

The complaint

Mr W complains that Monzo Bank Ltd didn't make the implications of selecting its 'breathing space' option, for his loan, clear enough – meaning his credit file was adversely affected.

What happened

In August 2022 Mr W contacted Monzo via the in-app chat function, as he was changing jobs. That was going to cause a delay in receiving a full salary payment, which he worried might leave him short on funds for one or two months. Mr W had several accounts with Monzo (an overdraft, a Flex account and a loan), but his loan instalments were the largest of his outgoings. So, initially he sought a payment holiday from the bank, given the short-term nature of his anticipated financial difficulty. Mr W also said he had the option of borrowing money from his grandparents to cover the repayments, but he'd rather not have to.

Monzo told Mr W it didn't offer payment holidays, but it did have an option called 'breathing space'. The agent explained this option would last 30 days and mean interest was frozen. Monzo also said no automated messages would be sent about the debts, and it would contact Mr W shortly before the period was up to discuss his options. Mr W replied that he'd go for the 'breathing space' option if all that would happen was payments were frozen and he wouldn't be contacted.

Monzo's agent applied 'breathing space' to Mr W's accounts, and sent him the generic terms wording in the in-app chat – which included the paragraph *"If you remain/go beyond your overdraft limit and/or miss payments towards your loan/Flex we'll need to let our credit reference agencies know. This could impact your credit score and make it harder to borrow in the future"*.

In September 2022 Mr W contacted Monzo to discuss extending the 'breathing space' option. The agent explained it could only be applied for another 30 days, after which a payment plan would need to be agreed if full instalments still weren't manageable. Mr W pushed for further clarity and how the 'breathing space' option worked was told *"essentially while on breathing space, payments are still due for your Loan and your Flex. Any missed payments for both the loan and Flex could be reported to our credit reference agencies as missed payments"*. Monzo also confirmed a missed payment has been reported for August.

Mr W complained that he wasn't told a payment wouldn't be taken automatically for his Flex account before agreeing to the 'breathing space option' – and he was able to continue paying that borrowing. Mr W also argued Monzo hadn't made it clear enough that a payment would still be due on his loan, and had it done he'd have borrowed from his grandparents to avoid his credit file being impacted.

In its final response to the complaint, Monzo agreed it hadn't told Mr W the Flex account payment wouldn't be taken automatically. But given Mr W had thankfully made a payment shortly after it was due, a missed payment hadn't been reported. Monzo paid him £30 compensation for that mistake. But the bank thought it had been clear enough that he still needed to make a full payment towards his loan during the 'breathing space' period, to avoid having a missed payment recorded with the Credit Reference Agencies (CRAs).

Unhappy with the response, Mr W referred the complaint to our service for review. An investigator here didn't recommend the complaint was upheld, so Mr W appealed the outcome – and the case was passed to me for a decision on the matter.

I wrote to the parties explaining that I didn't think Monzo had made it clear a payment would still be due on his loan. I also said, as far as I could tell, the 'breathing space' option had been of minimal benefit to Mr W. Consequently I deemed it wasn't fair for the bank to record the August 2022 payment had been missed, as I was persuaded Mr W would have borrowed the funds needed to cover the instalment. I said I planned to direct Monzo to remove the adverse credit file record, and thought £300 should be paid to its customer to fairly compensate the distress and inconvenience caused by the mistake.

Mr W accepted my provisional findings. Monzo didn't agree – and maintained it had made it clear any missed payments would be reported. The bank also explained the benefit of 'breathing space' was that no payment would be automatically taken.

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.

Having done so, I'm upholding Mr W's complaint – and for the same reasons I gave in my provisional findings.

I'm not persuaded the 'breathing space' option offered Mr W any real benefit, in terms of his loan. I asked Monzo to explain how it worked – specifically what help it provided to Mr W, and what would happen in terms of making up the payments not made. The bank's reply indicated the only 'benefit' for the loan was that payments wouldn't be taken automatically. But, practically speaking, that left Mr W in the same position he would have been had he not reached out to Monzo – and instead just cancelled the direct debit himself or allowed the payment to bounce. It also seems he'd have had to make up any missed payments within the original term of the loan, adding financial pressure once he was back on track. But it isn't really clear how Monzo intended that to work, going by the in-app chat explanations and its replies to my questions. So I can understand why Mr W was also confused.

There was potentially a small benefit to be gained from the interest freeze on his other two accounts, but Mr W was able to continue maintaining those. It was the loan instalment he was most concerned about when he contacted Monzo for support ahead of experiencing some short-term financial difficulty. Overall, I consider the bank's intervention made his situation worse. Monzo recognised it fell short in its explanation of the arrangement for the Flex account, and there wasn't any impact to put right there – as Mr W resolved that himself.

I acknowledge the template wording Mr W was given by Monzo during the in-app chat said missed payments would be reported to the CRAs. But Monzo had effectively agreed Mr W didn't need to make a payment during the 'breathing space' period. So he assumed that if he didn't make a payment it wouldn't be considered a missed instalment – because the bank, as far as he was concerned, wasn't expecting one. I find that to have been a reasonable conclusion on Mr W's part, given the explanation he received.

What Monzo didn't make clear, until Mr W got in contact the following month, was that a payment was still due while 'breathing space' was applied – and not paying the full instalment would lead to adverse information being reported. The 'breathing space' help for his loan could have been summarised as 'we won't collect the payment for you, but you still need to make your own arrangements to pay it if you don't want your credit file to be negatively impacted'. I don't consider that was made sufficiently clear to Mr W.

Had it been, I'm satisfied Mr W would have been able to borrow the amount needed from his grandparents – given he'd told Monzo that was an option up front, and was able to quickly do that once the impact of not paying became clear. Mr W knew that a missed payment on his credit file could potentially have serious ongoing implications for him, so I think he would have been keen (and able) to avoid that happening.

Putting things right

So, owing to the above, I've concluded it isn't fair that Monzo recorded a missed payment (or anything adverse) on Mr W's credit file for August 2022. I'm therefore directing Monzo to remove that entry, and instead record that a payment was received on time – as I think that's what likely would've happened had the bank given Mr W clear information.

Mr W has described the worry and stress he's been caused as a result of Monzo's mistake, and the resulting impact to his credit file. He's spoken about his concern over how it would affect his ability to re-mortgage or take out further credit in future, and he's had that hanging over him since he complained in September 2022. Thankfully, it hasn't yet impacted his financial arrangements. But taking into account the distress and inconvenience Mr W has been caused, and our published guidance on deciding this type of compensation, I consider an award of £300 would be fair in the circumstances.

My final decision

My final decision is I uphold Mr W's complaint about Monzo Bank Ltd, and direct the bank to:

- remove the missed payment entry from his credit file for August 2022, and replace it with an entry that shows he made the loan payment on time for that month; and
- pay Mr W £300 compensation for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 26 May 2023.

Ryan Miles
Ombudsman