

## **The complaint**

Mr O complains that Moneybarn No. 1 Limited ("Moneybarn") has given him an incorrect early settlement quote when he asked to settle his condition sale agreement.

## **What happened**

In March 2021, Mr O was supplied with a car through a conditional sale agreement with Moneybarn. The car's purchase price was £21,860 and after paying a deposit of £4,000, Mr O entered an agreement providing him with credit of £17,860 over 60 months. His monthly payments were £477.55.

In January 2022, Mr O contacted Moneybarn to enquire about settling the agreement early. He told us:

- He asked Moneybarn for an early settlement figure on his car finance and was told he'd need to pay £17076.08;
- he expected the figure to be much lower because he'd only borrowed £17,860 and had already made nine monthly payments of £477.55;
- his payments totalled more than £4,000, yet his balance had reduced by less than £800;
- Moneybarn didn't explain to him how the interest would be calculated, and the settlement figure is unfair and extortionate. Mr O wants a revised early settlement figure.

Moneybarn rejected this complaint. It said the early settlement figure was calculated in accordance with the Consumer Credit (Early Settlement) Regulations 2004. It explained that, in the early stages of a loan, a greater proportion of the monthly repayments are used to service the interest on the loan. As the overall debt decreases, the amount of interest accrued also decreases, so that in the case of later repayments, more of the monthly payment is put towards the capital debt resulting in zero balances for both the interest and the capital by the end of the term.

Our investigator didn't think this complaint should be upheld. She explained that the Consumer Credit (Early Settlement) Regulations 2004 tell lenders how to calculate the settlement figure so that it's fair for borrowers. She said she'd reviewed what Moneybarn said and didn't think it had done anything wrong; there was nothing to suggest that Moneybarn's calculations were wrong, or that it had treated Mr O unfairly.

Mr O disagrees so the complaint comes to me to decide. He says he wasn't told about the way in which his monthly payments would be apportioned.

## **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've reached the same conclusion as the investigator, and I'll explain why.

Mr O's conditional sale agreement states that it is regulated by the Consumer Credit Act 1974.

The Consumer Credit Act covers several areas of consumer credit including the content and form of credit agreements and the procedures relating to default, termination and early settlement.

In relation to early settlement, the Consumer Credit Act says that settlement figures should be calculated using the rules set out in the Consumer Credit (Early Settlement) Regulations 2004. Those are the rules that Moneybarn has confirmed that it's applied in this case.

So, in cases of early settlement, if the customer wishes to pay off all or part of the credit agreement before the end of the term, they do not have to pay the full amount of interest stipulated in the agreement. Instead, the total amount of interest which would have been payable over the term is reduced by a statutory rebate.

From reviewing Mr O's comments, it seems to me that he may have based what he thinks is the correct settlement figure on a *straight line* interest calculation – where the amount of interest charged each month is exactly the same over the full term of the agreement. But this isn't the case.

The total interest charged under the agreement isn't applied equally each month. This is because the interest is calculated on the outstanding amount, so the interest proportion of each monthly payment varies – it's higher in the case of the earlier monthly payments, and lower for the later monthly payments.

And although I can understand that Mr O had hoped to have repaid more of the outstanding debt, I simply haven't seen any evidence that Moneybarn hasn't applied the early settlement calculations correctly and in accordance with the applicable regulations.

### **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 Mr O to accept or reject my decision before 5 December 2022.

Andrew Macnamara  
**Ombudsman**