

The complaint

Mr D says Monzo Bank Ltd irresponsibly lent to him.

What happened

Mr D took out two loans from Monzo. The first (loan 1) was taken out on 27 October 2021 and was for £3,000 over 36 months. The monthly repayments were £107.88. The second (loan 2) was taken out on 25 February 2023 and was for £3,075.05 over 24 months. It was a top-up loan and the monthly repayments were £146.69.

Mr D says Monzo's lending forced him into financial difficulties. It gave him overdrafts, loans and a credit card and kept increasing the amount he could have. He had a very bad gambling addiction. His bank account was never in credit and showed hundreds of transactions to gambling sites. But Monzo ignored this and kept offering him money and overdrafts. He thinks they should have checked how he was using his current account and checked his credit file. He is now in a debt management plan (DMP) and his credit rating is ruined.

To note, this decision looks solely at the two loans Monzo approved for Mr D. The overdraft and credit card are the subjects of separate complaints.

Monzo says it lent in a responsible manner, using the correct data and information available at the time to complete affordability and creditworthiness checks.

Our investigator upheld Mr D's complaint in part in relation to loan 2. Monzo disagreed with this assessment and asked for an ombudsman's review. It clarified that loan 1 was not in arrears when Mr D applied for loan 2, rather there had been a systems issue. And it does not think how Mr D was using his overdraft on his Monzo current account necessarily demonstrated the loan was unaffordable. It said it does take into account gambling transactions on an account and it has limits in place that would result in a declined application, if exceeded.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to send any comments by 16 July 2024.

Extract from my provisional decision

I can see Monzo reviewed certain information to make its lending decisions. It asked for Mr D's salary, employment status, residential status and housing costs. It verified his declared income with an external source. It estimated his living costs using national statistics. It completed a credit check to understand his existing debt levels and repayment history. It then added a buffer to his total outgoings to understand his disposable income. It asked about the purpose of the loans. Based on the result of these checks combined it concluded both loans were affordable for Mr D.

Whilst these checks may have seemed proportionate based on the loans' term and value, I

don't think Monzo considered all the information it could have. And in Mr D's circumstances – specifically, that Monzo had increased his overdraft by 200% the previous month – I think it ought to have reviewed and responded to all the information it had available to it. I accept the assessments it did may have shown the loans were affordable on a pounds and pence basis, and there was not significant adverse data on Mr D's credit file. But as Monzo knows it is also required to ensure that it's not likely its lending will cause financial harm. And I don't think its checks here considered this. I'll explain why.

Monzo also ran a current account for Mr D and I cannot see it looked at the management of this account, so it ignored very relevant and useful information it had easy access to. I think in the circumstances of this case that was irresponsible. I say this as it had just increased Mr D's overdraft facility from £500 to £1,500 in September 2021. So before lending again to Mr D I think it needed to consider all the relevant information it had sight of in order to make a responsible lending decision.

Had it done so I don't think it would have lent to Mr D. The statements from his current account around the time show that Mr D was gambling significant sums of money. So the activity on Mr D's account indicated that there was a high risk that approving a £3,000 loan for Mr D would cause significant adverse consequences. Monzo argues its checks showed Mr D could sustainably afford the loan. But his account activity suggested otherwise. Monzo could see that since it increased Mr D's overdraft in September 2021 this had largely been used to support gambling activity. And I don't think that it was fair and reasonable for Monzo to ignore this in favour of conclusions drawn by its lending decisioning system - which it has assured us considers the level of gambling. I would remind Monzo it needed not just to consider the likelihood of getting its money back, but also the impact on Mr D of making the repayments.

Monzo also argues that Mr D's current account appears to be a secondary account therefore, it would be unfair to base a decision on just the usage of this overdraft facility. But taking that point to its logical conclusion would to me mean it agrees it checks were not proportionate. However, as I've said, I don't think it needed more external data as the information it had on Mr D's circumstances was such that it ought not have given loan 1.

There was also debate between the investigator and Monzo after Monzo argued that it didn't allow Mr D to continue using his overdraft in the same way. It sent Mr D communications about his overdraft usage but he did not respond. But the fact Monzo felt the need to send Mr D so many communications within such a short time period suggests that it recognised there was a problem with the way that Mr D was using his overdraft.

To me Monzo's defence here is therefore problematic. It cannot argue that it acted fairly and reasonably towards Mr D because it sent him notifications, as it had identified that his gambling may have been problematic. But then assert that because Mr D didn't respond to these communications and notifications it was fair and reasonable to continue to extend more credit to him despite the fact there was no change in the transactions that were being made, or the way that the overdraft was being used.

As Monzo will be aware, there are many reasons why a consumer might not want to get into discussions about their finances if they're struggling. I accept Mr D didn't contact Monzo, most likely because he was hoping that he was just one a win away from salvaging a deteriorating financial situation, but I don't think it was right for Monzo to conclude that his problematic overdraft usage would correct itself. It follows I find it was neither fair nor reasonable for Monzo to approve loan 1, particularly given it was so soon after it had increased Mr D's overdraft.

Based on Mr D's ongoing account activity it follows, for the same reasons, I also find Monzo

was wrong to approve loan 2 in February 2023. I note, disappointingly, this swiftly followed another increase to his overdraft limit on January 2023 despite the fact Mr D was still gambling frequently and was clearly persistently reliant on his overdraft facility by this point.

So I plan to uphold Mr D's complaint about both loans.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr D 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.

I then set out what Monzo would need to do to put things right.

Both parties responded to my provisional decision by the deadline and accepted my findings and conclusion.

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.

Our approach to complaints about irresponsible/unaffordable lending is set out in full on our website. I have taken it into account to decide this complaint.

As neither party sent in any new evidence or comments for me to consider, I have no reason to change the findings or outcome in my provisional decision.

It follows, for the reasons set out above, I think Monzo was wrong to give both loans to Mr D.

Putting things right

I think it is fair Mr D repays the capital he borrowed but I don't think it is fair he pays interest and charges on loans that have been found to be lent irresponsibly. So Monzo should:

- Add up the total amount of money Mr D received as a result of being given both loans. The repayments he made should be deducted from this amount.
- Any overpayments should be refunded to Mr D along with 8% simple interest* calculated from the date the overpayments were made until the date of settlement.
- If any capital balance remains outstanding Monzo must work to agree an affordable repayment plan with Mr D and the administrator of his DMP
- Remove any adverse information recorded on Mr D's credit file in relation to both loans once any capital balance outstanding has been repaid.

*HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Mr D a certificate showing how much tax it's taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance it must do so after deducting the tax.

My final decision

I am upholding Mr D's complaint. Monzo Bank Ltd must put things right as 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 13 August 2024.

Rebecca Connelley
Ombudsman