

The complaint

Mr B has complained about the way Mitsubishi HC Capital UK PLC trading as Novuna Personal Finance worked out the interest payable on a fixed sum loan he took out with it to pay for a timeshare.

What happened

On 4 September 2011 Mr B purchased a timeshare using a fixed sum loan from Novuna (the 'Credit Agreement').

On 16 August 2024 Mr B using a personal representative (the 'PR') wrote to Novuna complaining that Mr B's relationship with Novuna was unfair because of the way interest had been worked out on the Credit Agreement. It has since provided further detailed submissions but as both parties are aware of the issues at hand, I won't repeat them here.

Novuna issued a final response letter rejecting the complaint. It said the interest rate and APR had been correctly and compliantly stated on the Credit Agreement.

Mr B then referred the complaint to the Financial Ombudsman Service.

I issued a provisional decision in December 2025 explaining why I didn't plan to uphold Mr B's complaint. I said:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

However, before I explain why, I want to make it clear that my role as an Ombudsman is not to address every single point that has been made to date. Instead, it is to decide what is fair and reasonable in the circumstances of this complaint. So, if I have not commented on, or referred to, something that either party has said, that does not mean I have not considered it.

In summary, the PR has said:

- *The Credit Agreement was arranged with an interest rate of 12.1% on its face, as well as giving an APR of 18.9%.*
- *There were no additional fees and charges apart from the interest to be charged, so the loan interest rate and APR ought to have been the same. But if the APR had been 12.1%, the loan repayments would have been significantly less (£187.36 instead of £252.13). So, the Credit Agreement is factually incorrect, unenforceable and Mr B is entitled to a full refund of everything that he has paid to the loan.*
- *Mr B agreed a contractual rate of interest at 12.1%, which was not used by Novuna when calculating his repayments.*
- *Novuna ought to have calculated interest using the 'reducing balance' basis, in line with the Credit Agreement. The PR says this means interest should be calculated on*

the daily reducing outstanding balance.

- *It appears that Novuna has used a flat rate of interest method, but the Credit Agreement states that interest is to be calculated on the daily outstanding balance basis. The idea that interest was front loaded contradicts the language used in the Credit Agreement.*

The investigator believed Mr B's complaint should be dismissed under DISP 3.3.4A (5) as dealing with it would seriously impair the effective operation of the Financial Ombudsman Service. He said this was because an ombudsman had previously issued a final decision on Mr B's complaint that his relationship with Novuna was unfair under Section 140 of the CCA and he didn't think he could look at that same complaint again, even if the reasons for bringing it were different.

The PR has pointed out that its grounds for complaint about the fairness or otherwise of the credit agreement constitute separate and freestanding complaints as Novuna's charging of interest breaches the Financial Conduct Authority Consumer Credit Sourcebook ('CONC') rules. I agree that Mr B's concerns do constitute separate and freestanding complaints and that I can therefore consider his complaint on this basis.

Furthermore, I don't think I need to turn my mind to the issue of whether Mr B's complaint about an unfair relationship should be dismissed because for the reasons I'll come on to explain, I think it would fail for the same reasons as his separate and freestanding complaint.

I sent correspondence to the PR to explain that the issues raised seemed identical to those in which other ombudsmen had issued detailed final decisions, including ones in which the PR had themselves said their arguments were of general application. However, the PR disagreed and asked me to consider these matters.

Having done so, I do not think Novuna has done anything wrong in the way that it calculated interest on Mr B's loan.

As noted, other ombudsmen have considered these arguments, at length, in other decisions¹. I do not propose to repeat my reasoning here as both the PR and Novuna are familiar with what other ombudsmen have said previously, but in my view the PR has simply rephrased its arguments. So, I will set out what Mr B agreed to with Novuna, what the Credit Agreement itself said and why I think that Novuna did calculate interest correctly.

Mr B agreed to borrow £16,059 from Novuna over a period of 15 years (or 180 months). He agreed to pay £29,324 as the charge for credit, giving a total amount payable of £45,383.40, or £252.13 per month for 180 months ($£252.13 \times 180 = £45,383.40$). However, the amount Mr B would actually pay in practice depended on whether he made all of his repayments on time, made overpayments or repaid the loan in whole or in part early. In each of those cases, the overall cost would go up or down, depending on whether he repaid the loan quicker than agreed (the interest charged would go down) or took longer to repay (the overall cost would go up due to default interest and charges).

To give an interest rate on the Credit Agreement, Novuna had to assume that all repayments would be made on time at the agreed schedule. In other words, every month, the amount outstanding would decrease in line with the repayments made.

¹ www.financial-ombudsman.org.uk/decision/DRN-5704985.pdf and www.financial-ombudsman.org.uk/decision/DRN-5451951.pdf

On the face of Mr B's Credit Agreement, there is a section giving details of the interest. It reads:

"Interest Rate 12.1% per annum APR 18.9%

The interest and APR are calculated on the assumption that you will make each monthly payment on its due date. The interest is calculated in advance on what is assumed will be the daily outstanding balance of the Amount of Credit. If you fail to make a monthly payment in full on its due date, or make an overpayment, the interest due will be calculated on the actual outstanding balance."

