

The complaint

Miss S complains that Monzo Bank Ltd unfairly recorded a default on her credit file.

What happened

Miss S had a bank account and £2,000 overdraft with Monzo. In July 2023 Miss S completed an account switch via CASS which completed around 2 August 2023. Around the same time, some refunds were sent back to Monzo by merchants Miss S had paid. At the time Miss S' account closed, it had an outstanding balance of £1,835.08.

Miss S contacted Monzo and asked it to forward the refunded sums to her new bank, N. Monzo's agents initially advised the refund would be issued. But on 12 August 2023 they responded to say any sums refunded would be used to reduce the outstanding balance of the overdraft.

On 23 August 2023 Monzo emailed Miss S to confirm the account switch was completed and asked her to get in contact to arrange repayment of the outstanding overdraft balance. Miss S responded and said she needed to arrange a direct debit to repay the overdraft and asked how to do that.

On 1 September 2023 Monzo sent Miss S a default notice that asked her to make contact to discuss repayments by 1 October 2023. The default notice said that it could look at payment plans to make repayment easier. Miss S responded to say she'd already contacted Recoveries but hadn't received a response.

On 15 September 2023 Monzo emailed Miss S and asked some basic questions about her circumstances. Monzo asked if Miss S was receiving any form of income, if her finances had changed for the worse in the last year, if she was struggling with debt and if she'd sought external debt advice. Monzo's email said that once the above had been answered, it would likely ask Miss S to complete an income and expenditure assessment. Miss S responded and said the answer to all Monzo's questions was "no".

As Miss S' response to Monzo's question about whether she was in receipt of any income was "no" it wasn't possible to set up a payment plan. On 27 September 2023 Miss S emailed Monzo again and asked for a response concerning the refund and how to repay her outstanding balance. On 29 September 2023 Monzo emailed Miss S back and asked further questions about her situation at the time. Monzo asked if Miss S was receiving benefits or looking for a new job. Monzo also asked Miss S how long she'd been out of work and how this was impacting her finances.

On 2 October 2023 Miss S responded and said she wasn't out of work and asked where Monzo had found this information. Miss S said all the other details were correct and asked about raising a complaint.

As no payment plan was agreed before 11 October 2023, the account defaulted. On the same day, Miss S emailed Monzo to raise concerns her account had been defaulted before she'd been able to arrange a payment plan and that no one was helping. Monzo emailed

Miss S back and said it had agreed to place some breathing space on her account so no calls or contact would be received in the following 30 days. Monzo also said Miss S needed to complete an income and expenditure assessment.

Miss S responded with a completed budget planner on 12 October 2023. Monzo emailed Miss S back on the same day and confirmed the breathing space it talked about in its previous email didn't impact its decision to default her account. Monzo also looked at the budget planner Miss S completed and queried some of the figures provided. The budget planner showed Miss S was earning £2,580 each month but that her outgoings came to £3,125 meaning she was operating at a deficit of £545 a month. Miss S sent another response and said she wasn't able to answer Monzo's questions and asked it to set up a payment plan of £20 a month.

Monzo went back to Miss S on 23 October 2023 and noted her request to set up a monthly payment plan of £20. But Monzo explained that as Miss S' budget planner showed a deficit each month it wanted to know how she was going to make payments to it of £20. Monzo also asked Miss S to confirm the date she wanted the payment plan to start on. Miss S confirmed the funds would come from her wages and asked for payments to begin on 1 December 2023.

On 20 November 2023 Monzo emailed Miss S and explained she'd need to either make direct payments or set up a standing order. Monzo confirmed the payment plan had been set for £20 a month and would end in July 2031. Account details for Miss S' payments were provided by Monzo. A later email from Monzo explained Miss S' account had been defaulted as the outstanding balance wasn't cleared within 60 days of the account being closed.

Monzo issued a final response to Miss S on 16 January 2024. Monzo offered Miss S £50 to apologise for the delay in setting up her payment plan and providing confusing information about the refund she requested. But Monzo said the default had been correctly recorded on Miss S' credit file. Monzo explained that as the amount Miss S offered to pay (£20) wouldn't have been sufficient to clear the outstanding balance within 12 months the decision to default was fair.

