

The complaint

Mr S complains that Monzo Bank Ltd (“Monzo”) acted irresponsibly in increasing his overdraft limit which he couldn’t afford.

Mr S also complained about a personal loan which Monzo provided to him. But we’ve already explained that we’re considering that complaint separately and this decision is solely about whether Monzo acted fairly and reasonably in increasing his overdraft limit.

What happened

Mr S initially applied for and was accepted for an overdraft of £250 in October 2022. There then followed a number of increases and decreases until in June 2023, his overdraft limit was £500. There were then three further increases in June 2023 to £1,000, £1,500 and finally £2,000.

Mr S complained to Monzo that it shouldn’t have increased his limit to £2,000 as it wasn’t affordable. Mr S also complained that Monzo didn’t ask him about any medical conditions that might affect his ability to make financial decisions.

In January 2023 Monzo issued Mr S with a final response letter (“FRL”). Within this FRL, Monzo said it didn’t believe it had acted irresponsibly when it increased his overdraft limit to £2,000 in June 2023. Monzo also said that enquiring about medical conditions didn’t form part of the application process.

Unhappy with the response from Monzo, Mr S brought his complaint to us. Mr S told us that Monzo should never have increased his overdraft to £2,000 as his income was less than his outgoings and he was never asked if he had any medical conditions.

Mr S’s complaint was considered by one of our investigators who initially concluded that Monzo hadn’t conducted proportionate checks in April 2023 (although this was in fact a decrease from £200 to £150) and that if it had, it would have uncovered a missed loan payment in March 2023. Monzo responded and confirmed that there hadn’t been any missed loan repayments and that Mr S had just changed the repayment date.

Our investigator completed a second view, where he upheld the complaint from the June 2023 increase to £1,000 on the grounds that had Monzo conducted proportionate checks at this juncture, it would have uncovered that Mr S was earning significantly less than it thought.

Monzo accepted the investigator’s second view. Mr S didn’t agree with the investigator’s initial view and then didn’t respond to the investigator’s second view, so his complaint has been passed to me for review and decision.

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.

However, having done so, I can confirm that I've come to the same overall conclusions as the investigator and for broadly the same reasons. I haven't considered the granting of the initial overdraft limit or the increases up until June 2023, as these didn't form the basis of Mr S's complaint to us. But I have considered the increases from the £1,000 increase, which I'm able to do due to our inquisitorial remit.

I'm aware that I've summarised this complaint above in less detail than it may merit. No discourtesy is intended by this. Instead, I've focussed on what I think are the key issues here. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

If there's something I've not mentioned, it isn't because I've ignored it. I haven't. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is the right outcome. I will, however, refer to those crucial aspects which impact my decision.

Lastly, I would add that where the information I've got is incomplete, unclear or contradictory, I've to base my decision on the balance of probabilities.

Monzo will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Monzo's decision to increase Mr S's overdraft limit to £1,000

Before increasing the overdraft limit to £1,000, Monzo was required to complete proportionate affordability checks to ensure the credit was affordable and sustainable. What is considered proportionate will vary depending on the specific circumstances of each case, as there isn't a set list of checks that had to be completed.

Monzo said it did a credit check and credit scored the information Mr S had given in his application. And there was nothing to suggest Mr M wouldn't be able to afford the final overdraft limit increase in June 2023 of £2,000. However, this was the fourth increase within a month, and the seventh in under two months, with the £500 limit being doubled to £1,000 on 13 June 2023, before increasing to £1,500 on 29 June 2023 and a further increase the same day to £2,000. I think that the frequency of these applications to increase his limit, and the amounts of the increase, should have caused Monzo to consider Mr S may have been struggling financially.

Monzo told us it had based its lending decision on the information that Mr S was still on the same salary as when he initially applied in October 2022. However, Mr S told us that he hadn't been in receipt of an income of that amount since December 2022. And although Mr S got a new job in February 2023, his monthly income between March 2023 and June 2023 was approximately £962.82. So, this is approximately £600 less than Monzo thought he was earning each month. And looking at Mr S's statements, they corroborate the figures that he told us about his income. So at the time that Monzo was considering the increase from £500 to £1,000, I think it should have asked Mr S about his income and expenditure or checked his current account to get a better understanding of his financial circumstances.

Had Monzo conducted further checks at this time, it would have found out that Mr S was earning considerably less money than when he had initially applied for the overdraft and that the increase from £500 to £1,000, would not have been affordable to him.

So I don't think Monzo acted fairly when it increased Mr S's overdraft limit from £500 to £1,000 on 13 June 2023, as Mr S was earning considerably less money than Monzo had assumed. Therefore, there was a significant risk that Mr S wouldn't be able to repay the £1,000 overdraft and all the interest accrued within a reasonable period of time. Because of this, I uphold this complaint from the overdraft limit increase on 13 June 2023.

Putting things right

Monzo should:

- Re-work Mr S's current overdraft balance so that any additional interest, fees and charges applied as a result of the overdraft limit increases from 13 June 2023 onwards are removed. This means that from 13 June 2023 onwards interest can only be charged on the first £500 of any overdrawn balance.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made, Monzo should contact Mr S to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Mr S's credit file, it should backdate this to 13 June 2023.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr S, along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of the settlement. If no outstanding balance remains after all adjustments have been made, then Monzo should remove any adverse information from Mr S's credit file.*

*HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Mr S a certificate showing how much tax it's taken off if he asks for one.

Did Monzo act unfairly in any other way

Mr S has told us that he has autism and that Monzo didn't ask about any conditions on his application for the overdraft increases that may affect his ability to pay or make financial decisions. Monzo has said that this doesn't form part of the application process and so it relies on the information that consumers provide.

I can see that Mr S first made Monzo aware of this condition when he first raised this complaint with it. So, going forwards, as Monzo is now aware, it will need to take into consideration any reasonable adjustments that Mr S may require. And as Monzo were unaware of this medical condition until Mr S raised his complaint with it, Monzo could only consider the information Mr S did provide at the time.

I've also considered whether Monzo have acted unfairly or unreasonably in any other way and if an unfair relationship existed between Monzo and Mr S, as defined by section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I've directed above results in fair compensation for Mr S 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.

Although I'm upholding this complaint, I'd like to remind Monzo of its ongoing responsibility to exercise forbearance and due consideration should it intend to collect on any overdraft outstanding balance, in light of what Mr S has said about experiencing financial difficulty.

My final decision

My final decision is that I uphold this complaint. 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 S to accept or reject my decision before 11 September 2024.

Paul Hamber
Ombudsman