

The complaint

Mr P complains that MBNA Limited closed his account and registered a default. He wants the default removed.

What happened

Mr P held a credit card account with MBNA. In 2020 he experienced financial difficulties and entered into a debt management plan with StepChange, effective from November 2020.

MBNA suspended interest on the account from November 2020. Initially Mr P was paying £190.93 per month towards the balance. This increased to £244.13 in December 2021.

MBNA wrote to StepChange on 11 February 2022 and said that it would begin charging interest to the account in two months time. MBNA charged £284.22 interest in April 2022 and £294.12 in May 2022. The amount that Mr P was required to pay as a minimum payment increased due to these interest charges. Mr P paid less than the minimum payment. Because of this, the account fell into arrears.

MBNA issued a Default Notice in July 2022. The notice required Mr P to pay £378.40 or get in touch with MBNA by 1 August 2022. MBNA didn't receive a payment for this amount, nor did it hear from Mr P, so it closed the account and registered a default.

In September 2022 MBNA sold the account to Link Financial.

Mr P complained to MBNA. He didn't think it was fair that MBNA had reinstated interest to the account and registered a default when it had previously agreed to the debt management plan. He felt that MBNA had treated him differently to other credit card providers.

MBNA didn't uphold the complaint. It said the default had been correctly applied.

Mr P remained unhappy and brought his complaint to this service.

Our investigator didn't uphold the complaint. She looked at whether MBNA had treated Mr P fairly when it gave notice that it was going to reinstate interest. She said that in the circumstances where Mr P had brought his account up to date, and where MBNA thought Mr P was no longer in financial difficulties, she was satisfied that the decision to reinstate interest was fair and reasonable. Our investigator also looked at whether MBNA had treated Mr P unfairly by closing the account. She said that because Mr P didn't contact MBNA to discuss his account by 1 August 2022, she didn't think MBNA had treated him unfairly by closing the account and registering the default.

Mr P didn't agree. He said that although he'd made some lump sum payments towards all of his credit cards, this didn't change his cashflow situation insofar as his income and outgoings remained the same. He said his payments remained as per the budget agreed with StepChange in December 2021. Mr P said MBNA had wrongly assumed that his financial situation had improved, and that it was therefore unreasonable of them to start charging interest. Mr P said that MBNA sold the debt to Link Financial, who had registered a second

default for the same debt. He said the presence of the defaults could affect his employment/earnings potential.

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.

There are two aspects to Mr P's complaint. The first is whether MBNA acted fairly by charging interest on the account in April 2022, and the second is whether MBNA acted fairly by closing the account and registering the default. I'll look at each aspect in turn.

Interest

MBNA stopped charging interest in November 2020 when Mr P entered into the debt management plan. When Mr P first entered into the debt management plan, he was paying £190.93 per month to MBNA. This amount increased in December 2021 to £244.13.

It was soon after this in February 2022 that MBNA wrote to Mr P and told him that interest would be added to the account in two months. MBNA also sent a letter to StepChange dated 11 February 2022 advising that it would begin charging interest to the account in two months time.

This service asked MBNA why it decided to start adding interest to the account. MBNA told this service that Mr P had made lump sum payments of £304 in February 2021 and £4000 in March 2021. In addition, Mr P had been making higher monthly payments of £244.13 since December 2021, MBNA said that because this sum was more than the minimum payment due, it appeared that Mr P was back on top of his payments and no longer needed to be in the debt management plan.

Mr P has said that he'd only been able to make odd lump sum payments when he could raise funds. He's also said that the lump sum payments didn't affect his cashflow situation, and that his income and outgoings remained unchanged. Mr P has said that MBNA wrongly assumed that his cashflow had improved and that enquiries made of StepChange would've shown otherwise.

I've taken what Mr P has said into account. However, from MBNA's perspective, it had waived interest since November 2020, so for around 17 months. MBNA wasn't obliged to waive interest during this time, even though Mr P was in a debt management plan. There's no dispute that Mr P increased his monthly payments in December 2021. This suggests an improvement in his cashflow. I can see from the information sent by StepChange to MBNA in November 2021 that Mr P's total income was reported as £2600 with total expenditure of £2008, so there was income surplus of £592.00. Based on what I've seen, I think it was reasonable for MBNA to conclude that Mr P's financial situation had improved and that he was no longer in financial difficulties.

I've also taken into account the fact that MBNA gave Mr P and StepChange two months notice of its decision to charge interest. I understand that Mr P didn't want to communicate with MBNA directly at this time; however, if Mr P didn't think he would be able to make the payments (including interest) going forwards, I would've expected him to ask StepChange to ask MBNA to review its decision to charge interest. I've reviewed the system notes and I can't see that either Mr P or StepChange contacted MBNA in response to the letter dated 11 February 2022.

Taking everything into account, I'm satisfied that MBNA's decision to start charging interest

from April 2022 was fair and reasonable.

Closure of the account

I've reviewed the account history from the point when interest was charged in April 2022 to the closure date.

When interest was charged, the minimum payment increased. Mr P didn't increase his payments to meet the minimum payment, so the account fell into arrears. By the time the default notice was issued in July 2022, the account was three months in arrears. The relevant guidance says that a business can issue a default notice if there are between three and six months of arrears.

MBNA sent the default notice to Mr P and asked him to pay the arrears of £378.40 or get in touch with them by 1 August 2022. I can see that Mr P made a payment of £228.45, but he didn't contact MBNA and neither did StepChange.

Based on what I've seen, I don't think MBNA made an error by issuing the default notice and closing the account. MBNA has a duty to report accurate information to the credit reference agencies, so it was obliged to report the default. I'm unable to ask MBNA to remove the default because it has been correctly reported.

Mr P has raised a point about being treated differently by MBNA to the way Halifax treated him, even though both businesses are within the same banking group. I'm not able to comment on the decisions taken by Halifax. I'm only able to look at the circumstances of this complaint and decide whether MBNA acted fairly and reasonably.

Mr P has also raised a point about there being two defaults on his credit file in respect of the same debt. One has been reported by MBNA and the other has been reported by Link Financial, who purchased the debt. I've already explained why I don't think MBNA has made an error by reporting the default. In relation to Link Financial, it is under a similar obligation to report accurate information to the credit reference agencies. So provided that the information reported by Link Financial is accurate, I'm unable to say that MBNA is responsible for this.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 10 May 2024.

Emma Davy
Ombudsman