

The complaint

Mr M complains that Tesco Personal Finance PLC trading as Tesco Bank made errors when applying a hold to his loan account.

What happened

Both parties are aware of the background of this complaint, so I won't go into it in detail again here. In summary, Mr M asked Tesco Bank for a break in his loan repayments due to family circumstances. They applied a 90-day hold to the loan account and then failed to contact him again in October when it ended. As a result, they sent him a 'contact us' letter in December 2021, followed by a default notice in January 2022.

To apologise for not contacting Mr M when they should have done in October 2021, they gave him £200 compensation which he accepted at the time. Following this, Tesco Bank asked Mr M to complete an income and expenditure form to check the affordability of the loan payments going forward. This was not completed however Mr M began paying again and added £47 to the contractual amount to clear the arrears by the end of the loan term.

Our Investigator recommended that Tesco Bank refund interest for the period of October 2021 to April 2022, to reflect when Mr M should've been contacted to re-start his contractual payments. They also felt that the compensation award should be increased to £400, but did not agree that Tesco Bank needed to amend Mr M's credit file.

Both Mr M and Tesco Bank disagreed with the recommendations. As an informal agreement could not be reached, the complaint was passed to me.

I issued a provisional decision which read as follows:

I have now been able to listen to all the telephone calls relevant to this complaint, which has given more insight into what happened from January 2022 onwards. Because of this, I wanted to give both parties the chance to respond to my findings before I issue a final decision.

I firstly focused on the July 2021 call in which Mr M asked Tesco Bank for a payment break on his loan. Mr M explained his difficult circumstances and asked for a two-month break, however Tesco Bank offered him three months to make sure he had enough breathing space. Mr M has since said he's unhappy he was given a three-month break when he only asked for two. However, I don't think it was unreasonable for Tesco Bank to suggest this and Mr M had the option to decline this if he didn't think it was right for him.

During the call it was clearly explained that arrears would continue to accrue on the loan while it was on hold and that payments would be marked as missed on his credit file. But they would not chase him for the debt during this time. Mr M is unhappy that Tesco Bank did not explain how the arrears that accrued would be repaid during the phone call, and he was expecting to extend the loan period by three months which was not possible.

While it would have been beneficial to explain possible ways in which the arrears could be

repaid, I also recognise that Mr M had asked for a hold on his loan due to sensitive personal circumstances and I think the call handler was trying to provide as much assistance to Mr M as they could. Because of this, I can understand why they did not go into detail about ways in which he could repay the arrears at that time. Mr M had specifically asked for a break in his loan repayments and did not indicate that he had the option to carry on making his contractual payments at that time. With this in mind, I think it was enough that the call handler explained arrears would continue to accrue during this time and I don't think it was unreasonable that they didn't go into the specifics of how they would be repaid.

It isn't in question that Tesco Bank should have contacted Mr M in October 2021 and that they made an error when they did not do so. They previously offered £200 compensation in recognition of this which Mr M accepted. I have to consider what the effect of Tesco bank not contacting Mr M had on him, as he should be put back in the position he would have been in had the error not occurred.

Tesco Bank have made the point that when they sent Mr M a letter in December 2021 asking him to contact them, and when a member of the customer help team tried to call him in January after he raised a complaint, Mr M did not respond to these communication attempts. Though he did respond to the default notice sent on 19 January 2022, which was just over a month after the December letter in which Tesco Bank asked him to contact them.

With this in mind, I do accept Tesco Bank's point. As Mr M mentioned in a phone call in February 2022, he was understandably struggling in October and November 2021 due to his personal circumstances and his mental health was suffering. And it appears he only went back to part time work at around the start of 2022. So even though he had the funds to pay off the three months of arrears in October 2021, based on everything I've seen so far, I think it's unlikely Tesco Bank would have been able to meaningfully communicate with Mr M at that time in order to either try and re-start the contractual payments or extend the hold on the loan account.

During a phone conversation in early February, the call handler offered to run through an income and expenditure form over the phone, but Mr M said it would be difficult to complete as his income fluctuates and he had only recently moved to part time work. It was explained that they required the income and expenditure form to be completed so Tesco Bank could set up an affordable repayment plan for Mr M. And this is what I would have expected them to do in the circumstances. Because of this, Mr M was sent a link to an income and expenditure form via e-mail.

