

## **The complaint**

Mr E complains that Monzo Bank Ltd irresponsibly lent him two personal loans.

## **What happened**

Mr E took out a personal loan with Monzo in August 2022, borrowing £7,000 over a term of 60 months. The interest rate was 19.5% APR, giving a monthly payment of £176.73.

In January 2024, Mr E took a further loan with Monzo. This loan settled the outstanding balance on the previous loan and also gave Mr E further borrowing. The total loan amount was just under £15,000, again over 60 months. The interest rate was 18.9% APR, with a monthly payment of £375.99.

Later in 2024 Mr E complained that Monzo hadn't lent responsibly. He said that at the time of the 2022 loan he had four credit cards with a combined balance of over £6,000, four personal loans totalling over £22,000 and a £1,000 overdraft. At the time his annual salary was around £30,000 and he was spending over 50% of his net income on repaying unsecured debts. Although his salary was due to increase from £30,000 to £65,000 as a result of a new job, his outgoings would also increase because he would be moving to a more expensive area to rent in. He said that Monzo ought to have realised that the loan was unsuitable and unaffordable because of the level of his other debts.

In respect of the 2024 loan, Mr E said he had two credit cards totalling almost £3,000, four personal loans totalling £27,000 (not including the earlier Monzo loan) and overdrafts of almost £4,000 – including on his account with Monzo. By now his annual salary was £68,500 but he was paying around £1,400 per month on repaying his unsecured debts. He was reliant on taking further credit to keep up with them – Monzo had only recently increased his overdraft from £1,000 to £2,000.

Mr E says that Monzo ought to have carried out proper checks – and if it had done so, it would have seen that he was reliant on increasing debt and that further borrowing wasn't affordable or sustainable for him. But it didn't ask him for any evidence in support of his application.

Monzo didn't uphold his complaint. It said it had carried out proper checks and concluded both loans were affordable, so it hadn't lent irresponsibly.

Mr E didn't agree. He said that in its response to his complaint Monzo had said it had taken his disposable income as £4,040 per month when in fact it was £3,460. And it had estimated his expenditure at £1,174 – which was much less than was in fact the case. He said he was in a cycle of debt. He said that the loans had caused him significant financial difficulty and worsened his situation. During the course of this complaint he has entered into a debt management plan. To put matters right he wants Monzo to refund interest and fees.

Our investigator didn't think the complaint should be upheld, so Mr E asked for it to be reviewed by an ombudsman. I took a different view, so I issued a provisional decision to allow the parties a further chance for comment.

## My provisional decision

I said:

“In order to lend responsibly, Monzo should carry out proportionate checks to determine whether the lending would be affordable for Mr E, and that he would be able to repay it in a sustainable way. It should consider his income and expenditure, including other credit commitments. The regulator’s rules don’t prescribe specific checks that must be done, and what’s proportionate in any case will depend on various factors including the size and type of the credit, the amount to be repaid, and Mr E’s own circumstances. In carrying out its checks, Monzo should take into account information provided by Mr E, information it has from its wider relationship with him, as well as information taken from other sources such as his credit file.

With that in mind, I’ve thought about whether Monzo did carry out sufficient proportionate checks. If it did, I then need to think about whether those checks allowed it to fairly conclude that the lending was affordable and sustainable for Mr E. And if it didn’t, I then need to think about what it would have found if it had done proper checks – and if, having done so, it would have been able to fairly conclude that the lending was affordable and sustainable.

### *Loan 1*

This loan was taken out in 2022, and Mr E borrowed £7,000 over five years, with monthly payments of around £175.

In his complaint, Mr E said that he had the following other debts at the time:

- Four credit cards, with total balances of around £6,500 and monthly payments of around £250 per month.
- Four personal loans, with total balances of around £22,800 and monthly payments of around £670.
- An overdraft on his current account (not with Monzo) of £1,000.

Mr E says his net income was £1,952 per month, though he changed jobs the month following the lending and his salary more than doubled (though, due to relocation, so did his rent).

Monzo said that it found that Mr E’s income was £3,456 per month, which it verified through a credit reference agency. This was not a direct check on Mr E’s income – for example by asking for payslips. Rather, it was a check on all income received into his current accounts. Lenders often use this as a proxy for income, though it’s not always accurate if, for example, there are substantial other funds received into, or transfers between, accounts. From his credit file, Monzo found that he had other credit commitments of £1,155, his expenditure on housing was £950 and it estimated essentials at £987. Again, this wasn’t a direct check of expenditure. Rather, it was an estimate based on statistical modelling of expenditure for typical households of Mr E’s type.

Monzo took all this information into account. It checked expenditure against income. This left around £364 per month - £237 when adding on a £125 buffer. It therefore concluded that the loan was affordable.

On balance, I think the checks Monzo carried out for the initial lending were proportionate, bearing in mind the nature of the credit and what it knew of Mr E's circumstances. As those checks showed that the lending was affordable, I'm satisfied that it didn't lend irresponsibly.

### *Loan 2*

This loan was taken out in 2024. Including consolidation of the remaining balance of Loan 1 as well as money paid direct to Mr E, it totalled around £15,000, again over five years, with monthly payments of £376.

In his complaint, Mr E said that he had the following debts at the time:

- Around £2,900 in Monzo overdraft and flex account balances, with monthly payments of £205. The overdraft was regularly at its limit and had recently been increased by Monzo.
- £2,600 on two credit cards, paying around £115 per month.
- £26,500 in four longstanding personal loans (not including Loan 1) with monthly payments around £1,041, plus three new personal loans taken out in the months before Loan 2, with a combined balance of around £22,000 – increasing his monthly payments to his credit commitments to over £1,400.
- A £560 overdraft on his current account with another bank.

