

## **The complaint**

Mr G complains Monzo Bank Ltd ('Monzo') closed his bank account without warning and recorded that he'd defaulted on his overdraft which became due after the account was closed. He wants Monzo to remove the default from his record.

## **What happened**

Mr G had a current account and a business account provided by Monzo.

On 7 January 2023 Monzo closed Mr G's current account. It emailed him that day saying he could no longer use the account and it couldn't tell him the specific reason. It said it sometimes closed accounts as part of its legal and regulatory responsibilities and Section 14 of its terms and conditions permitted that. Monzo also told Mr G in its email that his account was overdrawn at the time of closure and it would be in touch in the next few days to talk about his options. And Monzo gave Mr G two months' notice that it would close his business account too.

On 8 January 2023 Monzo wrote to Mr G saying his closed account was overdrawn by nearly £700. It said if Mr G didn't pay the money back Monzo would make a report to the credit reference agencies. It also said had stopped adding any fees from the date of account closure and wouldn't charge any interest on the debt that remained.

Mr G replied the same day. He said he was extremely disappointed Monzo had closed his account without warning or reason. He said he'd repay his balance but would need to set up a plan to do so. He said he could pay every 4 weeks and could afford £100 combined. He hoped it wouldn't affect his credit rating.

On 11 January 2023 Monzo wrote that under the terms and conditions of its current accounts it reserved the right to close Mr G's account the way it had. It asked whether Mr G wanted to make a complaint. And it said it could look into putting a payment plan in place for the overdraft if he could provide some information about his circumstances.

Mr G said he did want to make a complaint. He said he'd done nothing wrong to justify the closure of his account. Regarding a payment plan, he wanted assurance that it wouldn't affect his credit rating. He also mentioned he was experiencing some vulnerable circumstances which affected his finances.

On 12 January 2023 Monzo wrote that it was sorry about Mr G's circumstances and asking for more information. It also said any outstanding overdraft balance on a closed account would ideally be settled within 30 days or it could negatively impact the customer's credit score. It said Monzo would usually default the account if such a balance wasn't paid after 60 days. But it said if Mr G provided more information Monzo might be able to agree to an affordable repayment plan. And it signposted him to free debt advice.

Mr G replied with more information about his circumstances. And he asked whether his credit file would be affected if he paid £100 per month towards flex and his overdraft combined.

Still on 12 January 2023 Monzo wrote again. It said Mr G's flex payments were currently on track, but he needed to keep to the scheduled payments or he'd go into arrears and possibly default. It thanked him for offering to pay £100 towards both debts and asked him to complete a budget. It said it had applied breathing space to his account to give him time to complete the budget. It also said:

*'In terms of credit file impacts, the overdraft payments will need to be spread over across a maximum of 12 months to avoid your account from being defaulted, as a plan that takes longer than this will result on a default being issued. For Flex, the plan will be reported as 'in arrangement' provided that payments are made on time, please note that even if your account was open a payment plan would also be reported as such. We will share more details about this before we set any arrangements for you so you can have a full understanding of any impacts as it is dependant on how you'd like to split the £100.00 across both products.'*

Mr G replied again on the same day. He provided more information about his circumstances. And he said he'd maintain his flex payments. He didn't want a payment plan for the flex account because it would impact on his credit file. He explained why his credit file was important for him. Regarding his overdraft he said:

*'If it can be split over maximum 12 months please without affecting my credit file at all with no late payment, arrangement to pay or defaults, as long as I maintain it, then this will be the best way, until my circumstances change.'*

On 13 January 2023 Monzo wrote again. About his overdraft it said:

*'If your overdraft remains outstanding for 30 days+, we would have to report your account as being 'in arrears' to our Credit Reference Agencies (CRAs), which could have a negative impact on your Credit File and Credit Score.'*

*If we are able to agree a repayment plan to clear your overdraft within 12 months to avoid default, this would be reported on your credit file as 'In an arrangement'.*

Mr G said it wasn't fair that by closing his account Monzo was forcing him to repay his overdraft in 30 days or have his credit file affected.