During another phone call a month later, Tesco Bank asked Mr M why he had not completed the income and expenditure form. Mr M said he had issues getting through on the phone number provided but also said he was unable to complete the form just yet as he still had not received wages following a switch from full time to part time work. So, he could not accurately complete the form. The call handler explained Mr M could input his income in whatever way worked best for him, his weekly, monthly or annual income would be fine as it would give them an idea of what he could afford. I can see that the call handler was trying to be helpful and assist Mr M in reaching an affordable repayment plan.

Mr M repaid the three months of arrears that accrued during the initial 90-day hold in March 2022. At the same time, he explained to the call handler that he could pay his contractual payments, plus an additional £47 to cover the additional arrears that had accrued. The call handler explained that they would need to set up a formal repayment plan, and that they are not able to agree a plan that will last longer than 12 months. What Mr M was proposing would take longer than 12 months so they could not agree to this, and they asked him to

complete the income and expenditure form. However, Mr M did not complete the form and instead set up the direct debit again for his contractual payment plus an additional £47.

Looking at this, I think Tesco Bank tried to help Mr M by explaining the process for setting up an affordable repayment plan, and offered different formats for him to complete the income and expenditure form with them. And when Mr M tried to come up with a solution, they clearly explained why this was not possible. So, I think Tesco Bank acted reasonably from January 2022 onwards when Mr M got back in touch with them.

I listened to the phone call from early February 2022 in which Mr M feels he was told the missed payment markers would be removed from his credit file. Having listened to this I can understand where the miscommunication has arisen. The call handler was explaining the process for setting up a repayment plan that would ensure his credit file would not be affected. Following this, Mr M asked if the marks would be removed from his credit file, and I think he was asking about the existing markers. The call handler assured him any missed payment markers would be removed, but I think she was referring to any payments made under an official repayment plan. I think this was an honest miscommunication and as the payments had been legitimately missed, this should be reflected accurately on Mr M's credit file.

Mr M is unhappy that Tesco Bank has continued to mark missed payments on his credit file, even though he set his direct debit back up in April 2022. I can understand that this is frustrating for him, but it is not unusual for banks to continue to mark payments as 'missed' when there is not an official repayment plan in place or while there are still arrears remaining on the account. Because of this, I can't agree that Tesco Bank have made an error when making payments as 'missed' on his credit file and I don't think they need to amend this.

With all of the above in mind, I don't think that Tesco Bank needs to refund any interest that accrued from October 2021 to April 2022. This is because I think there's enough evidence to indicate it's unlikely Tesco Bank could have gotten in contact with Mr M in October 2021. And I can see from December 2021 onwards, they were actively trying to contact him and arrange an affordable repayment plan with him, so I don't think it is reasonable to ask them to refund the interest for that period.

I've gone on to consider the offer made by Tesco Bank and accepted by Mr M for £200 compensation. This was for the distress and inconvenience caused by Tesco Bank not contacting Mr M when they said they would following the 90-day hold. In doing so, I've considered that Tesco Bank did send Mr M a letter in December 2021 asking him to contact them, which was followed by the default notice in January 2022.

I've also considered that Mr M's request was dealt with by a team specifically set up to assist vulnerable consumers who are facing challenging circumstances. Mr M explained the difficult circumstances regarding his wife and that he had to stop work to care for his young children. So he clearly set out the situation he was in and was being dealt with by a team that should have been taking extra care to guide him through any financial assistance he needed. Despite this, Mr M fell through the cracks and was not contacted in October and was then not contacted by phone prior to a default notice being issued to him. And I think the default notice would have caused significant distress at an already difficult time for Mr M.

With all of this in mind, I agree with the Investigator's recommendation that the compensation be increased to £400 in recognition of the distress and inconvenience caused to Mr M.

Tesco Bank responded confirming they had nothing further to add.

Mr M responded and disagreed with my provisional findings. He felt that I had been biased in my investigation and in summary disagreed with it for the following reasons:

- He did not agree that Tesco Bank sent him a letter in December 2021 asking him to contact them. Instead he said the first contact was initiated by him prior to him receiving the default notice.
- He did not set up the direct debit again. This had been placed on hold and was re-started by Tesco Bank. He says it should have been automatically re-started by them in October 2021 when the 90-day hold ended. Without any need for a phone conversation.
- Tesco Bank's assumption they could not have contacted him in October 2021 is incorrect and he has pointed to the later contact he had with them.
- He reiterated that he thinks Tesco Bank should have explained how the arrears would be repaid and has pointed to the way in which COVID related payment holidays work.
- He did not agree that an income and expenditure form was necessary considering his payment history prior to the 90-day hold.
- He said that the £200 compensation was offered for the fact Tesco Bank had not contacted him so felt this proved they had not sent him a letter in December 2021.

