiving, he relapsed and started to gamble in a harmful and compulsive way. As a result, between January and May 2024, Mr C lost all his savings, and applied for multiple forms of credit, not only with Monzo but with other lenders as well. He is now in a very difficult position financially and has said he has had to consider bankruptcy. He believes the harm he experienced was foreseeable and that Monzo should have done more to support him. He wants the bank to write off the outstanding balance of the loan which is over £9,000.

I can understand why Mr C feels as strongly as he does, and I know he has been left in a devastating situation because of a period of ill health he had no control over. In order to understand whether Monzo should have realised Mr C was spending compulsively again I've reviewed the information about his spending that was available to the bank at the time, which was demonstrated in his bank statements.

Having done that I've not seen any clear, easily identifiable patterns that show Mr C was gambling at the time he applied for the loan in March 2024. It is clear he had started to withdraw cash in much larger quantities than he had done previously, but there are numerous reasons why someone might withdraw cash funds. And while there are some large transactions from online trading platforms, these are credits into Mr C's account and not withdrawals. And these wouldn't have flagged as gambling transactions on the bank's systems as they were from investment platforms not gambling websites.

The balance on Mr C's account, from January to March 2024, when he applied for the loan, was positive and the account never became overdrawn. And while I agree with our investigator that the bank should have done more thorough checks than it did before approving the loan, I don't think those checks would have resulted in Mr C disclosing to Monzo that he was intending on using the funds to gamble. And without a direct disclosure from Mr C I don't think the bank would have realised what was going on.

So, while I understand this period of compulsive spending ultimately resulted in Mr C becoming overly indebted, I can't say this was apparent at the time he applied for this loan from Monzo. Having carefully reviewed the three months of account activity prior to March 2024 I don't think it was evident that Mr C was losing control of his finances.

Which means I can't reasonably conclude that Monzo should have realised that approving the loan would cause Mr C harm in the way that it did. Although I do think the lending was unaffordable, and am upholding the complaint on that basis, that doesn't mean Mr C isn't required to repay the capital amount he borrowed.

Instead, I think it's reasonable that Monzo remove all the interest and charges added to the loan and reduce the outstanding balance accordingly. And I think it should pay Mr C the £500 compensation recommended by the investigator for the distress caused by its lending decision and failure to consider his previous disclosures before approving the loan so soon after providing other forms of credit.

Putting things right

In order to put things right Monzo Bank Ltd should:

- remove all interest, fees and charges applied to the loan
- treat any payments made by Mr C as payments toward the capital amount of £10,000
- if Mr C has paid more than the capital then any overpayments should be refunded to him with 8%* simple interest from the date they were paid to the date of settlement,
- but if there's still an outstanding balance, Monzo should come to a reasonable repayment plan with Mr C or continue with the one currently in place
- once the balance has been repaid in full Monzo should remove any adverse payment information about the loan from Mr C's credit file
- Monzo should also pay Mr C £500 compensation in recognition of the distress it has caused

+HM Revenue and 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

My final decision

For the reasons set out above I uphold Mr C's complaint against Monzo Bank Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 21 April 2025.

Karen Hanlon
Ombudsman