Mr G contacted Monzo a number of times about how to make payments for his flex balance. On 9 February 2023 Monzo told Mr G where to send repayments and asked him to do a budget assessment if he wanted to set up a repayment plan. Mr G said a repayment plan would cause him financial difficulties and that was caused by Monzo closing his account and demanding repayment. He said he was happy to agree dates and amounts for repaying his overdraft but he wanted confirmation it wouldn't negatively affect his credit file.

On 12 February 2023 Monzo wrote that it would record Mr G's closed account as being in default if it didn't hear from him by 14 March 2023 about a repayment plan. Monzo included information about debt advice. Mr G replied saying Monzo appeared not to have read the emails he'd sent and had failed to call him back.

On 14 February 2023 Monzo wrote:

*'... When setting up a plan for your Overdraft to avoid this going into Default a plan would need to be put in place to clear the balance in 12 months or less. This would make the payments approximately £57 per month and you will be reported as in an arrangement during this time ...'*

On the same day Mr G wrote that he'd try to borrow money to repay the overdraft by 14 March 2023 so his credit file wouldn't be negatively affected.

On 20 February 2023 Monzo wrote to Mr G. Amongst other things it said the following:

- In relation to reporting his account as being '*in arrangement*', Monzo had to accurately report the account's status.
- Monzo had asked for a budget assessment to help identify the right solution for Mr G.
- Monzo had applied a further 30 days' breathing space to Mr G's account, until 18 March 2023, to allow time for him to complete a budget.

Monzo also provided information about free debt advice and other support.

Mr G and Monzo exchanged several messages about the method of payment.

On 2 March 2023 Monzo sent a legal notice because Mr G was behind on his flex payments. Mr G replied the same day asking how he could be in arrears when he had breathing space until late March.

On 3 March 2023 Monzo again asked Mr G for information about his budget, with a view to agreeing a repayment plan.

Mr G provided budget information to Monzo.

On 10 March 2023 Monzo wrote that a repayment plan had been agreed for Mr G's overdraft. It said the following:

*'... Thank you for also letting us know that you can afford to pay £100.00 towards your overdraft each month.*

*Here are the details of the repayment arrangement we've agreed to:*

*First payment: 17/03/2023 = £100.00 and £100.00 on the 17<sup>th</sup> of each subsequent month, until 17/08/2023.*

*Then one final payment of £79.16 on 17/09/2023.*

*... I understand you're looking to manage the flex account yourself. Would you have a date in mind on when you can clear these arrears?'*

Mr G replied the same day saying:

*'... Thank you*

*I trust this means there will be no default as discussed with the Exec Team and other agents at Monzo as I've set up a plan to pay ...'*

On 14 March 2023 Monzo wrote the following to Mr G:

*'... As we have now set up a repayment plan on the Overdraft which will take less than 12 months to clear the balance this will not default providing all payments are met on time.*

*In regards to your Flex account as you are currently in arrears will you be able to clear those before the next payment is due which is on the 1st April or would you also like to agree a plan for the full Flex balance?’*

Mr G replied the same day saying:

*‘Thank you for that.*

*Flex will be paid on the 17<sup>th</sup> of each month, as will my overdraft ...’*

On 1 April 2023 Monzo sent Mr G a message saying he’d missed another payment for his flex account. It said *‘We have to keep letting credit reference agencies know when you miss payments...’* It sent numerous similar messages in subsequent months.

On 24 and 30 May and 6 June 2023 Monzo sent a message to Mr G saying:

*‘You didn’t have enough money in your account when we tried to reduce your overdraft limit.*

*Please add £100 by 21 June 2023 or we’ll cancel your overdraft plan. If you’d like to change or cancel your plan, or you need some more help, please reply to this message and we’ll look at ways to help.’*

Monzo said the message was sent by app, chat and SMS.

On 23 June 2023 Monzo wrote that it had cancelled Mr G’s overdraft plan as there wasn’t enough money in his account to reduce his limit. Monzo said it sent this message through SMS, app and chat.

On 5 August 2023 Monzo wrote to Mr G saying that, because it hadn’t heard from him, it had notified its credit reference agency that his account was in default.

On 28 August 2023 Monzo responded to Mr G’s complaint. Monzo said it had told him on 14 March 2023 that because he’d agreed a plan to pay off the overdraft in less than 12 months his account wouldn’t default providing all payments were made on time. It said Mr G had missed a payment in May 2023 and made only part payments in July and August 2023. It said it sent notifications about the missed payment via SMS. In summary it said Monzo had followed correct process so it didn’t uphold his complaint about the default.

