

The complaint

Mr S complains that Monzo Bank Ltd have unfairly registered a default on his credit file.

What happened

Mr S had a payment holiday on his Monzo account during the pandemic, having lost his job. He then started a new job, however, this resulted in a lower pay than expected. Mr S says that he suffered from financial difficulties in July 2020 and he entered into a special arrangement with Monzo.

Mr S says he returned to lower repayments of £100 for two months from November 2021. He contacted Monzo on 14 December 2021 and he asked to return to his usual payments of £259 and to arrange to pay his arrears. Mr S says Monzo asked him to complete a budget planner which he did on the same day.

Mr S says that on 22 December, he received a message informing him Monzo had reviewed his budget and they asked him a question, which he answered and he resubmitted the budget planner. Mr S says he received no further notifications until he was told his account had defaulted on 13 January 2022.

Mr S asked Monzo why they defaulted his account, as he was waiting for a response from them and a plan was waiting to be put in force. He says he has been consistent in replying to messages he had received. Mr S made a complaint to Monzo.

Monzo did not uphold Mr S's complaint. They said they were unable to remove the default as they believed they administered his account correctly. Monzo said they had been in touch many times via their application (app) chat, text message and email, and they had kept Mr S updated at all times. They said they issued him with an official notice of default which stated that if they did not have a satisfactory plan in place then the account would be defaulted. Monzo said they constantly sent reminders that the account would be defaulted, but they received no payments or realistic discussions regarding resolving the balance, therefore they defaulted the account.

Monzo said that as per the terms of his agreement, if an arrangement remained in place for two months, the loan would default. They would reach out in two months to see if anything had changed and to make sure he was still on a plan that was right for him. If his circumstances hadn't changed or he missed more than two repayments, they'd have to report the loan to the credit reference agencies (CRA's) as being in default.

Mr S brought his complaint to our service. He said due to his occupation, the default could affect his job. Our investigator did not uphold the complaint. She said that Monzo had made reasonable attempts to come to an arrangement with Mr S and they had sent Mr S documents updating him about the status of his account and arrears such as a notice of default on 13 December 2021, to inform him that they were going to register a default and the default was registered on 13 January 2022. She said that Mr S had been behind on his payments since 2020 and Monzo had been fair in trying to assist him in managing his account.

Mr S asked for an Ombudsman to review his complaint. He made a number of points. In summary he said he had worked extremely hard to be in a position to discharge his obligations in full, which he hoped this demonstrated he was genuine when trying to come to an arrangement with Monzo. He said he has since repaid the loan in full. Mr S mentioned his personal circumstances at the time which led to his financial difficulty. He said the situation could affect him getting a mortgage and he asked for discretion to be applied.

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.

Mr S has made a number of points to this service and I've considered and read everything he's said and sent us. But, in line with this service's role as a quick and informal body I'll be focusing on the crux of his complaint in deciding what's fair and reasonable here.

A default can only be registered when a customer has been in arrears for at least three months. As our investigator has highlighted, Mr S had had trouble making his repayments in 2020 originally. I've read everything that Mr S has said about his difficulty during this timeframe, so I'm aware of the difficult situation that he was in at this time. I can see that Monzo sent Mr S a notice of default via an email and a letter on 13 December 2021. A notice of default letter would set out that Mr S would have a set timeframe to either repay the outstanding arrears or come to an arrangement with them by that date.

I can see that Mr S had been communicating constantly with Monzo during this time. But as an arrangement had not been put in place a month after the notice of default had been sent, then Monzo defaulted the account.

I've considered whether Monzo were fair to do this. And although I know Mr S will strongly disagree with me, I'm satisfied they were fair and I'll explain why. Monzo had assisted Mr S during his period of financial difficulty by approving payment holidays and breathing space on more than one occasion. They had constantly responded to his messages in a timely manner, and they had clearly set out that their last arrangement was for two months. On 6 October 2021, the message Monzo sent Mr S states *"if your circumstances haven't changed or you miss more than 2 repayments we'll have to report your loan to the credit reference agencies as being in 'Default.'"*

So I'm persuaded that Mr S was made aware that this could happen. When the two month arrangement ended, Monzo sent the notice of default a week after the arrangement period ending, when Mr S had not returned to his contractual payments (or agreed a new repayment plan).

Monzo had some questions about the budget planner Mr S had completed. While Mr S had indicated he wanted to make his contractual payments, Monzo would be required to show that he had the affordability to make these, especially after he had been in financial difficulty for a prolonged period of time.

Monzo asked Mr S a question on 10 January 2022 regarding his budget planner. But as Monzo did not receive a response by 13 January 2022, they defaulted the account. While this may not seem like a long period of time for him to respond to, the notice of default would have set out the actions which would be taken if they couldn't agree to an arrangement or pay off the outstanding balance. So I can't say Monzo have done anything wrong here.

I've looked at Mr S's payment history around this time. I can see that he had been making payments of £100 a month on 1 November and 1 December 2021, but he did not make a payment in January 2022.

I can see that Monzo told Mr S he was £100 behind on his loan repayment plan on a weekly basis from January to March. But Mr S did not make this payment. In addition, I've looked at the chat history and payment history and I've seen no evidence of him making his contractual payment around this time. So I can't say that Monzo were wrong to default the account as the account had been in arrears for a prolonged period of time, no arrangement had been agreed to and the account defaulted. Prior to the account defaulting, Mr S missed his January payment and he did not make this payment up or return to his contractual monthly payments.

So although Mr S has asked me to use discretion in my decision, my role is impartial, which means I have to be fair to both sides. So it would not be proportionate for me to ask Monzo to remove the default from his credit file when they did not make an error in recording a default here.

It's clear to me what a difficult time Mr S has been through and is going through here. He was clearly trying to be proactive in dealing with his finances at a very tough time. Mr S says that he has paid off the balance of the loan now. So although I won't be asking Monzo to remove the default, if Mr S has paid off the full outstanding balance, the default should now be marked as satisfied on his credit report. If this is not marked as satisfied, then Mr S may wish to get in touch with the credit reference agencies and/or Monzo to amend his credit file to reflect this.

In addition, Mr S may wish to consider registering a "*notice of correction*" with the credit reference agencies to explain what happened during the timeframe in question. This is a short explanatory note that he can add to an entry on his credit file, to explain the background to that entry. So anyone who searches his credit report, such as a mortgage lender, would see the notice of correction and take the notice into account if they viewed his credit file. Mr S would need to contact the CRA's to do this.

In summary, in order to ask Monzo to remove the default, I would need to see that they had registered the default incorrectly. But as the account was in arrears for several months and they had sent letters, emails and chat messages to Mr S with the implications of this and what would happen, including a notice of default, then I'm satisfied that Monzo did not make an error in defaulting the account. I understand this decision may have an impact on Mr S getting a mortgage in the future, and with his work, so I haven't made this decision lightly, and I commend him on the actions he took in paying this debt off when he was able to do so, but it follows I don't require Monzo to do anything further.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 2 November 2022.

Gregory Sloanes
Ombudsman