

The complaint

Mr A complains that Blue Motor Finance Ltd (“BMF”) overcharged him when he settled his agreement early.

What happened

Mr A acquired a second hand car under a 47 month hire purchase agreement with BMF in July 2023. The cash price of the car was £12,446 and Mr A paid £776 as a deposit. Under the agreement, Mr A was required to make 47 monthly payments of £365.03 plus an option to purchase fee of £1 if he wanted to keep the car.

In May 2024, Mr A called BMF and ask it to provide an early settlement quote. BMF provided an early settlement quote of £10,559.89, which had an expiry date of 4 June 2024. At the time of the enquiry, Mr A’s outstanding balance towards the hire purchase agreement was £13,872.14, which meant he would receive a rebate of £3,312.25 if he proceeded with the early settlement. BMF sent Mr A a letter to confirm its calculations.

Mr A told BMF he was unhappy with the early settlement quote. He said he had taken the car to be valued and it had depreciated. He said it after only driving it for 3,000 miles, it should be worth more in value. Mr A said he would take the car back to the supplying dealership due to the negative equity.

BMF issued its response to Mr A’s complaint in May 2024. It said Mr A had agreed the price of the car with the supplying dealership. It said a car’s price could fluctuate, this was dictated by the marketplace and this was subject to changing quickly. BMF said it didn’t have any control over this and Mr A would be offered the price the party wanting to purchase the car wanted to pay for it. It said Mr A wasn’t obliged to accept the offer if it wasn’t the price he wanted to get for the car. BMF said Mr A didn’t have grounds to return the car simply because it had negative equity and so, it didn’t uphold Mr A’s complaint.

Unhappy with this, Mr A referred a complaint to this service. He said when he contacted a third party to exchange the car, it said the car wasn’t registered on the HPI tracker. So he contacted the supplying dealership who told him to contact BMF. Mr A said the early settlement figure was incorrect and he had paid £360 a month for a year for the agreement.

Our investigator looked into the complaint but didn’t think BMF needed to do anything further. She said she was persuaded that BMF had calculated the settlement figure correctly. She said Mr A seemed to think the interest part of the monthly repayment would remain the same each month throughout the agreement, but this was incorrect. She said the interest proportion of the monthly repayment would be higher at the start of the agreement. She also said BMF had no control over the prices of cars and that she didn’t think negative equity was a reason for rejecting the agreement.

Mr A disagreed. He said he shouldn’t have been paying as much towards the interest as he had been. Instead his monthly repayments should have gone towards the capital.

As Mr A remains in disagreement, the case 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 Mr A 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.

Mr A 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 £12,446 and that Mr A paid an advance payment of £776. This means the amount of credit was £11,670. The charge for Mr A borrowing this amount was £5,487.41, which included the option to purchase fee of £1. If Mr A's agreement ran to term and the repayments were made as per the agreement, Mr A was due to pay a total of £17,933.41 for the car.

Mr A asked for an early settlement quote in May 2024, this was after he had paid nine monthly payments of £365.03 towards the agreement. BMF provided Mr A with a settlement figure of £10,559.89. But Mr A says the amount is incorrect because more of his monthly payments should have gone towards the outstanding capital.

So, what I need to decide in this case is whether BMF calculated the early settlement amount fairly in May 2024 and if it didn't, whether it needs to do anything to put things right.

Mr A'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 repayment*" in the hire purchase agreement terms, it states:

"Under section 94 of the Consumer Credit Act 1974 you can settle this agreement in part or in full at any time."

Whilst 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, I'm satisfied the agreement does refer to section 94 of the Consumer Credit Act 1974. I think the agreement itself is clear and sets out that there is a charge for Mr A taking out the agreement. It also states that any early repayment would have an applicable statutory rebate.

A rebate of interest is calculated 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 (£17,933.41), less any payments already paid (£776 + £365.03 x 9). If we apply this to Mr A's agreement, this would leave a figure of £13,872.14. Then the formula works out how much of the future interest and charges the customer still needs to pay. Typically this is around 58 days worth of interest. BMF calculated the rebate at £3,312.25, so Mr A would have paid £2,166.16 worth of interest had he settled the agreement early. This would have included around 58 days additional interest which it is entitled to do under the regulations because the agreement ended early. The formula set out in law allows for BMF to charge Mr A for some future interest and charges.

I appreciate that Mr A thinks that the early settlement calculation in May 2024 should be lower. If this agreement was set up in the way in which Mr A assumed it would be, that is that the interest would be split equally between each month of the agreement, he would

have paid around £116 per month for interest. But hire purchase agreements are typically set up so that of the monthly payments, more interest is paid than capital at the start of an agreement. At some point in the agreement, due to the number of payments made, there is a shift which results in more of the monthly payment being paid towards the capital than the interest. This is because the interest is paid on the outstanding total capital amount, so when monthly repayments are made and the capital reduces over the term, less interest is payable towards the capital amount as the total amount of capital has reduced.

Overall, I'm satisfied the early settlement quote was worked out correctly in line with the regulations. This means I don't think Mr A was required to pay more than he needed to and so, it follows that BMF don't need to do anything further.

Did BMF act unfairly or unreasonably in any other way?

Mr A says a third party valued the car at substantially lower than he thought it would be and so, he wanted to return the car due to the negative equity.

Having thought about this carefully, Mr A agreed a price with the supplying dealership. That is the price he accepted to pay at the time he acquired the car. When Mr A had the car valued by a third party, he was provided a price that the third party was willing to pay for the car. Had he accepted the price, this would have been the price Mr A was willing to sell the car for.

However, the value of a car is dictated by the market and this fluctuates. This is impacted by factors such as supply, demand, age, mileage, number of previous owners, condition of the car amongst other things. And because Mr A received a third party valuation he was unhappy with, this didn't give him rights to reject the car. So I don't think BMF did anything incorrectly when it didn't accept rejection of the car. And neither do I think it acted unfairly when it entered into a hire purchase agreement with Mr A for the car at the price he had agreed with the supplying dealership.

This means that I don't think BMF acted unfairly or unreasonably in any other way. And so, it follows that I'm not asking BMF to do anything further.

My final decision

I do not uphold Mr A's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 30 September 2024.

Sonia Ahmed
Ombudsman