

The complaint

Mr S complains about a motor hire agreement he had with Lex Autolease Ltd (Lex). Mr S ended the agreement early and believes Lex should have refunded a larger portion of the road fund licence for the unused period after the agreement ended.

Mr S is also unhappy that Lex has defaulted the account and marked this on his credit file and believes this should not have been done while he was disputing the early termination charges.

What happened

On 23 April 2021 Mr S entered into a regulated hire agreement with Lex for a car. The hire agreement was for 36 months and in return for use of the car, Mr S was required to pay monthly rentals of £452.05.

Mr S decided to end the agreement early and the vehicle was returned in January 2024. Mr S was charged an early termination fee, which he disputed. An aborted collection charge of £116.29 was initially applied but Lex accepted this was raised in error and the charge was then cancelled. Lex applied a £32 credit to the early termination invoice, reducing it from £904.10 to £872.10, for a partial refund of the road fund licence.

Mr S continued to dispute the amount of the early termination invoice and in April 2024 complained to Lex about this. Lex responded and in summary explained that Mr S should have been given the option of receiving the £32 payment directly, rather than the amount being used to reduce the early termination invoice amount. Lex apologised and agreed to send Mr S £49 for the poor level of service it believed it had provided.

Mr S remained unhappy with Lex's response and referred his complaint to our service, where it was considered by one of our investigators. They set out in some detail why they did not consider Mr S' complaint should be upheld. This included reference to various elements of the Consumer Credit Act 1974, the Consumer Rights Act 2015, the FCA's Principles for Businesses and the contractual terms of Mr S' agreement with Lex.

In summary, the investigator found that it was reasonable to expect Lex to refund part of the unused period of the road fund licence, but they were ultimately satisfied the amount of the refund was not unreasonable. The investigator also considered more broadly whether it was reasonable for Lex to charge the amount it had applied for early termination and was not satisfied Lex had overcharged Mr S.

The investigator then went on to consider the impact on Mr S' credit file because of what Lex had recorded about the agreement, but felt that Lex had made reasonable attempts to notify Mr S of the outstanding amount that was due and it was ultimately not unreasonable for Lex to have defaulted the account.

Finally, the investigator explained that Lex's payment of £49 was reasonable when considering the incorrectly issued aborted termination charge and for not offering the £32 payment directly to Mr S. The investigator's overall conclusions were that the complaint

should not be upheld. Mr S did not accept the investigator's conclusions and believes the investigator has not correctly understood the complaint. As the complaint could not be resolved informally, it has now been referred to me as the last stage in 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.

First, I'm very aware that I've summarised what the parties have said and provided in far less detail. No courtesy is intended by me in taking this approach. Instead, I've focussed on what I think are the key issues here. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts. If there's something I've not mentioned, it isn't because I've ignored it. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is a fair outcome.

Mr S accused the investigator of not understanding what his actual complaint is so I'd like to set out initially that it is, and has been, very clear what Mr S' complaint is and why he is unhappy with Lex. The investigator not upholding the complaint does not mean that they have not understood the complaint and it is clear in my view that the investigator did understand what Mr S complained about and had responded to those points.

Mr S entered into a regulated hire agreement with Lex and like most contractual arrangements, there were terms and conditions attached to the agreement. There were conditions attached to Mr S' use of the car, such as keeping it in good order and not exceeding an agreed mileage. Mr S agreed to pay £452.05 for each of the 36 months of the agreement, in return for use of the car.

Mr S chose to end the agreement before the end of the 36 month term and this was agreed with Lex. Mr S is unhappy that as the agreement was terminated early and part way through the year, he only received a small refund of the unused road fund license. Mr S believes he should receive more than the £32 Lex has refunded and that an amount equal to full months of unused road fund licence should be refunded.

The overall and monthly cost of the hire agreement Mr S had with Lex is calculated and agreed before Mr S enters into the contract. The cost of the hire agreement is based on a variety of different factors, including amongst other things, the type and price of the car. Road fund licence is required by law and the annual cost of the license is something that is factored into the overall cost of the agreement and ultimately the £452.05 Mr S agreed to pay each month.

Cancelling the agreement early will impact the amount due under the agreement, but just because the agreement ended early and part way through the year, does not mean that Lex would be required to refund the unused amount of the road fund licence in full to Mr S.

Mr S' hire agreement does refer to the road fund licence under the '*Other charges under this agreement:*' section. This states,

If the cost of the road fund licence or of any applicable additional or alternative duty licence or levy imposed in relation to the Vehicle or its use increases or decreases, we will charge you the amount of the increase or refund to you the amount of the decrease for the applicable year.

