

The complaint

Mr F complains that Monzo Bank Ltd was irresponsible in its lending to him. He wants a thorough review of the loan application to take place and for Monzo to consider cancelling the loan.

Mr F is represented by a family member Mrs N.

What happened

Mr F was provided with a £15,000 loan by Monzo in December 2023. The loan term was 60 months and Mr F was required to make monthly repayments of around £381. Mr F said that adequate checks weren't carried out before the loan was provided. Mrs N explained that Mr F is a vulnerable individual and not sufficiently stable to make sound financial decisions. She said that Mr F has no income and only a phone bill in his name. She thought that this wasn't enough to demonstrate Mr F's ability to manage a £15,000 loan. She said that Mr F should have been required to provide copies of his bank statements or other evidence of his income, but this wasn't requested. Mrs N has explained that Mr F isn't able to make the loan repayments.

Monzo issued a final response dated 15 October 2024. It said that before providing credit to Mr F it undertook a creditworthiness assessment which used a variety of data including data from the credit reference agencies as well as the information provided in the application process. It didn't accept that the lending was irresponsible. It accepted that it had taken time to respond to Mr F's complaint and said it would credit his account with £25 as a gesture of goodwill.

Mr F didn't accept Monzo's response and Mrs N referred his complaint to this service. She reiterated that she didn't think adequate checks were undertaken before the loan was provided and that it was unaffordable for Mr F. She also said that she hadn't received the customer service she should have while trying to deal with this complaint.

Our investigator thought the checks carried out before the loan was provided were proportionate and he didn't think that Monzo was required to carry out further verification of Mr F's income. He considered the information obtained through the checks and as he thought this suggested the loan would be affordable for Mr F, he didn't uphold this complaint.

Mr F didn't accept our investigator's view. Mrs N said that she didn't understand how Monzo could be confident of the income figure Mr F provided. She said that Mr F's Monzo account showed a low level of activity and so she felt the decision was made based solely on his credit file which she didn't think was sufficient to assess the affordability of the loan. Mrs N noted that reference had been made to Mr F losing his job and asked for further details of when this was said, saying that Mr F wasn't employed when the loan was taken out.

Our investigator responded to Mrs N's comments. He stated again that he thought the checks carried out before the loan was provided were proportionate and that further evidence of Mr F's income didn't need to be obtained. He explained that Monzo hadn't just relied on Mr F's credit report but also the information he had provided in the application

process. He provided evidence of Mr F telling Monzo about losing his job on an online chat in July 2024.

As Mrs N's comments didn't change our investigator's view and a resolution wasn't agreed, this complaint was passed to me, an ombudsman, to issue a decision.

My provisional conclusions

I issued a provisional decision upholding this complaint. The details of my decision are set out below.

Mr F was provided with a £15,000 loan with a 60-month term and monthly repayments of around £381. Before the loan was provided, Monzo gathered information about Mr F's employment, income and residential status. Mr F declared that he was employed with an annual income of £35,000, and that he was living with parents and making no financial contribution towards his rent and had no dependents. Monzo verified Mr F's declared income through a credit reference agency tool. A credit check was carried out which showed there were no recent defaults or other adverse data recorded on Mr F's credit file and that he had limited existing credit commitments. Mr F had a bank account with Monzo at the time and so information was available to Monzo about his income and expenses.

While relying on the income verification from the credit reference agency tool can be reasonable, in this case, given the size and term of the loan and noting that Mr F's Monzo bank statements (information which was available to Monzo at the time) didn't record a regular income, or show amounts coming into the account that would support the declared income, I think it would have been reasonable to have asked for further evidence to support the declared income figure.

While Monzo wasn't required to obtain copies of Mr F's bank statements (additional to the Monzo statements it had), as I think that further questions should have been asked about Mr F's income, I have looked through the statements Mr F has provided from his account with another bank to understand what additional questions would likely have identified. Mr F's statements show he had a large credit balance in the account but that this was being reduced significantly each month in the run up to his loan application. There were large transactions in and out of the account but limited regular receipts. In the months leading up to the application, there were receipts from a source that looks like employment and while these vary in amount, given the frequency of the receipts, I think it would be reasonable to assess these as income. However, the total amount received from this source was around £280 a month, which is less than the repayments due under the Monzo loan. There were additional receipts into the account, including income from sales of items through an online marketplace but as these weren't regular, I do not find they would have been considered as income. While Mr F was living with parents and not contributing regularly to any housing costs, he was paying for costs such as insurance, a phone and other general living costs. Taking the above into account, I think that had further questions been asked about Mr F's income, Monzo would have realised that Mr F didn't have sufficient income to be able to sustainably afford the repayments over the loan term. Monzo accepted my provisional decision.

Mrs N responded on behalf of Mr F. She acknowledged the uphold decision but thought that that given the lending had been established as irresponsible Mr F shouldn't be required to repay the principal amount he borrowed. She explained this situation had caused considerable emotional and financial stress noting that Mr F had been so anxious about the accumulating interest and pressure to repay that he considered borrowing money from family and friends just to clear the debt. Mrs N reiterated that Monzo had access to Mr F's account, which clearly showed an absence of regular income.

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.

I note the comments that have been made in response to my provisional decision, and I do not underestimate the stress that would have been caused to Mr F while he was trying to meet repayments on a loan that wasn't affordable for him. As I previously explained, I do not think the loan should have been provided and because of this I do not think that Monzo should be able to charge any interest or charges on the loan. However, while the loan shouldn't have been provided, I do not find this means that Mr F shouldn't be required to repay the principal amount borrowed. Mr F had the benefit of the money he received and so it is right that he should be required to repay this. Given Mr F's financial circumstances, I would expect Monzo to work with him to set up an affordable repayment plan and I would expect it to treat him positively and sympathetically through this process.

I've also considered whether AESEL acted unfairly or unreasonably in some other way given what Mr F has complained about, including whether its relationship with Mr F might have been viewed as unfair by a court 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 F 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

My final decision is that I uphold this complaint. As I do not think this loan should have been provided, I do not find that Monzo should be able to charge any interest or charges on the loan. However, as Mr F had the benefit of the money lent, I think it fair he is required to repay this. Therefore, to settle this complaint, Monzo should:

- Remove all interest, fees and charges from the balance on the outstanding loan, and any repayments made by Mr F made towards the loan should be treated as though they had been repayments of the principal loan amount.
- As I expect there to be an outstanding balance following the account restructure, Monzo should work with Mr F to agree an affordable repayment plan.
- Monzo must remove any adverse information recorded on Mr F's credit file in relation to this loan, once it has been repaid.

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 F to accept or reject my decision before 11 June 2025.

Jane Archer
Ombudsman