

The complaint

Mrs R complains that CA AUTO FINANCE UK LTD (“CA”) overcharged her when she settled her agreement early.

What happened

Mrs R acquired a second hand car under a 60 month hire purchase agreement with CA in November 2021. Mrs R paid £4,000 as a deposit. Under the agreement, she was required to make 59 monthly payments of £565.07 and a final payment of £964.07.

In July 2023, Mrs R called CA and asked it to provide her with a settlement quote. It provided a quote of £18,904.17. Mrs R paid this amount and settled the agreement.

In August 2023, Mrs R asked CA to send her the amortisation schedule for the agreement. CA did this. Mrs R complained to CA and said she thought it had overcharged her, as the amortisation schedule showed an amount owing of £18,334.37 but she had paid £18,904.17.

CA issued its response to Mrs R’s complaint in September 2023. It said it hadn’t made an error when it provided an early settlement quote to Mrs R and it had calculated the amount owed using relevant legislation. It also said the amortisation schedule and the settlement quote were two separate documents.

Unhappy with this, Mrs R referred her complaint to this service. She reiterated her complaint and also mentioned that CA had caused a data breach and attached someone else’s details in an email to her.

Our investigator looked into the complaint but didn’t think CA needed to do anything further. She said she was persuaded that CA had calculated the settlement figure correctly. She also said she couldn’t consider Mrs R’s complaint about a potential data breach, as she hadn’t complained to CA about this.

Mrs R disagreed. She said there was no mention that any additional charge would be added if she made an early payment, in any of the literature provided to her. Our investigator said that the terms and conditions set out that Mrs R would be liable for the full amount, less any rebate due under relevant legislation. So, she said her outcome didn’t change.

As Mrs R remains in disagreement, the complaint has been passed to me to decide.

I won’t be considering Mrs R’s complaint about a potential data breach as part of this decision. This is because Mrs R didn’t refer this complaint point to CA as part of this complaint and so, this service isn’t able to consider it.

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.

When considering what’s fair and reasonable, I take into account relevant law, regulations and guidance. Where evidence is incomplete, inconsistent or contradictory, I reach my view on the balance of probabilities – in other words, what I consider most likely to have happened in light of the available evidence and wider circumstances.

I've read and considered the whole file and acknowledge that Mrs R has raised a number of different complaint points. I've concentrated on what I think is relevant. If I don't comment on any specific point, it's not because I've failed to take it on board and think about it – but because I don't think I need to comment on it in order to reach what I think is the right outcome. The rules of this service allow me to do this.

Mrs R was supplied with a car under a hire purchase agreement. This is a regulated consumer credit agreement which means we're able to look into complaints about it.

The hire purchase agreement confirms that the cash price of the car is £28,995 and that Mrs R paid an advance payment of £4,000. This means the amount of credit was £24,995. The charge for Mrs R borrowing this amount was £9,308.20 which included the option to pay fee of £399. If Mrs R's agreement ran to term and the repayments were made as per the agreement, Mrs R was due to pay a total of £38,303.20 for the car.

Mrs R settled her agreement after making 20 monthly payments of £565.07. CA provided Mrs R with a settlement figure of £18,904.17, which she paid on 23 July 2023. But Mrs R says she has been overcharged by £568.80.

So, what I need to decide in this case is whether CA has calculated the early settlement amount fairly and if it hasn't, whether it needs to do anything to put things right.

The amortisation schedule states that the outstanding principal amount owing on 19 July 2023 is £18,334.37. Mrs R says this means she was overcharged because there is a difference between the amortisation amount and the settlement amount she paid.

The amortisation schedule is a document which confirms what proportion of each monthly payment is made up of repayment of the capital amount and the interest. This is based on the assumption that Mrs R would make 60 monthly repayments of £565.07.

However a settlement figure is calculated differently. A rebate of interest calculated is based on a formula set out in law within The Consumer Credit (Early Settlement) Regulations 2004 and the Consumer Credit Sourcebook. The starting point is a calculation of the total amount payable, less any payments already paid. If we apply this to Mrs R's agreement, this would leave a figure of around £23,000. Then the formula works out how much of the future interest and charges the customer still need to pay. Typically this is around 56 days worth of interest. The future interest applicable to the agreement at the time Mrs R requested the settlement figure was around £4,250. Mrs R paid a settlement figure of around £18,900 which means she received a rebate of around £4,100. This means that CA applied future interest of around £150 – which it is entitled to do under the regulations because the agreement ended early.

So although the amortisation schedule showed the capital amount owing on 19 July 2023 was £18,334.37, the formula set out in law allows for CA to charge Mrs R for some future interest and charges. This is why there is a difference in the amount Mrs R paid as a settlement payment and the amount she saw listed on the amortisation schedule.

Given this, I'm satisfied the early settlement payment has been worked out correctly in line with the regulations. This means I don't think Mrs R has paid more than she needed to and so, it follows that CA don't need to do anything further.

Literature

Mrs R's hire purchase agreement is regulated by The Consumer Credit Act 1974. The Consumer Credit Act 1974 allows for early payment of an agreement by a debtor. It says that an early settlement figure should be calculated in line with The Consumer Credit (Early Settlement) Regulations 2004.

Under “EARLY REPYAMENT” in hire purchase agreement, it states:

“You have a right to make early repayments in full or in part of the amounts owing under the agreement. To do so you must notify us by writing to us... You must make payment before the end of the period of 28 days beginning with the day after that on which we receive your notice or on or before any later date specified by you in the notice. The amounts repayable under the agreement may then be reduced by a rebate of charges. If you make a partial early repayment to us in accordance with section 94 of the Consumer Credit Act 1974 then, unless we decide otherwise, we shall recalculate the amount of the remaining payments due to us over the term of this Agreement. If you wish to make early repayment of the full amount under the agreement, you may ask us for a statement showing the amount to be paid after any rebate of charges has been allowed.”

I appreciate there aren't any specific references within the agreement as to how any additional amounts would be charged should the agreement be settled early. However, I'm satisfied the agreement does state that there may be a rebate of charges and it clearly states it is regulated by the Consumer Credit Act 1974. So I don't think CA has acted unfairly here as it applied the correct legislation and so, it follows that I'm not asking CA to take any further action.

My final decision

I do not uphold Mrs R's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 5 August 2024.

Sonia Ahmed
Ombudsman