Section 11(d) also refers to the road fund licence and that,

We may keep any refund of licence duty when we sell the recovered Vehicle.

But this is included in the *OUR RIGHTS ON YOUR DEFAULT* section of the terms and conditions and would not therefore be relevant in this instance as at that time Mr S had not defaulted on the agreement and the early termination was mutually agreed. The other sections of the terms and conditions of the agreement are silent on the road fund licence and what should happen if the agreement is terminated early. The absence of specific reference to this would not however necessarily require Lex to refund the amount Mr S believes is due.

In this instance, I understand that £490 was accounted for as the cost of the road fund licence and Mr S was required to pay an additional £80 as the annual cost of the licence had increased. Lex has explained that the £32 refund it processed for Mr S was based on the unused portion of the additional £80 he was required to pay as this was not included in the agreed monthly rental amount of £452.05.

As explained above, the cost of the road fund licence (excluding any increase or decrease in the cost during the agreement term) is one of various considerations when determining the overall and monthly cost of the rentals. I do not consider it would be fair or reasonable to expect Lex to refund the unused period of the road fund licence simply because the hire agreement was ended early. The road fund licence cost is incorporated into the monthly rental amount, along with various other factors and costs determined when the £452.05 was agreed as the monthly rental amount. If the unused road fund licence amount was refunded in full, further more granular consideration may be needed around the other costs associated with determining the overall monthly rental. I'll refer to the overall early termination charge below, but having considered what Lex has done in this instance and only refunded a portion of the additional £80, this is not unreasonable in my view.

The £80 was an amount required outside the agreed monthly rental of £452.05 as this was an additional cost not included in the £452.05. The additional cost of £80 would have been incurred by Lex had the agreement ran its full term, but as it was ended early Lex did not incur that full cost and it was reasonable therefore to refund some of the £80 as this cost was not fully incurred. I've considered what Lex has said how the £32 was calculated and this does not seem unreasonable in the circumstances and when the agreement was terminated.

Like the investigator has done, I have also considered more broadly whether the amount Lex has sought on early termination is a reasonable sum in the specific circumstances of Mr S' cases. The terms of Mr S' agreement states,

You can terminate the contract at any point prior to the end of the agreement; however you will be charged 50% of any remaining rentals and pro-rata excess mileage...

Considering when Mr S terminated his agreement, 50% of the remaining rentals would amount to more than the amount Lex has sought to charge for the early termination. I'm not therefore persuaded that the amount Lex has sought from Mr S on early termination is an unreasonable or unfair amount.

A significant concern for Mr S is the impact on his credit file as a result of the default that Lex has applied because Mr S did not pay the early termination charge. Lex informed Mr S of the amount due after the agreement was terminated and this was done numerous times before Lex issued a default notice warning Mr S that the account would be defaulted if payment was not received in 14 days.

Mr S believes that Lex should not have defaulted the account and instead marked the account as disputed. Having considered the specific circumstances of this complaint, which

includes for the reasons set out above that the amount Lex had sought for early termination was not an unreasonable sum, and that Mr S was not due a greater refund of the unused road fund licence, I do not consider there to be valid grounds to dispute the debt. Nor do I consider Lex should in this instance have instead marked the credit file as disputed, rather than defaulted.

Lex is required to accurately report to credit reference agencies the activity on the account and Mr S was given sufficient opportunity to avoid the default. There are no grounds in my view to instruct Lex to remove the default from the account or compensate Mr S for the impact of the default.

Should Mr S settle the amount due Lex will be required to mark the default as settled and this may have a lesser impact on Mr S' credit rating. Mr S has said that he is prepared to go to court to dispute this and this is of course for Mr S to decide if he still wishes to do so. That is not something more I can comment on in this decision.

Finally, Lex has agreed to pay Mr S £49 for not offering to refund the £32 directly to him, rather than looking to reduce the overall amount due. I appreciate £49 is not a considerable sum, but I'm also not persuaded this had a significant impact on Mr S and although modest, I don't consider there are sufficient grounds to increase this amount.

My final decision

I fully appreciate my decision her will come as further disappointment to Mr S and that he will be unhappy with the outcome I have reached. I can assure Mr S that I have fully considered all that has been provided by the parties before reaching my decision. For the reasons set out above, my final decision is that I do not uphold Mr S' complaint against Lex Autolease Ltd.

I remind Mr S that my decision is the last stage in our complaint process and Mr S is of course free to continue his dispute with Lex if he chooses to do so. Mr S will however need to do that through other means, such as court.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 17 December 2025.

Mark Hollands
Ombudsman