

Complaint

Mr D has complained about a Flex credit card Monzo Bank Ltd (“Monzo”) provided to him. He says the credit card was unaffordable and shouldn’t have been provided.

Background

Monzo provided Mr D with a credit card which had a credit limit of £500 in January 2023.

One of our investigators reviewed what Mr D and Monzo had told us. And she thought Monzo shouldn’t have provided Mr D with this credit card and recommended that the complaint be upheld.

Monzo 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. I’ve considered all of this when deciding Mr D’s complaint.

Having carefully considered everything, I’m upholding Mr D’s complaint. I’d like to explain the reasons for my conclusion.

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 Mr D could afford to repay before advancing any credit.

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.

Mr D was provided with a credit card which had a limit of £500. And as this was a revolving credit facility, Monzo was required to understand whether Mr D could repay £500 within a reasonable period of time.

Monzo says it agreed to Mr D’s initial credit card application after it obtained information on his income and expenditure and carried out a credit search. On the other hand, Mr D says the credit card was unaffordable.

I've carefully thought about what Mr D and Monzo have said.

Monzo may argue that the relatively low monthly payments required to repay a credit limit of £500 meant that a light touch assessment of affordability was proportionate here. But I'm mindful that Mr D was an existing Monzo customer. Mr D had a Monzo bank account which he'd been using his overdraft as a hardcore borrower on and had taken out a personal loan with Monzo. Indeed a cursory look at Mr D's Monzo account statements immediately show the reason why he was using his overdraft so heavily and why his usage was unsustainable.

Furthermore, Monzo's credit checks may not have shown that Mr D had defaulted accounts and other significant adverse credit information recorded against him, it nonetheless showed that Mr D had opened up a number of other credit accounts in the leadup to this application.

For the avoidance of doubt, I want to be clear in saying that I don't think that Monzo should automatically have declined Mr D's application because of what was on his credit file. But given Mr D was an existing Monzo and it had access to all of the information that I have referred to, I would have expected it to have taken this into account.

I'm satisfied that Monzo ought reasonably to have realised that Mr D was unlikely to be able to sustainably repay his credit card within a reasonable period of time. I'm also satisfied that Monzo ought reasonably to have realise that it would be increasing Mr D's indebtedness in a way that was likely to be unsustainable or otherwise harmful for him.

Overall and having considered all of the information provided, I'm satisfied that Monzo shouldn't have provided this credit card to Mr D. Mr D ended up paying interest, fees and charges as a result of Monzo providing him with a credit card it shouldn't have provided to begin with. So I'm satisfied that Mr D lost out because of what Monzo did wrong and that it should put things right.

In reaching my conclusions I've also considered whether the lending relationship between Monzo and Mr D might have been unfair to Mr D under section 140A of the Consumer Credit Act 1974.

However, I'm satisfied that what I direct below results in fair compensation for Mr D given the overall circumstances of his complaint. I'm also satisfied that, based on what I've seen, no additional award is appropriate in this case.

Fair compensation – what Monzo needs to do to put things right for Mr D

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of Mr D's complaint for Monzo to put things right by:

- Reworking Mr D's current credit card balance to ensure that all interest, fees and charges added from the outset are refunded.

AND

- If an outstanding balance remains on Mr D's account once these adjustments have been made Monzo should contact Mr D to arrange a suitable repayment plan, Mr D is encouraged to get in contact with and cooperate with Monzo to reach a suitable agreement for this.

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 D along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Monzo should remove any and all adverse information it has recorded from Mr D's credit file.

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

My final decision

For the reasons I've explained, I'm upholding Mr D's complaint Monzo Bank Ltd should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 12 August 2024.

Jeshen Narayanan
Ombudsman