

Complaint

Mr M has complained about an overdraft that Monzo Bank Ltd (“Monzo”) provided to him.

He says the overdraft, which then had its limit increased, shouldn’t have been lent as it was unaffordable.

Background

Mr M has also complained about Monzo’s decision to provide him with a credit card. But we’ve already explained that were looking at that complaint separately. So this complaint is solely about Mr M’s overdraft.

Monzo initially provided Mr M with an overdraft that had a limit of £1,500.00 in September 2022. The limit on the facility was then increased to £2,000.00 in May 2023.

One of our investigators reviewed what Mr M and Monzo had told us. And he thought Monzo hadn’t done anything wrong or treated Mr M unfairly in relation to providing the overdraft or increasing the credit limit. So he didn’t recommend that Mr M’s complaint be upheld.

Mr M disagreed and asked for an ombudsman to look at the complaint.

My findings

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

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr M’s complaint.

Monzo needed to make sure it didn’t lend irresponsibly. In practice, what this means is Monzo needed to carry out proportionate checks to be able to understand whether Mr M could afford to repay any credit it provided.

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.

I understand that Monzo agreed to Mr M’s initial application and the limit increase after it obtained information on his income and carried out a credit search. And the information obtained indicated that Mr M would be able to make sufficient credits to his account for this overdraft to be repaid within a reasonable period of time.

On the other hand Mr M says that he shouldn't have been lent to or had his limit increased.

I've considered what the parties have said.

What's important to note is that Mr M was provided with a revolving credit facility rather than a loan. And this means that Monzo was required to understand whether limits of £1,500.00 and £2,000.00 could be repaid within a reasonable period of time, rather than all in one go. It's fair to say that overdraft limits of £1,500.00 and £2,000.00 would have required reasonable credits in order to clear the full amount owed within a reasonable period of time.

Monzo has provided the details of the credit checks that it carried out. Having considered the information provided, I appreciate that Mr M did have a defaulted account recorded in his name. However, as this was from approaching three and a half years prior to the initial application and four years prior to the limit increase, I think that this was historic. And I wouldn't have expected Monzo to decline Mr M's application on this basis.

It's also fair to say that Mr M did have some existing debts, but whilst I appreciate that Mr M won't agree with this, I don't consider that this was excessive. And I don't think that what was on the credit searches itself meant that Monzo shouldn't have provided him with his overdraft or the limit increase especially bearing in mind his declared income.

Furthermore, as Mr M was an existing Monzo current account holder, I've looked at his statements in the period leading up to his limit increase. I am a little concerned by the fact that Monzo had sent repeat overdraft usage notifications to Mr M by this stage. Nonetheless I think that it is fair to say that Mr M's account statements did show that he was making sufficient credits to his account to be able to repay his balance within a reasonable period of time. And importantly there wasn't anything in the transactions that Mr M was making to suggest that he was struggling or couldn't afford to repay an extra £500.

I fully accept it's possible that Mr M's position might have been worse than what it looks like on the information in his statements, or that it worsened after the limit increase took place. I know that Mr M has referred to other debt. But it wouldn't be fair and reasonable for me to use hindsight here, or say that Monzo should have known that Mr M would struggle with his overdraft at the time it was making its lending decisions. This is especially as the available information indicates that Mr M could repay what he could owe at the time the lending decisions were made.

In these circumstances, it's difficult for me to say that Monzo acted unfairly as it did offer the overdraft help and subsequent limit increase in a way that was fair and reasonable. Furthermore, if Mr M is having difficulty repaying his overdraft, I would encourage him to get in contact with and co-operate with Monzo so that a plan can be set up and that he can reduce and then clear what he owes.

Overall and having carefully considered everything, I don't think that Monzo treated Mr M unfairly or unreasonably when providing him with his overdraft or subsequently increasing the limit. And I'm not upholding Mr M's complaint. I appreciate this will be very disappointing for Mr M. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or

reject my decision before 5 April 2024.

Jeshen Narayanan
Ombudsman