

The complaint

Miss R complains that Monzo Bank Ltd took too long to return money in her bank account. She's also unhappy about how Monzo handled her loan repayments whilst her account was blocked and says that the bank unfairly recorded a default marker on her credit file.

What happened

The detailed background to this complaint is well known to both parties. As such, I'll provide only an overview of the most essential facts here. In summary:

- Miss R had a current account with Monzo which she opened in 2018. In October 2019, Miss R took out a loan with Monzo. The monthly repayments for the loan were around £270 which were paid by direct debit from her Monzo personal account.
- In November 2020, Miss R's account was restricted by Monzo following a freezing order being issued by the court. This meant Miss R was unable to make any transactions, including her loan repayments from her account.
- Between December 2020 and February 2021, Miss R's loan payments continued to be taken by Monzo from her frozen account. This meant her account went into an unarranged overdraft of around £1,000, and when the loan could no longer be repaid from Miss R's current account it fell into arrears, which then appeared on Miss R's credit file.
- On 4 March 2021, Miss R contacted Monzo about how she could continue to make her loan repayments, whilst her account was frozen. At the time she was behind on her loan (only one payment missed). But Monzo didn't confirm the details about how she could do this until 15 June 2021, by this time Miss R was behind on her loan by four payments (£1,096.48). Monzo also recorded late payment markers against Miss R for not repaying the overdraft.
- Miss R says she did her very best to repay the loan, but Monzo hasn't helped her and didn't let her know how she could carry on making her repayments. Monzo accepted that it should have provided Miss R with the information needed to make her repayments in March 2021 when she'd contacted the bank. It apologised and refunded Miss R the overdraft fees it had charged.
- On 17 March 2021, Miss R received a letter from the court to say that the freezing order had been set aside and that Monzo could now release the balance of her account. Miss R provided the letter to Monzo. However, the bank didn't release Miss R's money.
- Throughout March and May 2021 Miss R chased Monzo about how she could continue to make her loan repayments and asked the bank to stop sending her

messages that her loan repayments had fallen behind. She explained that as her account had closed, she no longer had access to her banking app so couldn't make payments as she'd previously done. Monzo apologized and said it would escalate things.

- On 24 March 2021, Monzo sent Miss R a message via its banking app asking her to provide details of an account so that it could release her balance back to her. But as Miss R didn't have access to the banking app, she never saw this message.
- On 21 May 2021, Miss R complained to Monzo. She was unhappy that her loan repayments had fallen behind and that Monzo hadn't been in touch with her about sorting things out. In response Monzo apologized for not contacting Miss R sooner, it said the messages Miss R had received regarding her loan repayments had been generated automatically from its systems as part of its processes. And that it would explain by 15 June 2021 what Miss R could do regarding her loan repayments. Monzo also offered Miss R £50 compensation for providing her with poor service.
- On 15 June 2021 Monzo emailed Miss R and offered her the following options regarding her loan repayments: she could clear the outstanding amount owed using her current account balance (which had now been unfrozen); She could repay the loan arrears from March – June 2021 and it provided specific account details for her to make the payment, if Miss R chose to do this the previous loan repayment schedule would continue; if Miss R couldn't repay the arrears it would be open to discuss a suitable repayment plan. Monzo also explained that non-payment of the loan would result in the account being defaulted and this would impact her credit file.
- On 19 June 2021, Miss R responded to Monzo's email. She said she felt that Monzo's actions had led to a build-up of arrears, but she didn't explain what option she preferred regarding repaying her loan. She also complained that her account had been closed. In response, Monzo repeated the options it had set out in its email of 15 June 2021.
- On 21 June 2021, Miss R brought her complaint to this service.
- Throughout August 2021, Monzo sent Miss R text messages about the loan arrears which had built up between March and August 2021 (£1,644.72). In the messages Monzo told Miss R that if it didn't hear from her by 2 September 2021, the loan would be defaulted. Monzo explained that this would remain on Miss R's credit file for six years and would make any future borrowing harder and more expensive. It also gave Miss R details of how to contact Monzo to rectify this matter.
- On 6 August 2021, Monzo contacted Miss R to obtain details of an account so that it could return her account balance. On 17 August 2021, Miss R confirmed which account she wanted her balance paid into.
- On 2 September 2021, Monzo sent Miss R a text message to let her know it had defaulted her loan account. In response, on 9 September 2021, Miss R made a payment to clear the arrears.
- In March 2022, Miss R's solicitor contacted Monzo and asked the bank to return

Miss R's balance as the freezing order was no longer in place. And said that the funds could then be used to repay Miss R's loan.

