

The complaint

Mrs P complains Monzo Bank Ltd unfairly closed her current account and applied a default on her credit file after she fell into financial difficulty.

What happened

In October 2022, Mrs P entered into a zero affordability plan for her overdraft after falling into financial difficulty. Monzo confirmed it would freeze the overdraft charges until January 2023 and check in with Mrs P to see if anything had changed. In the following months, Monzo continued to keep Mrs P on the plan.

In October 2023, Monzo wrote to Mrs P to request payment of her full overdraft balance of £999 by 5 December 2023. And explained if the full balance wasn't repaid, it would close the account and report her as being defaulted. At this point, Mrs P contacted Monzo to say she couldn't afford to pay the full balance by December 2023 but offered to make £50 monthly instalments towards the debt. Mrs P says she was waiting to hear back from Monzo when her account was closed and defaulted. Unhappy with its actions, Mrs P raised a complaint.

Monzo accepted its customer service could have been better and offered £125 compensation. But it felt the account closure and default was done correctly, as £50 per month wouldn't have cleared her balance in line with its internal timeframes. It also explained that customers are asked to pay their overdraft in full by month 14 of the zero affordability plan, and as Mrs P didn't repay the full balance, her account was closed, and the overdraft was reported as defaulted.

Our Investigator looked into matters and felt the offer of compensation was fair and reasonable. They thought Monzo made Mrs P aware that not repaying the overdraft by 5 December 2023 would lead to a default. They acknowledged that Monzo didn't respond to Mrs P in November 2023, but didn't think it would have changed matters as it couldn't accept her monthly payment so her account would have still defaulted.

Mrs P disagreed. She said, in summary, she wouldn't have agreed to the plan if she was made aware of how it worked or the consequences of not making payments. She says she offered to pay £50 per month and assumed the closure would be placed on hold whilst the repayment plan was being arranged. She also mentioned that she doesn't think the final balance detailed in the final response letter is correct as the last communication she received before the account closed was that the balance was £999 not £1,108.86.

As Mrs P remained unhappy with the outcome, the case was 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 Mrs P feels very strongly about this complaint and I'm very sorry to hear about her personal circumstances. I've carefully considered everything she's said, if I don't directly reference something in my decision it is not because I've not given this consideration. But I've focused on what I consider to be the crux of the complaint.

Did Monzo help Mrs P when she first told them about her financial difficulties

When a customer is in financial difficulty, we expect lenders to exercise forbearance and due consideration. So I've looked at whether Monzo did this for Mrs P.

Having done so, I'm satisfied Monzo acted reasonably when Mrs P informed it of her circumstances. I've seen that it placed her on a zero affordability plan seemingly in October 2022 which meant no charges were applied.

I've noted Mrs P has said she didn't want to be placed on a zero affordability plan if she'd been told what this meant. But, based on Mrs P's explanation about her financial circumstances (which I've taken from the chat history she's shared with our service) – she wanted help with the fees on the overdraft.

What forbearance (help) looks like is different in every case and depends on the circumstances of the individual combined with what the business is willing to offer – as not all businesses will have the same kind of options.

Monzo placed Mrs P on its zero affordability plan. As I understand it, this stopped interest and charges being applied to Mrs P's overdraft – which appears to meet Mrs P's stated aim of help with the charges she was experiencing.

So, given the above, I'm satisfied Monzo acted fairly and supported Mrs P with her financial difficulties when it placed her on the plan.

Default

Mrs P isn't happy that Monzo applied a default to her credit file for this current account – primarily because she thought she was negotiating with them about a payment arrangement.

Monzo says it made an error in its communications, which is part of the reason it offered the £125, but didn't make an error in defaulting Mrs P's account. The reason for that is because of how long it would have taken Mrs P to clear the overdraft at the end of the arrangement it had put her on.

Overdrafts are generally 'repayable on demand'. This effectively means Monzo could have asked Mrs P to repay the overdraft at any time it wanted.

The chat history shows when Mrs P entered into the plan in October 2022, Monzo explained her overdraft was still repayable on demand and it could request full or part repayment with 30 days' notice. It also explained if the full amount wasn't paid when requested, it would report the account as defaulted to credit reference agencies. So, when the plan reached month 12 in October 2023 and Monzo said it would report the account as defaulted if the full balance wasn't repaid by December 2023, it gave the appropriate notice it needed to.

