

The complaint

Mrs L is unhappy that Tesco Personal Finance PLC suspended her account on the basis that Mrs L was in persistent debt. Mrs L is also unhappy that she's still being charged monthly interest.

What happened

In September 2018, Mrs L received a letter from Tesco advising that she's paid more in interest and fees in the last 18 months that she'd paid towards repaying the outstanding credit balance. The letter continued to explain that this meant that Mrs L was considered as being in 'persistent debt' and that if she continued to meet that definition over the next 18 months that Tesco might be required to take action. Finally, the letter gave an explanation of how Mrs L could increase her payments so that she would no longer be considered as being in persistent debt.

Mrs L didn't increase her payments, and a further, similar letter was sent to her by Tesco nine months later, reminding Mrs L that unless she made payments such that she could no longer be considered as being in persistent debt by April 2020 that Tesco may have to limit or stop the use of her credit account. Tesco also sent a further letter to Mrs L in February 2020, again explaining that the deadline for her to make payments so as to not be considered as being in persistent debt was approaching. Mrs L didn't make any payments to that effect, and in April 2020 Tesco sent Mrs L a letter explaining that her account had been suspended because of this.

Mrs L wasn't happy about what had happened, so she made a complaint. Tesco looked at Mrs L's complaint, but they felt that they had followed the correct procedure and had sent clear and consistent communication to Mrs L advising her about it. So, they didn't uphold Mrs L's complaint.

Mrs L wasn't satisfied with Tesco's response, so she referred her complaint to this service. One of our investigators looked at this complaint. But they also felt that Tesco had followed the correct process here, and that Tesco had communicated clearly to Mrs L about it, and so they also didn't uphold this complaint.

Mrs L remained dissatisfied, so the matter was escalated to an ombudsman for a final 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.

In March 2018, the Financial Conduct Authority (FCA) issued new rules and guidance about persistent debt. These rules mean that businesses have an obligation to identify where a customer has paid more towards interest and charges than towards clearing the capital balance of any borrowing. Under the guidelines, if a customer's account meets the definition of persistent debt over an 18 month period, then the business is required to send out a

series of correspondence informing customers of the steps they can take so as to no longer be considered as being in persistent debt, as well advising the customer of the actions that the business may need to take if that customer's account remains in persistent debt.

For any accounts that remain within the definition of persistent debt for a further 18 months following the sending of the first letter, the business has a responsibility to take action, including the suspension or cancellation of accounts so that the account doesn't remain in persistent debt indefinitely.

That's what Tesco did here. The letters they sent to Mrs L clearly explained that Mrs L's account was considered as being in persistent debt and provided Mrs L with the information needed for her to make the necessary payments so that her account would no longer be considered as such. Additionally, the letters that Tesco sent also clearly explained the potential consequences should Mrs L not take the necessary action, and should her account continue to meet the definition of persistent debt. And this included the possibility that her account may be suspended.

I'm aware that Mrs L is also unhappy that Tesco have demanded that the outstanding balance now be repaid by Mrs L over a period of no longer than four years from the date of the account suspension. But I don't think that it's unreasonable of Tesco to have asked Mrs L to clear the balance within this time, and I note that Tesco give Mrs L the option of arranging a different payment plan with them, if one is required.

Finally, Mrs L isn't happy that she continues to pay interest on the balance, even though the account has been suspended. But Tesco offered Mrs L a payment plan of £80 per month at 0% interest, or a tailored payment plan at a reduced rate of interest, after either of which the credit account would be permanently closed. Tesco have further explained that if Mrs L wants the account to be re-opened, that the balance still needs to be cleared in full but that the account will continue to incur interest at the contractual rate.

This feels fair to me, and I wouldn't expect Tesco to offer Mrs L a repayment plan with a zero or lower rate of interest without the condition that the card be permanently closed once the balance was repaid.

All of which means that it's difficult to conclude that Tesco have acted unfairly or unreasonably here, and it follows from this that I won't be upholding this complaint or asking Tesco to take any further action at this time.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 23 June 2021.

Paul Cooper
Ombudsman