- On 1 April 2022, Monzo responded to Miss R's solicitor. It said that it had refunded £75.06 worth of overdraft fees to Miss R's account balance (charged between December 2020 and March 2021). The bank also provided Miss R's account balance and details about how much she still owed on her loan. It said the balance could be used to clear the loan. Alternatively, it was still willing to put a suitable repayment plan in place. Monzo said if this was done within 30 days it would remove the default.
- On 4 April 2022, Miss R's solicitor provided details of an account to Monzo to release her funds. Monzo released just over £11,500 back to Miss R on 3 May 2022.
- On 5 May 2022 Monzo emailed Miss R to ask her how she wanted to proceed with making her loan repayments. Miss R didn't respond. Monzo sent further chasers to Miss R and her solicitor on 17 and 30 May 2022. But again, no response was received.

In response to Miss R's complaint, Monzo accepted it should have provided Miss R with information about how she could repay her loan in March 2021 instead of June 2021. And that it took too long to release her funds once the freezing order had been lifted. To put things right Monzo offered Miss R £300 compensation, refunded the overdraft fees and 8% interest for loss of use of Miss R's funds.

Miss R didn't accept Monzo's offer. She said Monzo's actions had impacted her credit score, which means it will now be harder for her to get a mortgage. She's also explained that her credit card limit has been reduced because of the information Monzo recorded on her credit file. She wants Monzo to remove the default and put a repayment plan in place.

An investigator reviewed Miss R's complaint. She said that Monzo hadn't done anything wrong when it closed Miss R's account. However, she said Monzo should have returned Miss R's account balance to her sooner than it did. So, she said Monzo should pay Miss R 8% interest on her balance from 1 March 2021 until 3 May 2022 and that £300 compensation Monzo had offered was fair for the trouble and upset Miss R had been caused by Monzo's actions.

The investigator said that Monzo shouldn't have taken Miss R's loan repayments from her blocked account which led to Miss R's account entering an unarranged overdraft. However, she said that this didn't cause Miss R any financial loss as the overdraft was cleared once Miss R's frozen balance was unfrozen and Monzo had refunded the overdraft fees. The investigator said that Monzo should remove the late payment markers it applied relating to the unauthorised overdraft that Miss R found herself in. However, the investigator said that Monzo had given Miss R a number of opportunities to repay the loan, including setting up a repayment plan. But Miss R hadn't made any repayments. So, she said Monzo hadn't done anything wrong when it applied the default marker against Miss R's credit file.

Monzo agreed with the investigator's recommendations. Miss R didn't. She wants Monzo to remove the default marker and says that the bank never offered her a repayment plan.

As no agreement could be reached the matter has come to me to decide.

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.

Miss R has provided detailed submissions to this service and made a number of points. I've considered everything she's said and sent to us. But in line with this service's role as an informal body I'll be focussing on the crux of her complaint in deciding what's fair and reasonable. No discourtesy is intended by me in taking this approach. I do stress however that I've considered everything that Miss R and Monzo have said before reaching my decision.

Account block, closure and return of funds

Monzo has important legal and regulatory obligations it must meet when providing accounts to customers. And it must take certain actions in order to meet their legal and regulatory obligations. In addition to their regulatory obligations Monzo must also comply with any order of a court. Monzo blocked Miss R's account in November 2020, after it had received a court order that Miss R's account activity was being investigated by law enforcement for money laundering. So, I can't say Monzo treated Miss R unfairly when it froze her account because once an order was granted in respect of Miss R's account, Monzo had a duty to act on it. I then turn to the closure of Miss R's account. Miss R says Monzo has treated her unfairly by closing her account. She has stressed that she has always maintained her account properly. I appreciate how Miss R feels – it can't be pleasant being told that you are no longer wanted as a customer. But banks are entitled to decide for themselves whether to do business or continue doing business with a customer.

