

The complaint

Miss B complains that Vauxhall Finance plc trading as Vauxhall Finance (“VF”) incorrectly calculated the monthly payments she had remaining to pay on her conditional sale agreement, after she made a partial early settlement payment.

What happened

Miss B acquired a second hand car under a conditional sale agreement with VF in November 2021. Under the agreement, Miss B was required to make 36 monthly payments of £476.47.

Miss B made a number of ad hoc lump sum payments as partial early settlement payments towards her loan and this brought her regular monthly repayments down to £350.03 in 2023. In early July 2023, Miss B contacted VF and asked to make a further partial early settlement payment of £350. She says she was told her monthly repayments would reduce to £325 a month following the partial early settlement payment being applied to her account. However, once the payment was applied, her monthly repayments only reduced to £346.50. Miss B complained to VF as this was only a difference of around £4, rather than the £25 Miss B says she was led to believe she would save by making the partial early settlement payment.

VF issued its response to Miss B’s complaint in September 2023. It said it had quoted £325 as an example only and confirmed to Miss B that the accurate figure would be produced once the overpayment had been applied to the account. It said it hadn’t made an error when it calculated Miss B’s remaining payments after the overpayment had been applied to the account.

Unhappy with this, Miss B referred her complaint to this service. She reiterated her complaint said she wanted VF to reduce the payments to £325 or she wanted a refund of the £350 overpayment she had made.

Our investigator looked into the complaint, but didn’t think VF needed to do anything further. She said she was persuaded that VF had calculated the settlement figure correctly. She also said VF provided an estimate of what Miss B’s future repayments would look like once the overpayment amount had been applied. So she didn’t uphold Miss B’s complaint.

Miss B disagreed. She said VF hadn’t provided evidence that it had calculated the remaining monthly payments accurately. She said she had 16 instalments of £350.03 left to pay and so she only had £5,600.48 in total to pay. She said she made an overpayment of £350 before the 16 instalments were due, which means she had £5,250.48 left to pay over the term. She said this equalled around £328.16 over the remaining 16 months and so, VF’s calculations were wrong. She said her repayments only reduced by £4 for 16 months and so despite her paying £350, she only received a reduction of £64. She said £286 hadn’t been accounted for.

Our investigator said she didn’t have any evidence to suggest VF got things wrong and that it wasn’t for this service to make these calculations. Miss B said she didn’t have any additional evidence to show because VF hadn’t provided her with enough information so she could make her own calculations. She also said this service should be able to calculate early settlement repayments.

As Miss B remains in disagreement, the complaint has been passed to me to decide.

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 Miss B 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.

Miss B's conditional sale agreement confirms that the cash price of the car is £16,377 and that Miss B paid a deposit of £1,295. This means the amount of credit was £15,082. The charge for Miss B borrowing this amount was £2,070.92. If Miss B's agreement ran to term and the repayments were made as per the agreement, Miss B was due to pay a total of £18,447.92 for the car.

I've been provided with a statement of account for Miss B's loan agreement. Miss B was due to make 36 monthly payments of £476.47. Under this agreement, much like any typical loan, at the start of the agreement, a higher proportion of the monthly payment would be paid towards the interest than at the end of the agreement. This is to account for the fact that a larger amount owed would generate a higher amount of interest. And as the amount owed reduces through some of the scheduled monthly payment going to the sum owing, rather than interest, the amount going to interest will also reduce.

For example, in month one, Miss B repaid £476.47. Of this amount, £368.98 was put towards the capital and £107.49 was paid towards the interest. The following month, of the £476.47 she paid, £371.61 was paid towards the capital and £104.86 was paid towards the interest. So each month following this, the amount of the monthly payment paid towards the interest decreased and the amount paid towards the capital amount increased.

Miss B made a number of additional payments towards her agreement. In February 2022, she made an overpayment of £300, this reduced her monthly payment down from £476.47 to £466.49. On another occasion, she made an overpayment of £400 in August 2022, which reduced her monthly payment from £445.17 to £426.99. In total (including the £350 overpayment in July 2023), Miss B made overpayments on five occasions.

Each time Miss B made overpayments, she reduced the total amount of interest had to pay towards the loan. This is because, each repayment was treated as an early partial settlement repayment and she was reducing the capital amount owed more quickly and so, less interest was applicable. Had Miss B not made any overpayments, she would have been due to pay £2,070.92 in interest over 36 months. As Miss B made five overpayments, this reduced the interest she will pay, assuming the loan run to its scheduled end, to £1,541.48. So, she is on course to receive interest rebates totalling £529.44.

I can see that VF tried to explain the calculations in its final response. But the figures used are only referring to the principal outstanding amount. This is the amount not including the outstanding interest that Miss B owed. So, I'm not persuaded that the figures contained within VF's final response are accurate, as they do not include the remaining interest Miss B owed towards the agreement.

In July 2023, when Miss B made an overpayment, at that point in the agreement, a large proportion of the £2,070.92 of interest had already been paid off, because the scheduled monthly payments at the start repaid a higher amount of interest. There was only around

£375 left of interest to pay. So when Miss B made a partial early settlement later into the agreement, there was less of an interest rebate for VF to provide.

After Miss B made an early partial repayment of £350, she says VF only reduced her monthly repayments by £3.78. However, I'm satisfied that the VF also applied the £350 Miss B owed towards the outstanding balance. The following shows what Miss B's balance was prior to her making the additional payment of £350:

Date	Payment amount	Balance (including interest)
05.04.23	£1,400	£7,000.60
24.04.23	£350.03	£6,650.57
24.05.23	£350.03	£6,300.54
24.06.23	£350.03	£5,950.51

At this point, if Miss B had not made any overpayments, she would have had 17 payments of £350.03 remaining (£5,590.51/£350.03).

However, Miss B made a payment of £350 on 6 July 2023. If we take £350 away from the outstanding balance on 24 June 2023, the remaining outstanding balance would be £5,600.51 (£5,950.51 - £350).

But because Miss B had made an early payment, VF applied this to Miss B's account and recalculated the outstanding repayments. After doing so, VF said Miss B owed it 16 payments of £346.25 which totals £5,540. This is a difference of £60.51.

So, instead of owing 17 payments, Miss B now owed VF 16 payments and VF had reduced the outstanding balance by both the £350 payment she made and around an additional £60.50 in interest. If VF hadn't reduced the remaining number of payments after the additional £350 was paid, Miss B would have had to make 17 repayments of £329.99 (£5,600.51/17). This is around the figure Miss B was quoted when she initially called about the impact of making an additional payment of £350.

To explain, a rebate of interest is calculated is based on a formula set out in law within The Consumer Credit (Early Settlement) Regulations 2004 ("the regulations") and the Consumer Credit Act 1974. The formula works out how much of the amount borrowed is left to be repaid and how much of the future interest and charges will no longer need to be paid. Typically towards the end of agreements, it may be that a borrower may not be entitled to a rebate.

In this case, Miss B was only entitled to a small rebate of £60.15, as she only had around £375 worth of interest left to pay at that point.

I understand Miss B said she was unhappy that her repayments reduced less than she paid and so, she doesn't feel it is good value for money. However, I hope I've explained that when she paid the additional £350, this reduced her overall balance by £350 plus an additional £60.51. So, VF reduced the duration of the agreement and also applied an interest rebate.

In light of this, I'm satisfied that VF followed Miss B's instructions and applied the formula which is set out in the Consumer Credit Act 1974 and in the regulations. So, it follows that I'm not asking VF to take any further action.

My final decision

I do not uphold Miss B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 12 September 2024.

Sonia Ahmed
Ombudsman