Mr E says that his net monthly income at this time was £3,460.

Monzo said that Mr E declared annual income of £68,000. It verified Mr E's monthly income as £4,040, expenditure on housing as £885 and other essentials estimated as £1,174. It used the same methods as before – checking income against money coming into his current accounts as reported by a credit reference agency, and using modelled expenditure. From Mr E's credit file, it found that he had other credit commitments of £1,444. This left disposable income of £535 - £411 after a £125 buffer was taken into account – so it concluded that this loan was affordable.

Although Monzo carried out the same checks on the second loan as it did on the first, I'm not persuaded that its checks were proportionate this time. In deciding what checks would be proportionate, it should take into account what it knows about the nature of the credit, as well as what it knows about Mr E and his circumstances.

This loan was significantly larger than the first loan. It was used to repay the first loan, but also to substantially increase Mr E's indebtedness. At the same time, Monzo found that Mr E's other credit commitments had also increased since the last loan – including significant overdrafts on his Monzo accounts. So it knew that he wanted a much larger loan, and that he had already increased his borrowing, including to Monzo. Monzo knew that it had already recently increased its lending to Mr E in the form of the overdraft. And it knew that three monthly payment direct debits on Loan 1 had failed during 2023 – even though Mr E made up the payments almost immediately, that is suggestive of financial stress.

In combination, I think these factors ought to have led Monzo to carry out more rigorous checks before agreeing to lend. In particular, given the limitations of estimating income from current account turnover, it ought to have verified Mr E's actual income by requesting payslips or bank statements. I'm satisfied that relying on

current account turnover in these circumstances wasn't sufficient and that as a result Monzo didn't carry out proportionate checks.

With that in mind, I've gone on to think about what Monzo would have found if it had carried out more detailed checks. Mr E has provided his payslips for the period leading up to the application – these show:

- October 2023 – net pay £3,398.45
- November 2023 – net pay £3,398.84
- December 2023 – net pay £3,505.44 (includes a one-off payment of £250)

If Monzo had carried out more detailed checks, it would have discovered that Mr E's regular monthly income was £3,399 – not £4,040. Based on existing credit commitments of £1,444 and expenditure of £1,174 on essentials and £885 on housing, that leaves a deficit of £104 per month. On that basis, the lending was unaffordable.

I'm therefore satisfied that if Monzo had verified Mr E's income based on his actual income – rather than estimated it from current account turnover – it would have concluded that the lending was unaffordable and should not have been granted. I'm also satisfied as a result that Loan 2 was not responsibly lent and I uphold this part of Mr E's complaint.

To put things right, Monzo should refund all interest and fees charged on Loan 2, and apply all payments Mr E has made to date to reducing the capital balance. It should then not charge interest on the remaining balance while Mr E repays it – subject to any arrangements agreed as part of his debt management plan. Monzo should also remove any adverse entries in connection with Loan 2 from Mr E's credit file.

Finally, I'm satisfied that granting Mr E further lending which was unaffordable for him caused Mr E distress and inconvenience. It's clear he had problems managing his debt during the months after the loan was taken out, and Mr E told our investigator that he was applying to enter into a debt management plan. In the circumstances, I think Monzo should pay Mr E £400 compensation."

Mr E accepted my provisional decision. Monzo said it accepted my findings on the second loan in light of the evidence of Mr E's payslips. But it asked me to clarify why I had also proposed awarding compensation for distress and inconvenience.

### **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.

I'm pleased that both parties have now accepted my provisional decision on the merits of the complaint – that Loan 2 was irresponsibly lent and that Monzo should take the steps I outlined to put matters right.

Monzo has questioned my proposed award of £400 compensation for distress and inconvenience. Our approach to such awards is set out on our website.<sup>1</sup> In my provisional

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<sup>1</sup> See <https://www.financial-ombudsman.org.uk/businesses/resolving-complaint/understanding-compensation/compensation-for-distress-or-inconvenience>

decision, I explained that I was satisfied that the lending was in fact unaffordable for Mr E and contributed to his financial difficulties. It led to problems managing his debt – the result of which was that Mr E ended up entering into a debt management plan. It's possible that this would have occurred even if Monzo hadn't lent Loan 2. But its decision to do so made his situation worse and made that outcome more likely. I'm satisfied that Monzo's decision to lend Loan 2 caused Mr E real distress and inconvenience, and I'm satisfied that £400 is, in all the circumstances, fair compensation for that.

### **Putting things right**

Monzo should put things right in the way set out below.

### **My final decision**

My final decision is that I uphold this complaint and direct Monzo Bank Ltd to refund all interest and charges charged to date on Loan 2, ensuring that all payments Mr E has made in respect of Loan 2 to date are used to reduce the capital balance. Monzo Bank Ltd should also remove all adverse entries in connection with Loan 2 from Mr E's credit file.

If re-working the account results in the capital having been repaid in full, Monzo Bank Ltd should refund any excess payments to Mr E, adding simple annual interest of 8% running from the date of each payment to the date of refund. If Monzo Bank Ltd deducts income tax from the 8% interest element of my award it should tell Mr E what it has deducted so he can reclaim the tax from HMRC if he's entitled to do so.

If, on the other hand, there is still an outstanding balance on the account after the refund of interest and charges, Monzo Bank Ltd should not add future interest or charges and should work with Mr E to come to an affordable arrangement for repayment of the remaining capital – if there is already a payment arrangement in place as part of the debt management plan, this should be allowed to continue but now based on the revised balance.

Finally, Monzo Bank Ltd should pay Mr E £400 compensation. It should be paid to Mr E direct, unless he asks Monzo to use it to reduce any outstanding capital balance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 22 May 2025.

Simon Pugh  
**Ombudsman**