

The complaint

Mr B complains that Tesco Personal Finance PLC (“Tesco”) unfairly charged interest on his credit card account whilst an agreed payment holiday was in force.

What happened

In April 2020 Mr B contacted Tesco to seek support in managing his credit card account whilst he was stuck out of the country, and without income, because of the covid-19 lockdown.

Mr B had travelled to Africa shortly before lockdown was imposed in March 2020. Since that time, he’d been unable to make any payments to his credit card account because he had no access to the internet and his mobile phone data was unavailable. Two monthly repayments had been missed, and late fees had been charged by Tesco.

Tesco agreed to apply a three-month payment holiday (PH 1) – this would run until the end of May, following which Mr B would be required to contact Tesco again to review his circumstances.

In August Mr B again telephoned Tesco to seek an extension of the payment holiday. This, too, was agreed by Tesco (PH 2) – but it also became apparent to Mr B that interest would continue to be charged during the holiday (and, indeed, that interest had been added to his account during the PH 1). Mr B was unhappy with this and complained that he hadn’t previously been made aware of it.

Tesco considered Mr B’s complaint but felt that it had done nothing wrong in continuing to charge interest on his credit card borrowing whilst allowing the repayment holidays.

Our adjudicator reviewed the complaint and highlighted that, whilst the regulatory guidance to lenders did allow for ongoing interest to be charged, it also stated that lenders must communicate this fact clearly to borrowers. Tesco had evidently communicated this to Mr B before implementing PH 2 and so the adjudicator considered there to be no basis to uphold his complaint regarding that repayment holiday. But, because Tesco hadn’t done so in relation to PH 1, our adjudicator’s opinion was that it should refund the interest it had applied during that repayment holiday.

Because Tesco didn’t agree with our adjudicator’s view, the complaint was passed to me for a decision.

I sent both sides a provisional decision where I said :

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

In April 2020 the Financial Conduct Authority (“FCA”) issued guidance to credit card providers that stated that lenders should offer three-month repayment holidays to customers who were experiencing financial difficulties due to circumstances arising out of covid-19.

I've listened to a recording of Mr B's phone call with Tesco during April. From this, it's apparent that Tesco listened to Mr B's concerns about his prevailing circumstances which had arisen because of the covid-19 lockdown arrangements. I can see that Tesco were both sympathetic and supportive – and offered, voluntarily, to provide a three-month repayment holiday. Moreover, Tesco offered to backdate this to ensure that the two outstanding monthly repayments were recognised as having been caused by the covid-19 lockdown. And it also offered to refund the two late fees that'd been charged to Mr B's account.

So, I think that Tesco did follow the FCA guidance in terms of treating Mr B fairly and paying due regard to his interests. And I acknowledge that Tesco's choice to continue to apply interest is entirely within the guidance provided by the FCA.

But, the FCA guidance also specifies:

"A firm should give customers adequate information to understand the implications of a payment deferral, including the consequences of interest that is accrued during this period and its effect on the balance due under the agreement and on future payments".

The adviser at Tesco did make clear to Mr B that, because he was not applying online for the payment holiday, and also given the difficulties in communicating with him whilst he was stuck in Africa, he would not receive a confirmation email (which would've been normal practice). But he did not adequately communicate to him the implications of the payment holiday arrangement.

So, despite having acted in good faith and with due regard to Mr B's situation, I must agree with our adjudicator that Tesco didn't adhere to the FCA guidance. I acknowledge Tesco's statement that it made no suggestion to Mr B of an interest freeze – but, equally, it gave no indication that interest would continue to be charged.

The question I must consider is whether, if Tesco had explained clearly to Mr B that interest would continue to accrue on his account during the payment holiday, this would have dissuaded him from taking the payment holiday. If he had been told about the interest, and consequently declined to accept the payment holiday, he would've been required to bring the account up to date and to continue with monthly repayments as normal.

I can see that when Mr B contacted Tesco in August 2020 to request an extension of the payment holiday it was then made clear to him that interest would continue to be charged whilst PH 2 was in place. At that point, Mr B went ahead with the payment holiday - despite the ongoing accrual of interest.

In all of these circumstances, and given the unusual and difficult predicament he was facing at that time, I do think it's more likely than not that Mr B would've still gone ahead with PH 1 – even with interest being added.

I recognise that Tesco's failure to provide adequate information has led to Mr B being confused and upset. To put this right, our adjudicator felt that Tesco should refund the interest it'd applied to Mr B's credit card account during PH1. However, as already mentioned, Tesco was entirely within its rights in continuing to charge the interest and so I don't consider it's appropriate to request that this be refunded. But I do concur that some redress is appropriate and think that, instead, Tesco should make a payment of compensation of £50 to Mr B in recognition of the distress and inconvenience he's suffered as a result of its mistake.

As regards PH 2, the FSA guidance allowed for ongoing charging of interest during payment holidays, and this was clearly communicated to Mr B when he applied for the extension. I don't think that Tesco did anything wrong in relation to PH 2 and so don't uphold Mr B's complaint in relation to that.

Both Mr B and Tesco have responded to my provisional decision, so the case has been passed back to me to make 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.

Mr B confirmed he is happy to accept my provisional decision and has nothing further to add. Tesco confirmed it has no concerns with my provisional findings.

In these circumstances I see no need to vary from my provisional decision and so I now uphold this complaint in part.

Putting things right

To put things right Tesco should pay compensation of £50 to Mr B.

My final decision

For the reasons set out above my final decision is that I uphold this complaint in part and require Tesco Personal Finance PLC to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 14 July 2022.

Richard France
Ombudsman