DRN-5121684

The complaint

Mrs L complains that CA AUTO FINANCE UK LTD (then called FCA Automotive Services UK Ltd) was irresponsible in its lending to her and over inflated the future value of the car she acquired through a Personal Contract Purchase (PCP) Agreement.

What happened

Mrs L entered into a PCP agreement with CA Auto Finance in March 2023 to finance the acquisition of a car. The cash price of the car was recorded as £18,895 and Mrs L made an advance payment of £299. The amount of credit provided was £18,596 and the total amount repayable was £22,641.18. The repayments were structured such that Mrs L was required to make 29 payments of £202.42 and a final payment of £16,472 based on a guaranteed future value of the same amount.

Mrs L said that the guaranteed future value was overinflated, and the car wouldn't be worth the amount stated. She said this would cause problems when she reached the point of the final payment.

CA Auto Finance issued a final response to Mrs L's complaint dated 2 February 2024. It said that Mrs L signed the finance agreement confirming she had been given an explanation of the key features of the agreement. It said that Mrs L passed its affordability checks, and her income was verified by current account turnover data and the credit check didn't raise concerns. It said the monthly repayments were affordable based on Mrs L's calculated monthly disposable income. Mrs L requested a settlement quote and CA Auto Finance said a settlement letter was sent on the 24 January 2024 providing her with the settlement amount. It said this was calculated in line with the Consumer Credit Act and Early Settlement Regulations 2004.

Mrs L wasn't satisfied with CA Auto Finance's response and referred her complaint to this service.

Our investigator didn't uphold this complaint. He noted that Mrs L said that when the agreement was provided it was adequately explained to her but her circumstances then changed which had led to this complaint. He noted the issues Mrs L had raised as being:

1. CA Auto Finance's lending possibly being irresponsible.
2. The future value of the car being mis-calculated.
3. The settlement figure being unclear.
4. No voluntary termination option being provided.

Our investigator was satisfied that proportionate checks took place before the agreement was provided, and these suggested the lending to be affordable. Regarding how the agreement was structured, he explained that PCP agreements will often have lower monthly rentals and a larger balloon payment at the end. He said that Mrs L was only required to make the balloon payment if she wished to keep the car and so the liability of the guaranteed future value was with the finance provider.

Our investigator noted the comment about the settlement figure provided and thought there was a disconnect between what Mrs L was requesting and the information CA Auto Finance provided. He noted that CA Auto Finance provided a figure based on Mrs L ending the agreement and owning the car. He also thought that this misunderstanding was likely why the option of voluntary termination wasn't discussed. He thought that CA Auto Finance should have asked more questions to understand the root of the issue Mrs L was raising. He noted that the PCP agreement set out Mrs L's termination rights and that she could hand back the car as long as she had paid at least half of the total amount payable, being £11,320.59.

Our investigator felt that under the Consumer Duty CA Auto Finance should have done more to help Mrs L with her understanding. He explained that under the Consumer Duty, a firm has duties about customer understanding and he felt the information CA Auto Finance provided didn't address Mrs L's need for information about the settlement options and how the guarantee future value had been calculated. He thought that if CA Auto Finance had taken time to understand the issue Mrs L was raising, it could have addressed her concerns in its final response. Because it didn't do this, he thought Mrs L had been caused unnecessary distress and inconvenience and he said that CA Auto Finance should pay her £150 compensation.

CA Auto Finance accepted our investigator's view. Mrs L didn't and requested that her complaint be escalated.

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.

Mrs L has raised a number of concerns about the agreement she entered into with CA Auto Finance and the information she has been provided with. These concerns are centred on the guaranteed future value of the car contained in the agreement which Mrs L said is over-inflated and resulted in her being locked into the agreement.

Mrs L has mentioned that the lending may have been irresponsible. CA Auto Finance has said that before lending to Mrs L it verified her declared income and found that she had disposable monthly income of £438. It said this was sufficient to cover the monthly costs of the agreement. It noted that Mrs L had low credit limit utilisation and no late payments. Considering the checks that were undertaken and the information received through these, I think the checks were reasonable in this case. As these suggested the lending was affordable for Mrs L I do not find that CA Auto Finance was wrong to provide this. I also note that Mrs L has said the issue with the agreement arose from a change in circumstances and that the agreement was explained to her at the time of provision. Based on the evidence I have seen I do not find I can say that CA Auto Finance should have considered the agreement to be unaffordable for Mrs L.

The key part of Mrs L's complaint is about the calculation of the guaranteed future value of the car. Mrs L entered into a PCP agreement. PCP agreements are a type of hire purchase agreement and, as has been explained, they usually have smaller monthly payments and a larger balloon payment at the end. The balloon payment is linked to the guaranteed future value. In this case, when Mrs L entered into the agreement in March 2023 the guaranteed future value at the end of the agreement was set at £16,472. The amount of this final payment will have enabled the monthly repayments to be set at the rate they were, around £202.

Mrs L is only required to make the final payment of £16,472 if she wishes to keep the car at the end of the agreement. If the car isn't worth this amount at that point, Mrs L can hand back the car and any potential loss would be for the finance provider. In such circumstances, Mrs L will have benefitted from the monthly payments being lower during the agreement term than would have been the case had a lower final payment been due. So, on that basis, I cannot say that Mrs L was disadvantaged by the guaranteed future value being set at the value it was.

That said, I understand the point that Mrs L has made that the large balloon payment means that now that her circumstances have changed, she isn't able to exit without paying a large settlement amount. I can see how upsetting this situation has been for Mrs L, but I also note that the agreement sets out the termination rights and explains that Mrs L can exit the agreement with nothing further owing if she has paid at least half of the total amount payable (along with certain other criteria). This amount is set out in the agreement as £11,302.59. Given how the agreement has been structured Mrs L will not have paid this amount before reaching the end of the agreement and so I can understand why she feels locked in. However, the requirement to pay half of the total amount outstanding is in line with the regulations (section 100 of the Consumer Credit Act 1974) and as this information was clearly set out, I think Mrs L had the information available to her to understand this situation before entering into the agreement.

I think that when Mrs L contacted CA Auto Finance it should have taken more time to understand the situation she was in and provide her with the full range of options. While the details regarding voluntary termination are set out in the agreement, I think that CA Auto Finance could have done more given the specific concerns Mrs L was raising. The agreement was entered into before the Consumer Duty took effect, but Mrs L raised her concerns after this date, and under the Consumer Duty a firm is required to give a consumer the information they need, at the right time, and presented in a way they can understand. I do not find this happened in this case. Mrs L was concerned about the large balloon payment and how the guaranteed future value had been calculated. CA Auto Finance didn't address these issues in its response, and had it done so I think this would have assisted Mrs L in understanding her options. Because it didn't provide the service it should have, Mrs L was caused unnecessary distress and inconvenience and because of this I agree with our investigator that CA Auto Finance should pay Mrs L £150 compensation.

Putting things right

CA Auto Finance should (as it has agreed) pay Mrs L £150 compensation for the distress and inconvenience she was caused by CA Auto Finance not providing her with the assistance it should have when she asked about exiting her agreement early.

My final decision

My final decision is that CA AUTO FINANCE UK LTD should take the action set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 25 February 2025.

Jane Archer
Ombudsman