

The complaint

Mr R complains about Tesco personal Finance Plc reporting a default on his credit card account.

What happened

The background to this complaint is well known to both Mr R and Tesco. I won't repeat in detail what is already known to both parties. In my decision, I'll mainly focus on giving the reasons for reaching the outcome I have.

In May 2020 Mr R let Tesco know that he'd unfortunately lost his job due to the COVID-19 pandemic. Tesco agreed to a COVID-19 payment deferral to end in July 2020.

In September 2020 Mr R let Tesco know that he was still looking for work and would struggle to maintain his minimum contractual repayments. Tesco agreed to apply a payment arrangement with Mr R for six months – until February 2021. Under the terms of this plan, Mr R would pay £5 per month, no interest would accrue. Tesco also refunded almost £260 of fees and interest.

A default notice was sent to Mr R on 15 March 2021. Mr R says he didn't receive this notice. The account was reported as defaulted on 13 April 2021.

Mr R complained to Tesco. They didn't uphold his complaint and he referred it to our Service for an independent review. Our investigator recommended that the complaint not be upheld - so it's been referred to me 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.

Although a number of issues have been raised, this decision only addresses those issues I consider to be materially relevant to this complaint. This isn't meant as a discourtesy to either party – it simply reflects the informal nature of our Service. Similarly, I won't comment on every interaction between both parties here – only the key ones. However, I've given careful consideration to all of the submissions made before arriving at my decision.

Based on what I've seen, Tesco and Mr R had an agreed payment arrangement for a period of six months from September 2020. Having considered what I've seen of Mr R's financial circumstances at the time this arrangement was agreed, I consider it was fair, supportive and positive of Tesco to agree to such an arrangement. This was in addition to previously granting Mr R a COVID-19 payment deferral.

The other main option here would've been to extend the COVID-19 payment deferral. But given that this would've meant interest would continue to accrue whilst Mr R was still unemployed, I find that an affordable repayment of £5 per month was in his best interest and would slowly reduce the debt owed by the end of the *six* months instead of the payment

deferral option - which would've actually increased the amount due after *three* months. In short - it gave Mr R a longer period of breathing space to sort his personal financial circumstances out.

I'm satisfied that the key terms of this arrangement were sufficiently brought to Mr R's attention during a call with Tesco on 9 September 2020. Crucially, this was also clearly set out in a letter sent to Mr R dated. I've included the key points below:

"Please note that by accepting these payments we are in no way modifying or abandoning any of our rights under our credit agreement with you for the above account...."

What you need to do

Make your next payment of £5.00. **It needs to reach us by the payment date on your monthly statement. Make each future payment instalment on time.** [Bold added for emphasis by Ombudsman]

What happens if you can't make a payment?

If you can't make this payment, you need to contact us straight away. If you don't clear the arrears as agreed or get in touch with us, we will issue you with a formal Default Notice. [bold added for emphasis by Ombudsman] *This notice will give you 28 days to clear the arrears on your account. If you don't make this payment, we will then demand payment for the entire amount you owe (not just the outstanding payments). We will also file this default at Credit Reference Agencies. This will have a serious impact on your credit rating. Other lenders see this information and it will impact your ability to obtain credit in the future. If we can come to an acceptable arrangement, this could reduce the damage to your credit rating...."*

In simple terms, Tesco agreed to temporarily deviate from the minimum contractual repayment terms Mr R had agreed to when he took out this credit card account. In return, Mr R would pay £5 per month. Should Mr R break the terms of the arrangement or not clear the arrears by the end of the six months then Tesco would issue a default notice.

I've also noted Mr R says he didn't receive the default notice and feels it was unfair of Tesco to proceed with it. Whilst I've seen no evidence of returned post or post being undeliverable, on balance, I'm satisfied that even in a scenario where Mr R didn't receive the default notice he'd already sufficiently been placed on notice of the consequences of breaking the terms of his repayment arrangement with Tesco.

For balance, I've further considered that there's no evidence that Mr R was in a position to restart his minimum contractual repayments or clear arrears in March 2021. Indeed, Mr R has told us that he wasn't back in work until later in 2021.

On balance, it wasn't unreasonable of Tesco to record a default. It would've been irresponsible of Tesco to allow the debt to continue to increase in these circumstances. I say this because there was no indication in March 2021 that:

- Mr R would be able to fulfil his minimum contractual repayment obligations; *and*
- he hadn't been able to do so for an extended period of time (Mr R hadn't made his minimum contractual repayment for almost one year at this point); *and*
- I've seen no evidence that he tried to contact Tesco towards the end of the repayment plan period to discuss his circumstances or his future intentions.

Of course, Mr R has my sympathy for the consequences that a default on a credit file can have when trying to secure future credit - but I've to impartially consider all of the evidence in this complaint - and I don't find that Tesco have acted wrongly or unfairly.

My decision brings to an end our Service's involvement in trying to informally resolve this dispute between Mr R and Tesco.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 26 September 2022.

Daniel O'Shea
Ombudsman