

## Complaint

Mr R has complained that Monzo Bank Ltd (“Monzo”) allowed him to continue using his overdraft when it ought to have been apparent that he was in financial difficulty.

## Background

One of our investigators looked at Mr R’s complaint and thought that Monzo should have realised that Mr R’s overdraft had become demonstrably unsustainable for him by August 2020.

So it was her recommendation that Mr R’s complaint should be upheld and that Monzo needed to refund all the interest, fees and charges it added to Mr R’s account from August 2020 onwards.

Despite being given an extension of time in order to do so, Monzo didn’t respond to the investigator’s assessment. So the case was passed to an ombudsman for review as per the next stage of our dispute resolution process.

## 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, I’m upholding Mr R’s complaint. I’ll explain why in a little more detail.

Monzo will be familiar with all the rules, regulations and industry codes of practice we consider when looking at whether a bank treated a customer fairly and reasonably when applying overdraft charges. So I don’t consider it necessary to set all of this out in this decision.

As Monzo didn’t respond to our investigator’s assessment, it is difficult for me to know what exactly it is that it disagrees with. Nonetheless, I’ve carried out my own review of the case. And having carefully considered everything provided, I’m satisfied that Monzo acted unfairly when it allowed Mr R to continue using his overdraft and charged interest and associated fees from August 2020 onwards.

While Mr R might not have got in touch to confirm this, by this point, it was nonetheless evident that there was a real risk Mr R’s overdraft could cause him to experience significant adverse consequences. In other words, Monzo ought to have realised that there was a real risk Mr R would not have been able to clear his overdraft within a reasonable period of time.

A look at his statements from around the time shows that Mr R was hardcore borrowing. So the pattern of usage here ought to have alerted that Monzo that Mr R could experience significant adverse consequences as a result. Monzo argues its checks left it reasonably entitled to conclude that Mr R received a monthly salary of around £1,300.00. But it’s unclear to me how it reached this conclusion in circumstances where Mr R’s Monzo account activity

suggested otherwise. Indeed Mr R says that he was only earning around £500 a month and I cannot see a salary credit for more than that going into Mr R's account.

I understand that Monzo argues that it didn't simply allow Mr R to continue using his overdraft in the same way. And it is relying on having sent Mr R communications about his overdraft usage in support of this. I've thought about what Monzo has said. But the mere fact that Monzo felt the need to send Mr R so many communications means that it recognised there was a problem with the way that Mr R was using his overdraft.

And if I take Monzo's argument to its logical conclusion here, I see it as being that it acted fairly and reasonably towards Mr R because it sent him notifications, as it had identified that his overdraft usage may have been problematic. But because Mr R didn't respond to these communications and notifications it was fair and reasonable to continue allowing him to use his facility in the same way, notwithstanding there was no change in the transactions that were being made, or the way that the overdraft was being used.

In my view, this ignores the fact that there comes a point where a lender cannot continue simply relying on a borrower not wanting to discuss the situation. After all there are many reasons why a consumer might not want to get into discussions about their finances even though they're in a situation where they're struggling, or they may even go further and say they can and will make payment when the reality is they can't.

While Mr R didn't contact Monzo, I don't think it was reasonable for Monzo to conclude that his problematic overdraft usage would correct itself. This is particularly as there is no evidence of an income sufficient enough to ensure that Mr R would stop using his overdraft going forward.

In the absence of any argument in response to the investigator's assessment and I can't see clear evidence of Monzo having reacted to Mr R's possible problematic overdraft usage and taken steps to impose corrective action in relation to any funds that were being borrowed, I'm satisfied that it failed to act fairly and reasonably towards him.

As I have found that the overdraft facility should already have been revoked from Mr R in August 2020, it follows that I do not consider that he should have had an overdraft to increase the limit on going forwards. And my redress direction addresses any loss Mr R might have suffered as a result of his limit being increased.

Monzo allowed Mr R to continue using his overdraft and even went on to increase Mr R's overdraft limit at times when it ought to have realised that his existing limit already had a high potential to cause significant adverse consequences. Mr R ended up paying interest, fees and charges as a result of this and I'm therefore satisfied that he lost out because of what Monzo did wrong and that Monzo now needs to put things right.

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

However, I'm satisfied that my direction set out in the section below results in fair compensation for Mr R 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 R**

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

- Reworking Mr R's current overdraft balance so that all interest, fees and charges applied to it from August 2020 onwards are removed.

AND

- If an outstanding balance remains on the overdraft once these adjustments have been made Monzo should contact Mr R to arrange a suitable repayment plan, Mr R is encouraged to get in contact with and cooperate with Monzo to reach a suitable agreement for this. If it considers it appropriate to record negative information on Mr R's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the overdraft in August 2020. Monzo can also reduce Mr R's overdraft limit by the amount of any refund if it considers it appropriate to do so, as long as doing so wouldn't leave him over any new limit.

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 R 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 adverse information from Mr R's credit file. Monzo can also reduce Mr R's overdraft limit by the amount of refund if it considers it appropriate to do so.

† HM Revenue & Customs requires Monzo to take off tax from this interest. Monzo must give Mr R 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 R's complaint. Monzo Bank Ltd should put things right in the way I've directed it to do so above.

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

Jeshen Narayanan  
**Ombudsman**