

The complaint

Mr F complains that Paragon Bank Plc, trading as Paragon Motor Finance (Paragon) set the balloon payment on his finance agreement too high.

What happened

The detailed background to this complaint is well known to both parties. So, I'll only provide a brief overview of some of the key events here.

Mr F took receipt of a used car in January 2023. He financed the deal through a hire purchase agreement with Paragon. The agreement required him to pay 36 monthly instalments and at the end of the agreement he would be able to take ownership of the car by paying £44,393.50 (the balloon payment).

Mr F raised a complaint with Paragon when he discovered the car's market value at the end of the agreement was likely to fall considerably short of what was due on the balloon payment. Paragon didn't uphold his complaint, they explained that the balloon payment was calculated by obtaining the future value of the car through CAP based on the contractual mileage of 10,000 per year. They took 90% of that CAP valuation. Our investigator thought that was fair, but as Mr F disagreed, his decision has been referred to me, an ombudsman, to make a decision.

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 agree with the investigator's view of this complaint and for broadly the same reasons.

Where the information I've got is incomplete, unclear, or contradictory, as some of it is here, I have to base my decision on the balance of probabilities.

I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point, it's not because I've failed to take it on board and think about it but because I don't think I need to comment on it in order to reach what I think is the right outcome.

Mr F acquired his car under a hire purchase agreement, which is a regulated consumer credit agreement. This means our service is able to consider complaints about it.

I appreciate Mr F's concern that the balloon payment exceeded the car's current market value. However, the balloon payment is a contractual element of the agreement, agreed at the outset, and is not a guarantee of the vehicle's future value.

Changes in used car values are outside the business's control and do not, in themselves, make the agreement unfair. I've seen no evidence that Mr F was told the balloon would

reflect the car's actual value at the end of the agreement or that the product was misrepresented to him.

Mr F says the agreement has not delivered a fair outcome under the Financial Conduct Authority's Consumer Duty because the balloon payment exceeds the car's current value and the business did not factor a potential shortfall into its affordability assessment.

I do not agree. The balloon payment was a clearly disclosed contractual feature of the agreement, clearly expressed at the onset, and represented deferred credit rather than a promise about the car's future value.

The business has explained that it set the balloon at around 90% of the CAP valuation which is a conservative approach. This reduced, rather than increased, Mr F's exposure to depreciation risk. Mr F says the industry norm is to set balloon payments at around 80 to 85% of the predicted vehicle value and that setting the balloon at around 90% was therefore unfair. I'm not persuaded by this. I've seen no objective evidence that there is a single industry standard requiring balloon payments to be set within a particular percentage range. Different lenders adopt different methodologies depending on their risk appetite, data assumptions and product design. In this case the business has explained that it set the balloon at around 90% of the CAP valuation. I consider this to be a reasonable and commercially justifiable approach. While a lower percentage would have further reduced the balloon, it would also have increased the monthly payments, which is a legitimate product trade-off rather than an indicator of unfairness.

In terms of affordability, I would not expect a business to assume that the consumer will both keep the car and fund a hypothetical shortfall between the balloon and future market value. Affordability assessments are concerned with whether the consumer can meet the contractual payments as they fall due, not with speculative future market movements where an alternative contractual option, returning the car, exists.

In the circumstances, I'm satisfied the agreement has operated as intended and I do not uphold the complaint.

My final decision

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 11 March 2026.

Phillip McMahon
Ombudsman