

Complaint

Miss A has complained about the overdraft charges Monzo Bank Ltd (“Monzo”) applied to her current account. She’s effectively said the charges applied to her account were unfair as shouldn’t have been provided the overdraft in the first place. Furthermore, there was then a failure to take account of her not being able to afford the charges and her staying overdrawn for extended periods.

Background

Miss A initially applied for an overdraft with a limit of £750 in May 2019. The limit wasn’t ever increased.

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

Miss A 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 Miss A’s complaint. I’ll explain why in a little more detail.

Did Monzo act fairly and reasonably in agreeing to provide Miss A with an overdraft of £750 in May 2019?

We’ve set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when considering Miss A’s complaint.

Monzo needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Monzo needed to carry out proportionate checks to be able to understand whether Miss A would be able to repay what he was being lent before providing any credit to her.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

Monzo says that it obtained some information on Miss A's income and her expenditure before deciding to lend to her. Miss A's overdraft was an open-ended (running account) agreement (in other words, while Monzo was required to periodically review the facility, there was no fixed end date) where there was an expectation that she'd repay what she borrowed plus the interest due within a reasonable period of time.

CONC didn't (and still doesn't) set out what a reasonable period of time was. So I think it's important to note that a reasonable period of time will always be dependent on the circumstances of the individual case.

It's fair to say that an overdraft limit of £750 will have required relatively low credits in order to clear the full amount that could have been owed within a reasonable period of time. Nonetheless, the information that Monzo has provided suggests that Miss A declared that she had monthly income of £1,250.00. I know that Miss A has disputed this and has said that her actual income was lower than this.

But even if I were to accept that her income was lower than the amount she declared, she still appears to have been receiving credits that were sufficient to clear £750 within a reasonable period of time. Equally, I haven't seen anything to indicate that Miss A had any significant adverse information – such as defaulted accounts or County Court Judgments (“CCJ”) recorded against her. So there wasn't anything in the information that Monzo obtained which indicated that Miss A would struggle to afford £750 either.

Taking into account Miss A's declaration of income and the fact that there was nothing to suggest that she was struggling at the time, I think that Monzo was entitled to conclude that Miss A had sufficient funds to cover sustainable credits to her overdraft as well as also cover whatever regular monthly living costs she may have had.

As this is the case and bearing in mind the low credits required to clear a balance of £750 within reasonable period of time, I'm satisfied that Monzo was reasonably entitled to accept Miss A's application for an overdraft with a limit of £750 in May 2019.

Did Monzo allow Miss A to continue using her overdraft in a way that was unsustainable or otherwise harmful?

Before I go any further, as this essentially boils down to a complaint that Miss A 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 Miss A if it applied this interest, fees and charges to Miss A'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 Miss A unfairly.

Having looked through Miss A'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 Miss A was using her overdraft over the period of time she's had it. Miss A's arguments appear to suggest that this in itself means that her complaint should be upheld.

However, Miss A's overdraft was arranged and was an open-ended agreement credit agreement. This means that Miss A 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 Miss A, 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 Miss A 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 Miss A 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 set out guidance on what it considers to be potential indicators of financial difficulty.

This '*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 Miss A's account transactions as well as the statements Miss A 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 Miss A'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 Miss A'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 Miss A 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, Miss A'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 Miss A's case isn't one where a borrower was permanently marooned in their overdraft.

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

I accept that Miss A 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 Miss A 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 Miss A wasn't experiencing difficulty. But I don't think that Miss A'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 Miss A 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 Miss A 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 Miss A 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 Miss A was obviously locked into using her overdraft and paying the charges for doing so. In my view, there was a reasonable prospect of Miss A exiting her overdraft. And Monzo was reasonably entitled to believe that Miss A 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 Miss A immediately repay her overdraft, in circumstances where there was a realistic prospect of Miss A 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 Miss A 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 Miss A might have been unfair to Miss A 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 Miss A 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 Miss A's sentiments and appreciate why she is unhappy, I'm nonetheless not upholding this complaint. I appreciate this will be very disappointing for Miss A. 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 Miss A's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 16 March 2026.

Jeshen Narayanan
Ombudsman