

The complaint

Mr R is unhappy about the quality of a car supplied to him by Blue Motor Finance Limited ("BMF") under a hire purchase agreement.

What happened

The parties are familiar with the background to this complaint – so I will only summarise it briefly here.

Mr R entered into a hire purchase agreement with BMF in December 2023 to purchase a car. The cash price of the car was £6,000. This was funded by an advance payment of £1,000 and £5,000 in finance. The total amount due under the agreement, including interest and charges, is £8,583.71 to be repaid through 57 monthly instalments of £133.03, with an Option to Purchase Fee of £1 payable at the same time as the final instalment.

Mr R experienced problems with the car soon after entering into the agreement. From the information provided, it appears Mr R there were at least three attempts at repair but the problems with the vehicle persisted.

As a result, Mr R complained to BMF in August 2024. Later that month, BMF issued its final response in which it upheld his complaint. In doing so BMF said, having spoken to the selling dealership, it would agree to take the car back and unwind the agreement. It went on say that *there will be no monthly instalment refund due to [Mr R]. This is because the amount of mileage that [Mr R had] covered since inception.*

In September 2024, Mr R contacted our service. In doing so, Mr R said that although he is happy that he has been able to reject the car, he has yet to receive his deposit payment from the dealership and he incurred further costs in relation to the warranty he had taken out at the time of sale. Mr R also said that he incurred a cancellation fee for his insurance.

One of our investigators looked into matters and, in December 2024, issued their findings in which they upheld the complaint and recommended BMF:

1. Refund Mr R's deposit;
2. Refund 15% of his monthly payments for a period of three and a half months;
3. Refund the administration fee once Mr R has provided proof of this cost;
4. Refund the warranty cost;
5. Apply simple interest at 8% per annum on the above sums from the date the payments were made until the date of settlement;
6. Pay £200 compensation for the distress and inconvenience caused; and
7. Remove any negative entries from his credit file – if any.

BMF agreed with the overall outcome our investigator reached. However, it disputed the redress our investigator proposed. In doing so, it said:

[BMF] agrees with the 15% of the rentals during his time without the vehicle and [BMF] is also happy to reimburse all the other costs other than the customer deposit. [Mr R] had made in total £1,831.25 worth of mileage deductions. This is more than the total deposit and monthly instalments that [Mr R] made whilst in the finance agreement. This was why [the monthly repayments] were not returned. We are entitled to make reasonable deductions for the usage and I don't see that this has been considered here.

As an agreement couldn't be reached, the case has been passed 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.

BMF has accepted that Mr R can return the car and end the agreement - so I don't consider that there's any need for me to determine whether or not the car was of satisfactory quality when it was supplied to Mr R.

And, following our investigators findings, it appears the only point of disagreement centres around the refund of the deposit. With that being the case, the decision that I need to make is about whether BMF should refund the deposit to Mr R.

BMF agreed to rejection in August 2024 and the agreement was unwound in October 2024. When agreeing to rejection of the car, BMF applied a fair usage charge, calculated at 25p per mile, which it says is the industry standard. Therefore, as Mr R had travelled 7,325 miles in the car, the total charge was £1,831.25. This exceeded the total payments made by Mr R (including the deposit). It is for this reason BMF do not agree with our investigator with regards to the refund of the deposit.

The Consumer Rights Act says that a finance company is entitled to make a deduction for fair use. It doesn't set out what rate or method should be used. And there's no reference to the fair usage charge in the hire purchase agreement itself. Our approach is to look at all the circumstances and decide what's fair and reasonable. Whilst a mileage charge of 25p per mile doesn't appear excessive in and of itself, I don't think that such charge is fair and reasonable in the circumstances of this complaint.

I say this because a mileage charge calculated in this way equates to £1,831.25 – or just over 30% of the value of the vehicle. I don't think it can be fairly argued that the vehicle – in the space of 10 months and just over 7,300 miles, has experienced a 30% reduction in value. So I think a different approach is fair in the circumstances of this case.

When Mr R and BMF entered the agreement, they agreed that a fair charge for the use of the vehicle was £133.03 a month. The agreement doesn't contain a mileage allowance, and there is no provision for BMF to charge for any excess miles covered.

So, I think the monthly payment is a fair starting point when considering what is fair for BMF to deduct for use of the car. In saying this, I understand the correlation between mileage covered and the depreciation of the car. But Mr R was expecting to own the car at the end of the agreement and so the monthly instalments also represent a future value that he was expecting to have the benefit of.

As I've said, Mr R covered around 7,300 miles in around 10 months. I don't think its excessive usage (noting that a portion of this usage incurred in the course of arranging for the inspection or repair of the vehicle). So, I find that the monthly payments under the agreement reflect a fair amount for the use Mr R had of the car, and so BMF can keep the payments that Mr R made (except for a 15% refund on three and half months' worth of monthly payments to reflect Mr R's impaired use of the vehicle) rather than a charge per mile driven.

With that being the case, BMF should refund Mr R's deposit. Mr R was deprived of the use of these funds and so I find that BMF should pay Mr R 8% simple interest on this from the date of payment to the date of the refund.

BMF appear to accept our investigators proposal with regards to all other aspects of the proposed redress. Therefore, I don't need to add further comment, except to endorse them here.

Putting things right

- Refund the deposit/advance payment Mr R Paid (£1,000);
- Refund 15% of Mr R's monthly rentals covering the following three- and half-month period:
 - 3 to 21 February 2024
 - 2 to 23 April 2024
 - 24 June to 22 August 2024
- Refund the administration fee (subject to receipt of proof of cost);
- Refund the warranty cost;
- Pay 8% simple interest on all refunded amounts, including Mr R's deposit, from the date of payment to the date of refund;
- Pay Mr R £200 compensation for the trouble and upset caused by being supplied a car that wasn't of satisfactory quality;
- Remove any adverse information relating to this agreement from Mr R's credit file.

My final decision

My final decision is that I uphold this complaint, and Blue Motor Finance Limited should settle the complaint in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 30 July 2025.

Ross Phillips
Ombudsman