Monzo has told our service that Mrs P had the opportunity to put a suitable repayment plan in place at month 12 to avoid a default being applied, but the balance would need to be repaid in 12 consecutive monthly payments or less. Mrs P's income and expenditure assessment from October 2023 showed after her outgoings she was in deficit. But Mrs P confirmed that as her husband earned a higher salary, she would be able to make monthly

payments of £50 towards the balance. At this stage, it seems Monzo escalated matters to a specialist team but then defaulted the account before telling Mrs P the outcome.

In terms of applying the default, as Monzo required repayment within 12 months Mrs P's proposal didn't meet that criteria. Monzo had also, at the point of defaulting the account in December 2023, not applied charges for around 13 months (the last charge being applied in November 2022 which Mrs P was made aware of when the arrangement was set up in October 2022). Monzo also couldn't accept the repayment plan, as the evidence it had from the income and expenditure showed Mrs P couldn't have afforded it – and lenders can't put in place a repayment plan that is known to be unaffordable for the customer.

So, with a repayment plan that couldn't officially be accepted and didn't repay the debt within 12 months, as well as having already provided Mrs P with 13 month's worth of help, Monzo defaulted the account. In the circumstances, I'm satisfied the decision to default the account was fair.

Mrs P says Monzo didn't get back to her when she was disputing the default, so it's unfair it's been applied. She says she would have borrowed money to repay the debt or take out a loan.

What I need to consider here, is if Monzo had told Mrs P that it'd default the account, whether the position she'd be in would be any different. To help me decide that, I've looked at what else we've been told.

In addition to saying she'd have borrowed the money or taken out a loan – Mrs P has also said she had various other lending and couldn't afford to repay the balance in full.

I've also reviewed Mrs P's statements and can't see she made any payments to reduce her balance following Monzo's request for it to be repaid. Therefore, whilst I appreciate Mrs P says she could have repaid the balance, the evidence doesn't support this, or that she was able to pay it off in less than 12 months as required by Monzo. Based on all of this, I'm not satisfied Mrs P has proven she would or could have repaid the balance in the timeframe Monzo required to avoid the default.

Account closure

As a starting point I need to consider what the terms and conditions say – and then I need to consider if I'm satisfied Monzo acted fairly by following those terms and conditions.

In Mrs P's case, the terms and conditions say:

"We can close your account by giving you at least 2 months' notice."

As the terms and conditions of Mrs P's account allow Monzo to close the account by giving at least two months' notice I've looked to see if it has done that.

The evidence shows Monzo wrote to Mrs P on 6 October 2023 requesting repayment of the overdraft balance by 5 December 2023. It also said that if the balance wasn't paid by then, it would close her account. So, I think Monzo gave Mrs P the notice it was required to under the terms and conditions of the account.

Outstanding balance

Mrs P has also queried the outstanding balance as she believed it was £999 when the account closed but Monzo referred to £1,108.86 in its final response letter. Monzo has told

our service no fees were charged between month 12 and 14 prior to the closure, and provided Mrs P's statement which shows the balance was £1,000 in December 2023. This also corresponds with the balance Monzo's recoveries team shared with Mrs P following the default. Therefore, based on the information provided, it would appear the balance mentioned in the final response letter was incorrect, so I would only expect Monzo to be asking Mrs P to repay £1,000.

Summary

Monzo acknowledged it should have been clearer about the account closure and its overall customer service had fallen below an acceptable standard. Having considered all the circumstances and the impact of Monzo's actions on Mrs P, I think £125 is generally in line with what I would have recommended. I say this because, from the evidence I've seen, I think the closure and default was inevitable, but had Monzo provided a better service to Mrs P, I think it could have reduced the distress and inconvenience she was caused.

For the reasons given, whilst I do appreciate this isn't the outcome Mrs P is hoping for, I think £125 is fair and reasonable.

My final decision

My final decision is that I partially uphold this complaint and direct Monzo Bank Ltd to pay £125 if it hasn't done so already.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 28 April 2025.

Tania Henry
Ombudsman