

The complaint

Miss L complains Tesco Personal Finance plc trading as Tesco Bank (Tesco) mis sold her a front-loaded interest loan.

What happened

Miss L says in April 2024 she applied for a loan with Tesco as she was unable to break a fixed rate saver account that wasn't due to mature in time for a large payment she needed to make. Miss L says when she went to repay the loan in late August 2024, having drawn the loan on 3 May 2024, she was surprised to be told she had only paid off around £200 of the capital sum with the remainder of her payments being absorbed into interest costs.

Miss L says when she took out the loan it wasn't explained to her that the interest would be front loaded, and she would be subject to an early repayment charge, otherwise she wouldn't have taken out the loan.

Miss L says during the course of the conversations she had with Tesco, she was never informed there would be an early repayment fee and following her complaint Tesco had misled her as to what the monthly interest element of the loan was. Miss L wants a refund of interest based on her own interest calculations. Miss L also says Tesco sent an email to an incorrect email address despite having the correct details on file.

Tesco says when the loan was approved a credit agreement was sent to Miss L outlining the amount borrowed, the interest rate, the monthly repayments and information about settling the loan early. Tesco says the documentation also highlighted whether the loan was right for her and that it may not be suitable for short term or flexible credit.

Tesco explained it uses an actuarial method to calculate interest in line with industry regulations. Tesco says it has provided Miss L with an amortisation table for the loan, which is available on request, and pointed out its colleagues wouldn't be trained to talk customers through these calculations. Tesco says it has no record of Miss L having a telephone conversation regarding the terms and conditions of the loan with its team at the time she applied for it.

Miss L wasn't happy with Tesco's response and referred the matter to this service.

The investigator looked at all the available information but didn't uphold the complaint. The investigator says Tesco sent Miss L a loan pack including an "*understanding your loan*" document, pre contract information and the loan agreement. In these documents the investigator says it states an early settlement figure would include an interest charge for the next 28 days and also automatically include 30 days interest. The investigator says this shows 58 days of interest was payable under the loan agreement.

The investigator says she could see no evidence the loan was mis sold and the interest charged wasn't an additional fee. The investigator says regarding the phone call in late August 2024, while the advisor acknowledged what calculations of interest Miss L had made the advisor went on to say the calculations are complex and he couldn't confirm if Miss L's

calculations were correct or not, but offered to send a breakdown in the post, so she couldn't say the advisor had misled her.

The investigator acknowledged Tesco had sent an email to an incorrect address but felt the offer of £25 by way of compensation was reasonable.

Miss L didn't agree with the investigator's view and asked for the matter to be referred 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.

Having done so, I won't be upholding this complaint and I will explain how I have come to my decision.

I can understand it would have been frustrating and upsetting for Miss L to discover the amount she needed to repay on her outstanding loan with Tesco was higher than she thought.

When looking at this complaint I will consider if Tesco mis sold the loan to Miss L as she claims.

Both parties have provided this service with comprehensive details of the course of events here and while that has proved helpful, I won't be commenting on every point made as I don't feel it's necessary in order to come to a full and impartial decision here. That's not to say I haven't considered everything – I have. But it's just that I don't need to comment on each individual point here in order to reach a decision on what's fair and reasonable.

The first thing to say here I haven't been provided with any evidence of a phone call between Miss L and Tesco discussing the terms and conditions of the loan at the time she applied for it as she says. So, with that in mind unfortunately I can't consider that when determining if any misinformation about the loan terms and conditions were given by Tesco.

That said, I have listened to earlier phone calls in late April 2024 where Miss L discusses breaking a fixed deposit and seeking to increase her credit card limit, but at no point was she actively encouraged to take out a loan with Tesco, merely the agent confirming her suggestion that was an option for her.

Miss L says she was never informed of any early repayment costs or added interest or how the loan she applied for works – in particular that the interest was front loaded.

While I understand the points Miss L makes, it's fair to say she was sent a loan pack which amongst the other documents included a section called "*Understanding Your Loan*". This section of the loan pack makes clear this is for Miss L to make sure the loan is right for her and this goes on to explain that this type of loan isn't suitable for flexible credit or credit for a short period.

It's important as the document says, that Miss L understands what she is signing and if there were any questions she wished to raise, I would have thought that would have been the time to raise any concerns about how the interest is calculated etc.

The Loan agreement does go on to say :

“At the beginning of the loan we work out the interest you will pay over the whole length of your loan and add this to your loan amount.”

So, what this is saying here is the interest is added at the beginning of the loan and the repayment of that loan is repaid by a set amount each month based on the fact the loan will run its course. So, Miss L's loan was initially for £23,392.80 over 60 monthly payments after a two-month payment break at £389.88 per month. But here of course the loan didn't run its course and was repaid after approximately 4 months and with only two of the monthly loan payments being made.

As the investigator has explained, Tesco detailed that the early repayment request meant on top of the 28 days of interest at the time of the early settlement, an extra 30 days' interest would be charged. So, taking this into account given Miss L had only made two loan payments totalling around £780, the amount she would have paid off her loan would have only been modest bearing in mind the interest payable.

Under the heading in the loan paperwork *“Can I settle the loan in full early ?”* it says :

“You can repay the loan in full at any time. In order to do this, you must contact us first to obtain an early settlement figure. Settlement figures are valid for 30 days and therefore automatically include 30 days interest in the early settlement figure. If you pay off your loan early in full, we will also charge you 28 days interest for early settlement.”

So, taking this into account I'm satisfied this explains an early settlement of the loan would attract additional interest costs. While Miss L doesn't feel Tesco provided her with details of the loan illustration table at the outset, I wouldn't expect Tesco to do that as a matter of course, but in the loan documentation sent to Miss L under *“General Terms”* it says:

“You can get a free statement of your account (Amortisation Table) at any time. This will tell you how many repayments you still have to make, the due date and amount of each repayment, the amount of interest and capital in each repayment and any conditions relating to future repayments”.

So, it's fair to say that information would have been available to Miss L had she asked for it and this of course has since been provided to her by Tesco so I can't ask any more of it than that.

Taking everything into account I'm satisfied the amount of the loan due to be paid back by Miss L in late August 2024 was in line with the terms and conditions details in the loan pack provided at the outset, and I can't say from the information I have seen there was any evidence of mis selling by Tesco here, for the reasons I have already explained.

I can also see that Miss L is unhappy that Tesco sent an email to an incorrect address but it has apologised for that and offered Miss L £25 which I feel on balance is fair.

While Miss L will be disappointed with my decision, I won't be asking anymore of Tesco here.

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 Miss L to accept or reject my decision before 14 May 2025.

Barry White
Ombudsman