Mr G referred his complaint to this service. In summary he said Monzo had told him in February 2023 that as long as he paid off the overdraft within 12 months it wouldn’t be recorded as in default. He said Monzo didn’t communicate the terms of his repayment plan well enough and didn’t warn him about the default.

One of our investigators looked into Mr G’s complaint. She asked Monzo for more information about what it told Mr G in relation to recording a default against him. Monzo didn’t respond to her request.

The investigator formed the view that it wasn’t unfair or unreasonable for Monzo to close Mr G’s account the way it did. But, in the absence of further explanation or evidence from Monzo, she thought Monzo hadn’t made it clear enough to Mr G that it would record a default against him if he didn’t stick to his repayment plan. So she thought Monzo should remove the default marker, allow Mr G to continue the repayment plan, and give Mr G £100 for having inconvenienced him.

Mr G said he agreed with the investigator's view and what she'd proposed Monzo should do.

Monzo responded to the investigator's view and said it didn't agree. In summary it said Mr G had broken the arrangement and so the repayment plan had failed and Monzo had correctly reported his account as in default. It said it had issued a notice of default on 12 February 2023.

Because no agreement could be reached, the complaint was passed to me to review afresh and make a decision.

### **My provisional decision**

I issued a provisional decision in which I said I was minded not to uphold Mr G's complaint. Having independently considered all the evidence and arguments my provisional view was that Monzo hadn't treated Mr G unfairly. I said I'd consider any further submissions from Mr G and Monzo before making a final decision.

Monzo didn't reply to my provisional decision. Mr G disagreed with the provisional decision. In summary Mr G said he hadn't entered a credit agreement for the overdraft repayment terms. And he couldn't be legally responsible without an agreement in place that stipulated dates, amounts of payments and consequences of non-payment. And Monzo hadn't provided evidence of terms and conditions and dates and amounts for the overdraft repayment. He said an arrangement isn't legally binding or enforceable and Mr G wouldn't have agreed to such an agreement because of his circumstances.

He also said Monzo had forced the situation on him by closing his account. And he said he'd communicated with Monzo throughout and told it about his difficult circumstances. And Monzo wasn't helpful or supportive. He said he'd been able to afford £50 for each debt and that was agreed. And he'd chosen to pay '*more informally*'.

Mr G also said again that Monzo told him if the balance was cleared within 12 months there would be no default.

### **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 not upholding the complaint. I'll explain why.

In relation to the closure of Mr G's account I agree with our investigator that the terms and conditions of Mr G's account allowed Monzo to close the account without notice. When applying its terms and conditions I'd still expect a business to act fairly and reasonably and not unduly inconvenience its customers. In this case, I've weighed up Monzo's reasons for closing Mr G's accounts in the way it did. Although I can't disclose those reasons I'm satisfied Monzo didn't act unfairly or unreasonably in applying its terms and conditions to close Mr G's account that way.

If I haven't found Monzo was wrong to close the account, I can't hold it responsible for Mr G's overdraft becoming due. Mr M said in response to my provisional decision that Monzo forced this situation on him by closing his account. I understand what he means and why it feels unfair to him. But the fact remains Monzo was entitled to close the account and wasn't unfair to do so. When Mr M opened the account and used the overdraft, the possibility existed Monzo would close the account and Mr M would have to repay the overdraft.

But I've considered carefully Mr G's submissions about the way Monzo handled the repayment of the overdraft. And I've considered in particular the reasonableness of its decision to report that Mr G's overdraft was in default.

I can understand why Mr G is upset that his account was reported as in default. But for me to uphold this complaint I'd need to be satisfied Monzo did something wrong or treated Mr G unfairly by reporting the default.

From the extensive correspondence exchanged between Mr G and Monzo, it's clear Mr G was aware of the overdue balance on his overdraft. On 12 February 2023 Monzo sent a letter saying it would record a default if it didn't hear from him about a repayment plan before 14 March 2023. And Mr G mentioned his credit file numerous times during correspondence. So it's clear he also knew there was a risk his overdraft would be recorded as in default.

