DRN-5622381

The complaint

Miss H complains Monzo Bank Ltd provided her with an unaffordable overdraft facility.

What happened

Monzo provided Miss H with an overdraft facility on the following terms:

Date	Existing Limit	Increase	New Limit
March 2023	£0	£500	£500
February 2024	£500	£250	£750
June 2024	£750	£250	£1,000
October 2024*	£1,000	£1,000	£2,000

**Miss H's overdrawn balance never exceeded more than £1,000 so the October 2024 credit limit increase was never utilised*

Miss H complained to Monzo in October 2024 about irresponsible lending. She said had it completed proportionate checks before providing her with the overdraft limits it should have identified that the facility was unaffordable for her. Miss H made specific reference to the overdraft limit increases from March 2024 as she says this is when she was out of work.

Miss H also said although Monzo agreed to offer support by freezing further interest and charges; that this was agreed on a short-term basis, and she feels it should have done more to refund previous interest and charges.

Monzo issued its final response letter in December 2024 in which it didn't uphold Miss H's complaint. It said it had completed proportionate checks before providing the limits, and therefore didn't agree to refund previous interest and charges. It also commented on the time it had taken to provide Miss H with its final response, which it said it made her aware of and was in any event within the regulatory timescales.

Unhappy with Monzo's response Miss H referred her complaint to our service for review.

Our investigator considered the details and didn't uphold Miss H's complaint. She said Monzo had completed proportionate checks and made a fair lending decision when providing the original limit.

For the limit increases, she considered Monzo's checks weren't proportionate and needed to go further. She considered information Miss H provided our service to reasonably assess what more detailed checks would likely have identified, and concluded Monzo had made fair lending decisions when providing the first and second limit increases. In terms of the third limit increase to £2,000, our investigator didn't consider this lending event as Miss H's balance never went above £1,000 overdrawn, and this limit was reduced again shortly after it was increased. As such Miss H hadn't suffered any financial loss due to this lending decision.

Our investigator also considered the rate of interest applicable to Miss H's overdraft facility and explained a lender is entitled to set its rates using its commercial judgement.

Monzo didn't respond to our investigator's view; Miss H did and didn't agree. Miss H raised a number of points which our investigator went on to answer, and confirmed her view remained the same.

Miss H asked for an ombudsman's review, so the complaint has been passed to me to decide.

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.

The information in this case is well known to Miss H and Monzo, so I don't intend to repeat it in detail here. While my decision may not cover all the points or touch on all the information that's been provided, I'd like to assure both parties I've carefully reviewed everything currently available to me; but I've focused my findings on what I consider to be the key points and facts relevant to this complaint. I don't mean to be discourteous to Miss H or Monzo by taking this approach, but this simply reflects the informal nature of our service.

I'd also like to acknowledge that within Miss H's response to our investigator she clarified that her concerns were with the credit limit increase to £2,000. While this is the case, as our investigator set out within her view, under our inquisitorial remit we have considered all of the lending events under this overdraft agreement.

We've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website.

At the time Monzo provided Miss H with the original overdraft limit and limit increases, it needed to complete proportionate checks to ensure the credit limits were affordable.

There isn't a set list of checks Monzo needed to conduct, but we'd expect the checks to be proportionate to the terms of lending being provided, and the information the business knew or ought reasonably to have known about the borrower. It isn't sufficient for Monzo to just complete proportionate checks – it must also consider the information it obtained from these checks to go on and make a fair lending decision when providing this credit. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without the need to borrow further.

I've used this approach to help me decide this complaint and I've set out my findings below under separate headings for ease.

<u>The original £500 limit in March 2023 and limit increases to £750 in February and £1,000 in June 2024</u>

Monzo has said it completed proportionate checks and considers it made fair lending decisions when providing Miss H with these overdraft limits.

I've carefully considered all of the arguments presented by both parties; and having done so I consider Monzo acted fairly when providing Miss H with these limits.

I say this because when Monzo provided Miss H with the initial limit, it was for a relatively modest value, and this was its first lending relationship with her. Therefore, proportionately its checks didn't need to be as detailed as they may reasonably need to be later in a lending relationship, or when larger limits are provided, for example.

Monzo's checks consisted of reviewing online credit tools, Miss H's credit file and consideration of statistical data. It identified Miss H had a monthly income of around £960 and expenditure, including housing and living costs, as well as commitment to existing credit, of around £725. Monzo added in a buffer of £125 and concluded Miss H would be left with around £110 a month, which it considered a reasonable level for repayment of this initial £500 limit.

Based on the information Monzo obtained, I consider it acted fairly when providing this limit.

When increasing Miss H's credit limit to £750 and £1,000, Monzo also had Miss H's management of the existing facility to consider and take account of.