Each financial institution has its own criteria and risk assessment for deciding whether to open or close accounts. Providing an account to a customer is also a commercial decision that a financial institution is entitled to take. That is because it has the commercial freedom to decide who it wants as a customer. And unless there's a good reason to do so, this service won't usually say that a bank must keep a customer. But they shouldn't close an account for an improper reason, for instance of unfair bias or unlawful discrimination. And they must treat new and existing customers fairly.

Banks should, however, give reasonable notice before closing an account. Usually, that means 60 days' notice, but it can be less – depending on the circumstances. In this case Monzo closed Miss R's account immediately. I've reviewed the terms and conditions and circumstances of this complaint, and I'm satisfied Monzo acted in line with them, so, it was entitled to close the account as it has already done. And I won't be asking Monzo to do anything to resolve this aspect of Miss R's complaint.

Withholding Miss R's account balance

Miss R couldn't access the money in her account from mid November 2020 until March 2021 due to a freezing order on the account. Miss R informed Monzo that the freezing order had been discharged on 17 March 2021. But it didn't release Miss R's funds to her until May 2022. Monzo have accepted it should have returned Miss R's money back to her much sooner than it did. It explained that it didn't release Miss R's funds sooner as she didn't respond to the bank's questions about whether she wanted to use the funds to repay her loan.

I've thought carefully about this, having reviewed all of the evidence Monzo has sent, like our investigator, I'm not persuaded that Monzo couldn't have released this money sooner. While we wouldn't usually give a certain timeframe that a bank should react to a discharge order,

I'd expect any action to take place in a timely manner without any undue delays. I also don't think Miss R's lack of response meant Monzo couldn't release her balance sooner than it did – after all she had given Monzo details of another bank account to pay the funds into. So, I find withholding the money from Miss R, after 17 March 2021 unreasonable and therefore think Monzo need to recognise this loss of use.

Monzo has apologised and offered Miss R 8% simple interest on the funds from 1 March 2021, however it's not clear what date this is up to. I think it's fair and reasonable that Monzo should pay 8% simple interest up until 3 May 2022, which is the date it finally released Miss R's funds back to her. Monzo have also offered Miss R £300 compensation for the trouble and upset this caused. I think that is a fair amount and I see no reason to increase it.

Loan account Default

Miss R's wants Monzo to remove the default from her credit file. She's explained that the marker has led to her credit card limit being reduced. And she is understandably concerned that it will lead to her having difficulties obtaining a mortgage in the future. She has consistently told us that at no time did Monzo offer her a repayment plan and that she has always been willing to make her repayments.

A default can only be registered when a customer has been in arrears for at least three months. Miss R missed six loan repayments in total – she didn't make a repayment between March and August 2021. Miss R says this is because Monzo didn't let her know how she could continue to make her loan repayments after it had closed her account – in other words it's the bank's fault.

I've read everything Miss R has said about the trouble she had trying to sort out how to continue to make her loan repayments. And I've looked at all the available emails between Miss R, her solicitor and Monzo. So, I'm aware of the difficulty during this timeframe and that Miss R was at times chasing Monzo about how she could carry on making her loan repayments.

Monzo has accepted it didn't handle things as well as it should have done, and that it should have provided Miss R with the information she needed to carry on with her loan repayments much sooner than it did. I'm pleased to see that it tried to get things back on track. Contrary to what Miss R has said, I can see that Monzo recognised that Miss R might have found it difficult to repay the repayment arrears, so it offered Miss R a repayment plan in June 2021. It also sent her several text messages about the arrears. So, Miss R knew what she owed and that she could set up a repayment plan.

Miss R says that Monzo didn't tell her how she could make repayments. I don't agree. I accept that there was a delay in Monzo giving Miss R this information. And I've addressed this above. But I can see that on 15 June 2021 Monzo sent Miss R an email which provided her with specific details of an alternative bank account she could use to make her loan repayments. So, I'm satisfied that Monzo gave Miss R the information she needed to carry on with her loan repayments – albeit the bank should have done so in March 2021. Despite having this information Miss R didn't make any repayments.