Monzo told Mr G it generally required overdrafts on closed accounts to be settled in 30 days. And if they weren't, Monzo would usually report the overdraft as in default. But it said it would agree to a repayment plan in light of Mr G's difficult circumstances.

I think the correspondence from Monzo made clear what payments Mr G was expected to make and when, under the repayment plan that was agreed. Monzo set out in writing the amounts and dates of the payments. And messages written by Mr G showed he was aware he was expected to pay £100 per month for a number of months. Mr G has said the payment plan wasn't a formal agreement and so he shouldn't be held legally responsible for it. But Mr G owed Monzo the debt under the terms and conditions of its account with him. I've seen email correspondence in which the repayment plan was agreed in writing, with dates and amounts specified. So I think it was fair for Mr G to be held accountable for the debt and for making payments under the plan. Irrespective of how the repayment plan might otherwise be legally binding or enforceable, it was fair for Monzo to report Mr G as being in default on the basis of the unpaid overdraft and missed payments under the repayment plan.

In addition, I think Monzo gave Mr G enough information to know he could be recorded as in default if he didn't keep to the payments in the plan that Monzo had agreed to. In particular Monzo's message of 14 March 2023 said he could avoid default if he had an agreed payment plan of less than 12 months provided all payments were met. So Monzo told Mr G that he'd have to meet all payments to avoid default, not simply to agree to a plan and pay off the amount before 12 months had passed. I also note that on 12 January 2023 Mr G said:

*'If it can be split over maximum 12 months please without affecting my credit file at all with no late payment, arrangement to pay or defaults, as long as I maintain it, then this will be the best way, until my circumstances change.'*

I think this shows Mr G had a general awareness that, to avoid being in default, he'd need to keep to the repayment plan if one was agreed.

After the payment plan began, Mr G made two full payments, but he missed one payment in May 2023 and made only partial payments in July and August 2023. So Mr G didn't keep up with the payments he and Monzo had agreed. And so it was reasonable for Monzo to say the agreement had been broken.

Monzo provided records of messages it said it sent Mr G about his overdraft when he didn't maintain the payments. Mr G has said he didn't receive any warnings about missed payments on his overdraft. Even if he didn't receive those messages, I think he would've known from information already provided that he had set amounts to pay each month and that failure to pay those amounts could result in a default being recorded.

In setting up the repayment plan Monzo sought information about Mr G's budget to see what would work. And it signposted him to free debt advice. The amounts it agreed were suggested by Mr G. And I haven't seen that Mr G contacted Monzo at any point to suggest a lower amount or an altered plan due to payment difficulties.

Overall, I'm satisfied Monzo did enough to make sure Mr G was aware of what was happening with his overdraft and the potential for it to default. And it gave him a reasonable opportunity to pay off the overdraft after seeking information about his circumstances, and it ceased charging interest. In doing so I think Monzo did show sympathy and forbearance to Mr G and it did try to help him pay off the debts in a way that would work for him.

With all this in mind, I consider that the default Monzo recorded accurately reflects what happened with Mr G's overdraft. And so I don't think Monzo treated Mr G unfairly when it recorded the default. And where a business reports information to credit reference agencies, it's a regulatory requirement to ensure the information correctly reflects the status of the account, including if the account is closed.

Mr G said that because of his difficult circumstances he wouldn't have agreed to the repayment plan if he thought it was legally binding. And he said he'd said he could pay only £50 per month to each debt. But email correspondence shows various figures were discussed and the plan that was agreed was for Mr G to pay £100 to his overdraft for some months followed by a final payment of about £79. In any case, if he'd not agreed to a plan he would've been in default anyway and Monzo would've reported him as such. And Monzo said he still would've been in default if he'd agreed to pay only £50 per month on each debt because that wouldn't have been enough to clear the debts within 12 months. So, while I do understand Mr G's feelings about this, it doesn't give me a basis to say Monzo has acted wrongly.

I know this will be disappointing for Mr G. I sympathise with the difficult circumstances he's described. And I can understand why his credit record is important to him. But I can't say it was unreasonable for Monzo to close his account and report a default in the way it did. So I'm not asking Monzo to do anything.

### **My final decision**

For the reasons I've set out above, my final decision is that I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 13 August 2024.

Lucinda Puls  
**Ombudsman**