While Miss H had largely been using the overdraft facility as intended in 2023 by fluctuating in and out of credit each month; by 2024 Miss H's behaviours and management of the facility had changed. Miss H generally remained in an overdrawn position across the whole of 2024, largely maintaining an overdrawn balance in the mid to high hundreds. However, Miss H did regularly transfer money into the account and apart from the persistent use, there weren't other signs of financial difficulty such as returned payments, the balance going above the agreed limit, or other lending being paid into the account.

But, given the size of the increases and the evidence Monzo had available to it, I consider its checks needed to have been more detailed than they were. I consider proportionate checks would have led to Monzo verifying Miss H's actual income and expenditure rather than using online tools and statistical data to calculate affordability.

Monzo could have done this in a number of ways as the rules it needed to follow aren't prescriptive in what information it must consider. Miss H provided us with bank statements from her main account with another provider. In the absence of any other contrary information, I consider these statements allow me to reasonably identify what proportionate checks at the time would more likely than not have shown Monzo.

I've therefore reviewed the statements Miss H has sent from another provider for the three months before each overdraft limit increase, as well as Miss H's Monzo statements for the same periods.

Across the statements I've seen Miss H's income and payments towards usual household expenses you'd expect to see, such as council tax, utilities and subscriptions, as well as payments to existing credit commitments.

These all remain relatively consistent across the months I've reviewed, and when taking an average I consider Miss H appears to be left with a reasonable level of disposable income each month. In part, this disposable income could be used to repay the overdraft limits of £750 and £1,000 over a reasonable period of time.

So, it therefore follows I consider proportionate checks would more likely than not have led to Monzo reasonably concluding that the overdraft limit increases of £750 and £1,000 were affordable for Miss H. As such, I don't consider Monzo made unfair lending decisions when providing Miss H with these overdraft limits.

<u>The credit limit increase to £2,000 in October 2024</u>

As our investigator set out within their view, while Monzo increased Miss H's overdraft limit to £2,000, her overdrawn balance never exceeded the previously agreed limit of £1,000.

Miss H reduced her overdraft limit back to £800 on the same day, just above her overdrawn balance at that time.

As such, even if I were to consider the fairness of this lending decision, Miss H hasn't suffered any financial loss for me to direct Monzo to redress.

So, I've not considered this lending decision as Miss H hasn't suffered a financial loss as a result of it.

<u>Has Monzo acted unfairly or unreasonably in any other way?</u>

Miss H has raised concerns with Monzo not refunding her interest and charges it had previously applied to her account before she raised her complaint. And she has questioned the interest rate applicable to her overdraft facility.

As I've found above that Monzo fairly provided Miss H with the overdraft limits up to £1,000 (and haven't considered the increase to £2,000 for the reasons set out above); it follows that I don't consider Monzo needs to refund any interest or charges applicable to the account before Miss H made it aware of her financial difficulties.

I've seen the agreements Monzo provided Miss H before each lending event. These set out the interest rate that would be applicable to each overdraft limit. By accepting the agreements Miss H has indicated her acceptance of the associated terms, including the applicable interest rate.

The setting of interest rates and the interest rate a business provides a customer is generally a use of its commercial judgement. In the individual details of Miss H's complaint, I've not seen anything to suggest that Monzo has acted unreasonably in the application of the interest rates it has provided Miss H for each lending decision.

I've seen that once Miss H made Monzo aware of her financial situation it agreed to freeze future interest and charges for a period of around three months, at which time it said it would look to reassess Miss H's situation. I don't consider Monzo's actions to be unfair here. It agreed to supress future interest and charges for a reasonable period of time, at which point it would look to obtain an update on Miss H's financial circumstances. This way it could reasonably consider whether to continue the same or similar support, or whether Miss H may be in a better financial position.

I appreciate Miss H provided Monzo with details about her personal circumstances which she says set out that her financial situation wouldn't have changed within three months. However, it isn't unreasonable for a business to initially look to provide support over a shorter period and then reassess a customer's financial situation at reasonable intervals, to consider what relevant support it continues to provide.

I've also considered whether Miss H's relationship with Monzo might have been unfair under Section 140A of the Consumer Credit Act 1974.

However, for the reasons I've already set out above, I don't think Monzo lent irresponsibly to Miss H, or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

So, taking all the above into account I don't consider Monzo has acted unfairly in the details of Miss H's complaint, and it therefore follows it doesn't need to take any further action in resolution of the complaint.

I acknowledge from the most updated position that Miss H appears to have reduced her overdraft limit to £50; and that she may now have repaid the overdraft in full. However, I would take this opportunity to remind Monzo that it should treat Miss H fairly and sympathetically during all contact when looking to recover any remaining outstanding debt.

My final decision

My final decision is that I don't uphold Miss H's complaint about Monzo Bank Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 6 August 2025.

Richard Turner
Ombudsman