

Complaint

Ms P has complained about the overdraft charges Monzo Bank Ltd (“Monzo”) applied to her current account. She’s said the charges applied to her account were unfair as she was hardcore borrowing and couldn’t afford them.

Background

Ms P initially applied for an overdraft with a limit of £400 in April 2019. The limit fluctuated between being £100 at its lowest in May 2019 to £1,600 at its highest in February 2023, which the limit has remained at since then.

One of our investigators reviewed what Ms P and Monzo had told us. He wasn’t persuaded that Monzo had acted unfairly by allowing Ms P to use her overdraft in a way that was unsustainable or otherwise harmful. So the investigator didn’t recommend that Ms P’s complaint be upheld.

Ms P disagreed with the investigator and asked for an ombudsman’s decision.

My findings

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

Having carefully considered everything provided, I’m not upholding Ms P’s complaint. I’ll explain why in a little more detail.

Before I go any further, as this essentially boils down to a complaint that Ms P was unfairly charged as a result of being allowed to continue using her overdraft, I want to be clear in saying that I haven’t considered whether the various amounts Monzo charged were fair and reasonable, or proportionate in comparison to the costs of the service provided. Ultimately, how much a bank charges for its services is a commercial decision. And it isn’t something for me to get involved with.

That said, while I’m not looking at Monzo’s charging structure per se, it won’t have acted fairly and reasonably towards Ms P if it applied this interest, fees and charges to Ms P’s account in circumstances where it was aware, or it ought fairly and reasonably to have been aware that there was a clear reason it would have been unfair to do so.

I’ve therefore considered whether such a reason existed which would have resulted in Monzo charging Ms P unfairly.

Having looked through Ms P’s statements, it’s clear that she has been using her overdraft since it was granted to her. I’m therefore satisfied that there can be no dispute that Ms P was using her overdraft over the period of time she’s had it. Ms P’s arguments appear to suggest that this in itself means that her complaint should be upheld.

However, while I've noted that Ms P has referred to not using her overdraft for short-term emergency borrowing, she's complained about an overdraft not a short-term loan. Indeed, Ms P's overdraft was arranged and was an open-ended agreement credit agreement. This means that Ms P had an agreement to use her overdraft and as a result she was entitled to use it without having to reapply to do so. This is different from say short-term loans which she would have had to repay over a fixed period and then make a further application for additional loans if she wanted further funds.

That said, I do accept that the rules, guidance and industry codes of practice all suggest that prolonged and repeated overdraft usage can sometimes be an indication of financial difficulty. However, it isn't always the case that prolonged and repeated overdraft usage by a customer will always mean that they are, as a matter of fact, in financial difficulty. Indeed, if that were automatically the case, there would be an outright prohibition on revolving credit accounts being open ended, rather than there being a requirement for a lender to review how the facility is being used.

I've therefore considered whether Monzo acted fairly and reasonably towards Ms P, in this light.

In considering this matter, the first thing for me to say is that after the regulator amended its rules in December 2019, since late 2020 lenders have been required to write to customers explaining that using an overdraft can be expensive and that there may be more suitable alternatives for borrowing over the longer term. Lenders have effectively been required to encourage borrowers to use other means in these circumstances.

Furthermore, should a customer fail to take notice of these letters and continue using their overdraft in this way, the rules in place since then have permitted lenders to take corrective action, this is even where a customer might be using their account in accordance with the terms and conditions.

One such instance where a lender would be expected to act is where it was clear that the customer was experiencing financial difficulty. Nonetheless, it would need to be objectively clear to the lender, rather than a matter open to interpretation, that the overdraft charges were clearly making things worse and they were harmful as a result.

To begin with, I can't see Ms P notified Monzo that she was struggling and that these charges were causing her difficulty, prior to making her complaint. If she had Monzo would have known that the charges were causing harm and I would have expected it to act.

Nonetheless, even though I can't see that Ms P directly told Monzo that she couldn't afford to pay these charges, I've considered whether her account activity ought to have alerted it to this being the case. In considering this matter, I'm mindful that in order to help with determining whether it is objectively the case that a customer was experiencing financial hardship, the regulator has (since April 2014) set out guidance on what it considers to be potential indicators of financial difficulty.

While this guidance came into force in April 2014, it effectively incorporated Section 9 of the British Bankers' Association's (of which Monzo was a member of) Lending Code, which had already been in place for a number of years (including the period between 2011 and 2014). So I'm satisfied that the principle of this guidance, at the very least, is relevant to the entire period I'm looking at.