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 acknowledge that Mr M has raised additional points in response to my provisional decision and I think these can be summarised into a few points. Some of which I feel have been answered in my provisional decision and some that need further clarification.

I would like to start by saying that we are an impartial service and any initial findings set out in my provisional decision were not intended to be a discourtesy to Mr M. I can understand his strength of feeling on the matter but I want to make it clear I came to these findings based on what was available to me at the time and I did so impartially.

I'll firstly address Mr M's comments that he was not contacted in December 2021 and that he reached out initially in January 2022. We have sent Mr M a copy of the letter which Tesco Bank sent him on 16 December 2021 asking him to contact them about his loan. Considering this was sent to Mr M's correct address and he received the default notice that was sent just a month later, I think it's more likely this letter was sent to him at that time.

Mr M has said the fact that the letter was not mentioned when he raised a complaint in January 2022 indicates it was not sent. However, I can see in the final response letter sent at the end of January that Tesco Bank say '*we sent you a letter asking you to contact us instead of calling you*', which is in reference to the letter. And their reason for awarding the £200 was that they didn't do *more* to try and contact Mr M before issuing the default notice.

This was part of my reasoning as to why I felt it was more likely Tesco would not have been able to make meaningful contact with Mr M in October 2021, when it was unable to do so just two months later. And as he only re-started part-time work at around the start of 2022, there was no guarantee that contractual payments would have resumed following the 90-day hold.

Mr M has referenced that he thinks Tesco Bank should have re-started his direct debit in October 2020 automatically without the need for a telephone call. However, I think it was reasonable for Tesco Bank to contact Mr M prior to re-starting the contractual payments. I say this because Mr M had gone through a significant life-event and had stopped working as a result. Because of this, there was no guarantee he would be in the financial position to be able to start contractual payments again without them putting him into financial difficulties. So, I think Tesco Bank acted reasonably when it did not automatically start payments again.

In addition to this, Mr M has said he does not think an income and expenditure form was necessary considering he had previously been able to meet his monthly repayments. However, as mentioned above, as Mr M needed to take a payment break, I think it was reasonable that Tesco Bank assess his ability to re-start contractual payments and repay any arrears to ensure this would not put him into financial difficulties. It is not unusual for a lender to ask for a completed income and expenditure form following financial assistance and this is for the safety of the consumer. Because of this, I think it was reasonable for Tesco Bank to request an income and expenditure form from Mr M before re-starting the contractual payments and agreeing a new repayment plan.

Mr M has also said that Tesco Bank could have added the arrears that had accrued under the 90-day hold onto the end of his loan and extended the loan term by 90 days, as this is what he was expecting to happen. He explained that this is how Tesco Bank approached their payment holidays relating to COVID-19 and had provided evidence of this. I've considered whether I think Tesco Bank made an error when it did not apply the same repayment terms as the COVID-19 payment holiday.

Firstly, the COVID-19 payment deferral scheme was set up by the Financial Conduct Authority (FCA) and they issued detailed guidance around it. In the November 2020 guidance they confirmed that the scheme was there to support '*customers facing temporary payment difficulties due to circumstances arising out of coronavirus*'. And that eligible consumers could defer up to 6 monthly payments, '*provided that the last deferral relates to payments falling due no later than July 2021*'.

The circumstances under which Mr M faced temporary payment difficulties did not relate to the coronavirus. And he made his request on 6 July 2021 for the following two months (which was then extended to three months during the call). Because of this, Mr M was not eligible for the COVID related payment deferral scheme. So I don't think Tesco Bank acted unreasonably when it applied the repayment terms that it did.

On balance, having considered everything carefully again, I think the increased compensation of £400 is fair for the distress and inconvenience caused by the lack of contact after the 90-day hold ended. But I don't think any interest or arrears that continued to accrue need to be repaid by Tesco Bank as I do think they reasonably tried to contact and actively assist Mr M from December 2021 onwards.

My final decision

I instruct Tesco Personal Finance PLC trading as Tesco Bank to pay Mr M an additional £200 compensation, bringing the total paid to £400 in recognition of the distress and inconvenience caused to him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 30 June 2023.

Rebecca Norris

Ombudsman