Monzo sent Miss R another email on 19 June 2021 reiterating what it had said in its email on 15 June 2021. But again, Miss R didn't act on this. Throughout August 2021 I can also see that Monzo sent Miss R several text messages about making her loan repayments. The bank also sent Miss R (and her solicitor) further opportunities to get her loan back on track on 1 April 2022 and 8 June 2022. This included the bank offering to remove the default marker providing a suitable loan repayment option was agreed. I've not seen anything that persuades me she's no longer obligated to repay what she owes Monzo. I've not seen any

evidence that Miss R no longer owed Monzo money. And most importantly there's no evidence that Miss R responded to Monzo's offers.

Monzo sent Miss R a notice of default via email. The notice set out that Miss R had a set timeframe to either repay the outstanding arrears or to come to an arrangement with them by that date, which in this case was 2 September 2021. Miss R didn't make a payment until 9 September 2021. I can see that Miss R had been making her loan repayments up until her account was frozen. And that she was chasing Monzo to tell her how she could carry on making her repayments. But she did not make a payment between March and August 2021. As an arrangement had not been put in place (despite Monzo giving Miss R several opportunities and different options) Monzo defaulted the account.

I've considered whether Monzo were fair to do this. And although I know Miss R will strongly disagree with me, I'm satisfied that Monzo were fair to record a default marker. I say this because Monzo had provided Miss R with alternative bank account details in June 2021, so that she could carry on making her loan repayments after her account had been closed. Monzo also wrote to Miss R on two separate occasions setting out the available options including setting up a repayment plan. The bank clearly set out the actions it would take if they couldn't agree to an arrangement or Miss R chose not to pay off the outstanding balance. So, I'm satisfied that Miss R was aware that this could happen and that Monzo, despite its mistakes, tried to put things right on several occasions with Miss R. But despite Miss R saying she wanted to make her repayments or set up a repayment plan I've not seen any evidence that she has made any repayments. It's for these reasons that I cannot agree that Monzo have treated Miss R unfairly.

In summary, in order for me 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 emails, and text messages with the implication of what would happen if Miss R didn't make repayments, including a default notice, I'm satisfied that Monzo did not make an error in defaulting the account. I understand that this decision may have an impact on Miss R getting a mortgage in the future as any lender will see the default on Miss R's credit file, so I haven't taken this decision lightly, but it follows that I am not going to ask Monzo to remove the default.

Unauthorised overdraft

It's disappointing that Monzo continued to take Miss R's loan repayments from her blocked account between December 2020 and February 2021. At the time Miss R didn't have enough money in her account to meet the payments of around £270 each month. This resulted in Miss R's account going into an overdraft of just under £1,000. The terms of Miss R's account state 'we'll decline any payments (including standing orders and Direct Debits) that would take you over your main available balance unless you have an overdraft.' Miss R didn't have an overdraft, so in allowing the loan repayments to debit her account, Monzo acted outside the terms of the account.

Monzo has accepted it made a mistake doing this and have refunded fees of just over £75 that were accrued during this period. It has also agreed to remove the late payment markers it recorded against Miss R for the loan repayments between April – June 2021, which I think is a reasonable way to resolve this aspect of Miss R's complaint. I can also see that once Miss R's blocked funds entered her account after the discharge of the freezing order, the overdraft was cleared in full. So, I can't see that Miss R has lost out financially by Monzo's mistake and I won't be asking them to do anything more regarding this aspect of Miss R's complaint.

My final decision

My final decision is that I uphold Miss R's complaint in part. To put things right, Monzo Bank Ltd should:

- Pay Miss R a total of £300 compensation for the trouble and upset caused for the time taken for Monzo to release Miss R's balance and poor service
- Pay Miss R 8% simple interest per year for the sum in Miss R's account from 1 March 2021 until 3 May 2022
- Remove the missed payment markers recorded against Miss R's current account

HM Revenue & Customs require Monzo Bank Ltd to withhold income tax from the abovementioned interest. Monzo should give Miss R a certificate showing how much is taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 26 July 2023.

Sharon Kerrison
Ombudsman