

The complaint

Mr B complains that Monzo Bank Ltd was irresponsible in its lending to him.

What happened

Monzo provided Mr B with a £6,000 loan in July 2023. The loan term was 24 months and Mr B was required to make monthly repayments of £283. Mr B said that adequate checks weren't undertaken before the loan was provided. He explained that he is a vulnerable customer and Monzo is aware of this. He said that he had taken on debts with other lenders around the time of this borrowing and adequate checks would have shown this. He also said that Monzo hadn't provided a reasonable level of service.

Monzo issued a final response to Mr B's complaint dated 2 July 2024. It didn't accept that the loan was lent irresponsibly. It acknowledged that it hadn't always provided the service it should have and paid Mr B £25 compensation because of this.

Mr B referred his complaint to this service.

Our investigator upheld this complaint. They didn't think that Monzo's checks were proportionate and found that had adequate checks taken place Monzo would have realised that Mr B was spending around 78% of his monthly income on credit, before the Monzo loan repayments. Given this they didn't think that the Monzo loan should have been considered as sustainably affordable for Mr B.

Our investigator noted the other issues Mr B had raised including his compulsive spending and vulnerabilities and the compensation paid for service issues. But in this case, they thought the redress recommended for the irresponsible lending complaint was a fair outcome.

Monzo accepted our investigator's view and provided its calculations for the recommended refund. Mr B didn't think the refund provided adequate compensation for the distress he had been caused.

As a resolution hasn't been agreed, this complaint has been passed to me, an ombudsman, to issue a decision.

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.

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, and the

total cost of the credit.

Mr B was provided with a £6,000 loan by Monzo. He was required to make 23 monthly repayments of £283 and a final repayment of £265.44. Before the loan was provided Monzo gathered information about Mr B's income and residential status. He declared an annual income of £40,291 and said he was living with parents and was paying £250 a month for his accommodation costs. A credit check was carried out which didn't record any major adverse data. An affordability assessment was undertaken based on a calculated net monthly income of £2,618, which suggested Mr B had disposable income of around £690. However, Mr B's main bank account was with Monzo and so Monzo had access to this. His account showed he was heavily reliant on his overdraft in the period leading up to the borrowing. Given this and noting the size of the loan and the monthly repayments, and that Monzo had access to Mr B's account, I think that it would have been reasonable for further checks to have been carried out before the loan was provided.

Had further checks taken place, these would have shown that Mr B was paying a substantial amount of his income towards his credit commitments each month. While he was living with parents and so had limited other regular costs, I think the scale of his credit repayments should have raised concerns that providing further credit to Mr B might not be sustainably affordable. Our investigator upheld this complaint and Monzo accepted this. I find this a reasonable outcome.

The outstanding issue relates to the redress. Our investigator set out that because they didn't think the loan should have been provided Monzo shouldn't be able to charge any interest or charges under the credit agreement, but that Mr B should be required to pay back the amount he borrowed. This is the usual approach taken in cases where lending is found to be irresponsible. I have considered Mr B's comment about his vulnerabilities and his spending at the time to decide whether, I think that Monzo should be required to take further action in this case.

Mr B had previously applied a gambling block to his account and his account statements in the months leading up to the loan application did show an increase in payments to a certain entity. However, as I already think that further checks should have taken place, I find this a reasonable response to Mr B's circumstances. Having considered all of the evidence provided, I do not find anything to suggest that Mr B wouldn't have had the benefit of the funds he received and I think the redress set out in our investigator's view provides a fair resolution to this complaint. I have also noted Mr B's comment about the compensation paid for the service issues raised, however having looked through the information supplied, I do not find this unreasonable.

I've also considered whether Monzo acted unfairly or unreasonably in some other way given what Mr B has complained about, including whether its relationship with him might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr B 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.

Putting things right

As I don't think Monzo ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mr B should pay back the amount he borrowed. Therefore, Monzo should:

- Add up the total repayments Mr B has made and deduct these from the total amount of money he received.

- a) If this results in Mr B having paid more than he received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement)*. Monzo should also remove all adverse information regarding this account from Mr B's credit file.
- b) If any capital balance remains outstanding, then Monzo should work with Mr B to arrange an affordable and suitable payment plan with Mr B. Once Mr B has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

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

My final decision

My final decision is that Monzo Bank Ltd should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 9 June 2025.

Jane Archer
Ombudsman