

The complaint

Mr M complains that an early settlement payment required on a hire purchase agreement provided to him by Toyota Financial Services (UK) PLC ("Toyota FS") was incorrect.

What happened

In September 2019, Mr M was supplied with a new car through a hire purchase agreement with Toyota FS. The agreement provided Mr M with credit of £21,038.88 that he agreed to repay in an initial repayment of £2,500 plus 60 monthly instalments of £360.86.

In July 2023, Mr M contacted Toyota FS to advise that his car had been written off in an accident. So he asked Toyota FS for the settlement figure his insurance company would need to pay to end the agreement early. Mr M was unhappy with the settlement figure he was given. So he complained to Toyota FS saying that he had been told when signing the agreement that any early settlement would only require him to pay the interest already incurred, rather than any due in the future.

Toyota FS rejected Mr M's 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. Unhappy with that explanation Mr M brought his complaint to us.

Mr M's complaint has been assessed by one of our investigators. She 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 Toyota FS said and didn't think it had done anything wrong; there was nothing to suggest that Toyota FS' calculations were wrong, or that it had treated Mr M unfairly.

Mr M didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr M and by Toyota FS. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words

I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

Mr M 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 relevant law, the Consumer Credit Act 1974, 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 Toyota FS has confirmed that it has 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 M'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.

Mr M has told us that when he originally signed the agreement he was told that in the case of earlier settlement the interest would be charged for the actual period of borrowing only and not upfront, i.e. not for the remainder of the period left. I don't think that statement is incompatible with my explanations above. I don't think Toyota FS has charged Mr M any interest for the period after his agreement ended – that was why he was given an interest rebate as part of his settlement figure.

And I have also considered what happened in 2020, when Mr M says he requested a settlement figure, and Toyota FS agreed with his calculations that were made on the same basis as those underpinning this complaint. I've looked at the notes Toyota FS recorded at that time. It does seem it agreed to accept the settlement offer Mr M had made. But I don't think that means it agreed Mr M's calculation was correct, or that the way it was calculating early settlements was wrong. Instead I think it most likely that Toyota FS took a pragmatic decision at that time, given some problems Mr M had been experiencing with his finances, that it might be suitable for both parties for the agreement to end at that time.

So although I appreciate how disappointing this decision will be for Mr M, I simply haven't seen any evidence that Toyota FS hasn't applied the early settlement calculations correctly and in accordance with the applicable regulations.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Toyota Financial Services (UK) PLC.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 16 December 2024.

Paul Reilly
Ombudsman