

The complaint

Mr T complains that the settlement figure he was given by Close Brothers Limited trading as Close Brothers Motor Finance (Close Brothers) when he was looking to end a conditional sale agreement early was higher than it should've been.

What happened

Mr T took out the conditional sale agreement with Close Brothers in December 2022 for the supply of a used car. Under the agreement, Mr T was to make monthly payments of £396.54 for 60 months.

In July 2023, Mr T's car was stolen and in November 2023 his insurer declared the car a total loss. So Mr T contacted Close Brothers for a quote to settle his finance early. The settlement figure Close Brothers gave Mr T was higher than he thought it should be. Mr T didn't think it was a fair figure and, in particular, he didn't think the conditional sale agreement itself gave a clear breakdown of how interest would be calculated over the term of his loan.

Mr T complained to Close Brothers about this but it didn't uphold his complaint. Close Brothers accepted that Mr T's conditional sale agreement didn't include a month-by-month breakdown of what interest would be charged on the loan. But it said the agreement met all of its statutory and regulatory requirements.

Unhappy with this outcome, Mr T referred his complaint to us. The investigator who looked at it didn't uphold it. She didn't think Close Brothers had done anything wrong in not detailing in the agreement the full breakdown of how much interest would be payable each month, or that the interest charge would be higher at the start of the agreement than at the end.

Mr T disagrees with our investigator's view. He thinks the front-loading of the interest should've been clearly set out in the agreement (so he could see what it would be across the life of the loan) before he signed it.

So Mr T's complaint has come 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.

I've also considered the relevant law and regulations, any regulator's rules, guidance and standards, any codes of practice, and (if appropriate) what I consider was good industry practice at the time.

Having done so, I've decided not to uphold Mr T's complaint, as I'll explain.

The settlement figure Mr T was given by Close Brothers was the amount he needed to pay to clear his loan balance. It was based on the total amount payable on his loan (interest and

principal), less the payments Mr T had already made. And it was reduced by a rebate of the remaining interest Mr T would've paid if the loan had run its full term, to give the final settlement figure. The rebate of interest must be calculated using a formula set out in The Consumer Credit (Early Settlement) Regulations 2004 (the 2004 Regulations).

Although Mr T's payments were for a fixed amount, in the earlier stages of the loan term, more of each monthly payment Mr T made went on paying the interest – because the interest was calculated based on the principal amount of the loan that was outstanding. And that was higher at the start than it would've been were the loan to have run its full term. As Mr T progressed through the loan term, and the principal amount outstanding reduced, more of his payment would've gone on paying off the principal element of that amount outstanding. In other words, as instalments were paid, the capital balance reduced, and so would the amount of interest Mr T paid.

Mr T says he wasn't made aware of this and he doesn't think it's fair. But, having looked at Mr T's conditional sale agreement, I think it contains all the information it should've – the amount of the loan, how much Mr T needed to pay back over the term of the loan (including the interest payable on it) and the monthly payment. In particular, I don't think there was a legal or regulatory requirement to include any information about the front-loading of interest on the loan. So I don't think Close Brothers acted unfairly or unreasonably in not including this information in Mr T's agreement.

We've recently asked Close Brothers to show us in detail how it calculated the settlement figure it gave Mr T, including the rebate of interest. Having seen this information, and having taken the 2004 Regulations into account, I'm not persuaded Close Brothers made an error in calculating the settlement figure. So I can't say Close Brothers acted unfairly or unreasonably by calculating Mr T's settlement figure as it did.

I know Mr T was also concerned when he referred his complaint to us that his account showed a settlement figure had been requested before he'd actually asked for one. From what I've seen, I'm satisfied this is likely to have been a purely administrative error by Close Brothers – possibly as a result of Mr T having missed a payment in the month in question – and hasn't caused him any prejudice.

My final decision

For the reasons I've given, I've decided not to uphold Mr T's complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 12 February 2025.

Jane Gallacher

Ombudsman