Miss S went on to refer her complaint to this service and it was passed to an investigator. They weren't persuaded that Monzo had made a mistake or treated Miss S unfairly by defaulting her account. The investigator noted that before the default was applied, Miss S' responses to Monzo advised she wasn't working. And when Miss S completed the income and expenditure assessment it showed she already had a deficit of £545 a month which meant a repayment plan didn't appear affordable to Monzo.

Miss S asked to appeal and said that she hadn't been told she'd need to make repayments in under 12 months to avoid default. Miss S also said many of her emails had gone unanswered and that she had every intention of repaying the overdraft in full at the time. Miss S disagreed that because of her income and outgoings the account would've defaulted regardless. As Miss S asked to appeal, her complaint has been passed to me to make a decision.

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.

I understand there will be dates and emails missing from the background above in terms of Miss S' contact with Monzo. But I've had to summarise Miss S case and I've focused on what I think are the key dates and events. I want to assure Miss S that I've read and

considered everything on file, including all her emails to and from Monzo along with the call recordings available. I've taken everything provided by both parties into account when reaching my decision.

I'm aware Miss S also complained about the refunds she requested when the account was closed at the beginning of August 2023. But on 30 April 2024 Miss S told the investigator she wanted to focus on the default issue which is what they did when issuing their findings. In line with Miss S' email on 30 April 2024, I've focused on whether Monzo acted fairly when it defaulted the account.

In response to the investigator, Miss S said she originally intended to repay the outstanding balance in full. But having read all of Miss S' emails and correspondence with Monzo, I didn't find any reference to Miss S clearing the full balance. When Monzo emailed Miss S about the outstanding balance, she responded to say she wanted to set up a direct debit to make repayments. As the balance wasn't cleared before the account was closed, Miss S was correctly referred to Monzo's Recoveries team to reach an agreement to repay it.

I note that Monzo asked Miss S some important questions about her circumstances when it emailed her on 14 September 2023 (before the default was issued). The key question that caused difficulties for Miss S was whether she was working. Miss S' response to Monzo on 15 September 2023 said "no" to all the questions asked. I appreciate that may've been a mistake by Miss S. But I think Monzo reasonably took Miss S' response that she wasn't working as being correct. That meant, from Monzo's view, Miss S wasn't working so not in a financial position to agree a payment plan for the outstanding balance. And, as I've said above, I haven't seen anything that shows Miss S asked to repay the full balance.

I can see Miss S corrected the position on 2 October 2023 when she told Monzo she wasn't out of work. But when Miss S completed a budget planner on 11 October 2023, it showed she had no spare funds to make repayments to the outstanding balance. The budget planner showed Miss S was had a deficit of £545 a month after covering her outgoings.

As Miss S initially said she wasn't working, then provided a budget planner that showed she had no capacity to make further repayments, I am unable to agree that Monzo acted unfairly by failing to agree a payment plan in time to avoid the default. I agree there were delays between Monzo's emails. And if Miss S' budget planner had shown she was able to affordably make repayments to clear the overdraft balance in a reasonable time, I'd have expected Monzo to take that into account in terms of whether it was right to continue with the default. But as the information provided to Monzo didn't show any capacity to make repayments, I'm unable to agree Monzo has acted unfairly here.

In response to the investigator, Miss S pointed out that Monzo didn't tell her a payment plan of 12 months or less was required to avoid the default. But Monzo wasn't able to set up a payment plan of that nature because Miss S' budget planner showed she wasn't able to afford it. As Monzo's understanding of Miss S' finances showed she was already operating at a deficit, I wouldn't expect it to have discussed a 12 month payment plan that would've required monthly payments of around £150.

I'm very sorry to disappoint Miss S as I understand the impact of the default will remain on her credit file for six years. But, for the reasons I've given above, I haven't been persuaded that Monzo made a mistake when it defaulted Miss S' closed account in October 2023 or treated her unfairly. As a result, I haven't been persuaded to uphold Miss S' complaint.

My final decision

My decision is that I don't uphold Miss S' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 29 August 2024.

Marco Manente
Ombudsman