The '*Guidance on financial difficulties*' states that things such as a customer failing to meet consecutive payments to credit, being unable to meet their commitments out of their disposable income, having adverse credit or other insolvency information recorded against

them, or being in a debt arrangement should be considered as potential signs of a customer being in financial difficulty.

However, having looked at Ms P's account transactions as well as the statements Ms P has provided, I've seen no indication that any of the potential signs of financial difficulty contained in the guidance, were obviously present in her circumstances during the entire period I've looked at. Furthermore, I can't see anything in Ms P's account transactions or statements which suggests that she was borrowing from payday or other high-cost lenders, which although not contained in the regulator's guidance, is generally accepted to be an indication that a borrower could be struggling too.

I've also looked at Ms P's incomings and outgoings as well as her overdrawn balances and determined whether it was possible for her to have stopped using her overdraft, based on this. I think that if Ms P was locked into paying charges in circumstances where there was no reasonable prospect of her exiting her overdraft then her facility would have been unsustainable for her, even where the indicators of financial difficulties I've set out above weren't clearly present in her circumstances, when looking at the account transactions.

In reviewing this matter, I've noted that throughout the period of time I'm looking at, Ms P's account was in receipt of credits that were sufficient to clear the overdraft within a reasonable period of time. Indeed, I'm satisfied that Ms P's case isn't one where a borrower was permanently in their overdraft. It is clear that there were times where Ms P returned to a credit balance.

I can even see more than one occasion where a substantial influx of funds into Ms P's account meant that she was able to remove the overdraft completely if she wanted to. Ms P has said that these funds weren't hers and were earmarked for other purposes. However, I don't think that Monzo could possibly have been expected to know this. The fact that Ms P was receiving regular credits into her account is another reason why her overdraft doesn't appear to have been obviously unsustainable for her.

Furthermore, while I'm not seeking to make retrospective value judgements over Ms P expenditure, there are significant amounts of non-committed, non-contractual and discretionary transactions going from Ms P's account. Indeed, there was significant discretionary spend and Ms P also appears to have been transferring funds to and from another account of hers at times.

I accept that Ms P did have other credit commitments at this time. But this in itself does not mean that she was reliant on credit to meet her essential expenditure. And it isn't immediately obvious to me that Ms P was borrowing from unsustainable sources – such as payday type lenders – in order to pay for the charges, or meet other committed expenditure either.

Of course, I accept neither of these things in themselves (or when taken together) mean that Ms P wasn't experiencing difficulty. But I don't think that Ms P's account conduct and overdraft usage obviously show that she was. And bearing in mind I'm satisfied that it is more likely than not that Ms P did not directly tell Monzo that she was experiencing financial difficulty, that's what I'd need to be persuaded of in order to uphold her complaint.

Looking from the outside, it looks like Ms P had the funds to be able to reduce the amount that she used her overdraft. However, she was choosing not to do so. In these circumstances, Monzo was reasonably entitled to conclude that Ms P was choosing to use her overdraft rather than it being the case that she had become reliant on it.

Therefore, I don't think that Ms P was obviously locked into using her overdraft and paying the charges for doing so. In my view, there was a reasonable prospect of Ms P exiting her overdraft. And Monzo was reasonably entitled to believe that Ms P was choosing to use her overdraft in the way that she was, rather than a case that her financial circumstances meant that she had no choice other than to do so.

Overall and having considered everything, I don't think that it was unreasonable for Monzo to have proceeded adding the charges that it did. This is particularly bearing in mind the consequences of Monzo taking corrective action, in the way that it would have done, would have been disproportionate.

I say this because I don't think that it would have been proportionate for Monzo to demand that Ms P immediately repay her overdraft, in circumstances where there was a realistic prospect of Ms P clearing what she owed in a reasonable period of time. This is especially as the next step would have been to default the account after this.

I'm therefore satisfied that Monzo did not charge Ms P in circumstances where it ought to have realised that it was unfair to do so.

In reaching my conclusions, I've also considered whether the lending relationship between Monzo and Ms P might have been unfair to Ms P under s140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've already explained, I'm satisfied that Monzo did not lend irresponsibly or act unfairly in allowing Ms P to use her overdraft in the way that she did bearing in mind all of the circumstances. And I haven't seen anything to suggest that s140A CCA would, given the facts of this complaint, lead to a different outcome here.

Overall and having considered everything, while I can understand Ms P's sentiments and appreciate why she is unhappy, I'm nonetheless not upholding this complaint. I appreciate this will be very disappointing for Ms P. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Ms P's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 17 December 2025.

Jeshen Narayanan
Ombudsman