Novuna has said that it calculated interest 'in advance', in other words it calculated the total interest payable at the start of the loan and it did not calculate the interest on a daily basis while the loan was running. However, had Mr B made payments to the loan outside of the agreed repayment schedule, Novuna would need to recalculate the total outstanding balance.

Here, Novuna worked out the interest rate in the following way:

- 1. The total charge for credit/The term of the loan in years = £29,324.40/15 = £1,954.96
That is the interest charged for each year in advance.*
- 2. That figure/The amount borrowed = £1,954.96/£16,059 = 0.121*
- 3. That figure*100% = 12.1% (after rounding).*

It follows that I think Novuna worked out the interest rate correctly given the agreed cost of credit (or in the alternative, it correctly worked out the cost of credit given the agreed interest rate).

The APR is something different. It is not the rate used by Novuna to work out the cost of Mr B's loan, rather it is a rate that is derived as a tool for comparison between loans. That is because there is no set method that all lenders must use when working out interest rates on loans and without a standardised rate for comparison, it is hard to work out whether one loan is more or less expensive than another.

The APR is a fairly complex calculation, but for the purposes of this decision, 18.9% is the interest rate that would be used if interest was not calculated in advance (as it was on Mr B's loan). So, if Mr B borrowed £16,059 and repaid £252.13 per month for ten years, the extra he would pay (£29,324) is equivalent to interest being worked out every month on the outstanding balance at the rate of 18.9% per annum. Using this standardised method, it is assumed that at the start of the loan period, a consumer pays more in interest than they do repaying capital and then, over time, as the capital outstanding is reduced, the amount of the repayment going towards interest is also reduced. However, importantly, although this was a standardised method for comparison between loans, it was not the method Novuna used. But both methods get to the same overall monthly repayment sum.

I think that the information provided by Novuna met the regulatory requirements at the time. I also do not think that it is in issue that there is no set way that a lender must calculate its own rate of interest on loans as long as it also provides the correct APR. Instead, the PR argues that Novuna did not follow its own description of how it would calculate interest and therefore it misled Mr B and/or there was a breach of contract. However, I disagree.

Novuna did work out interest in the way that it said it would. It calculated it in advance and provided the figure it had worked out. The monthly repayments were then calculated on the

assumption that all payments were made on time, i.e. the overall loan was worked out on the assumed daily outstanding balance. But the PR disagrees, stating that Novuna ought to have worked out an amortisation based on a compounded interest rate of 12.1% per annum, with 180 monthly repayments. However, that is not what Novuna said it would do by calculating the interest in advance. And, had it done what the PR suggested it ought to have done, the figures provided for the total amount repayable, monthly repayments and the APR would all have been wrong. But that is simply not reflective of the terms of Mr B's Credit Agreement.

So, in conclusion, I simply do not think Novuna has made a mistake on the amount it charged Mr B for his loan, not least because he was charged the exact figures that he agreed to on the face of the Credit Agreement. I do however agree that the way interest rates can be presented by lenders (such as Novuna) can be confusing and require some experience of how loans work to be fully understood. But that is why there is a regulatory requirement for an APR figure to be given, so that consumers are in a position to better compare the costs of credit across different lenders that may operate differently. And that is precisely what happened here. Mr B knew how much he was borrowing, what his repayments were and what the APR figure was for comparison. So, put simply, he got what he bargained for.

Further, for that reason, even if I were to agree with the PR that Novuna put the wrong interest figure on the Credit Agreement (which I do not), that does not mean Novuna should pay compensation to Mr B. That is because there is no evidence whatsoever that Mr B was more interested in the interest rate that he was paying over the monthly payment he agreed to pay, or that he even tried to compare the Credit Agreement with other loans that may have been available to him. And, had that been the case, he would have been able to use the APR in precisely the way intended. In other words, had Novuna said that the interest rate on his loan was 18.9% instead of 12.1%, I think Mr B would have acted in precisely the same way as he had already agreed to take out the Credit Agreement with the repayment figures made clear to him.

Overall therefore, I do not think Novuna needs to pay Mr B any compensation in respect of his complaint.”

The PR disagreed and provided further comments it wished to be considered. The Lender did not respond.

I am therefore now finalising my 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.

In response to my provisional decision The PR said, in summary:

- I misdirected myself as to the nature of the dispute and should have turned my attention to the issue of whether Novuna calculated interest in accordance with the express terms of the Credit Agreement.
- The credit agreement fails to give effect to the express contractual wording in the credit agreement about how interest would be calculated.
- Assumptions about repayment behaviour do not override executed contractual terms.

- The fundamental question as to whether a lender can lawfully apply a flat rate interest methodology where the credit agreement states it will be calculated on the daily outstanding balance has not been answered.

I've carefully considered these points, but they don't persuade me I should change my overall conclusion from that in my provisional decision.

Again, if I haven't commented on, or referred to, something that either party has said, this doesn't mean I haven't considered it.

I do not agree that I have misdirected myself as to the nature of the dispute. In my provisional decision there were several references to the PR's allegation that interest was not calculated in accordance with the credit agreement, along with my thoughts on that.

I recognise the PR does not agree with my findings, but that doesn't mean I didn't answer the complaint. I still do not think the Lender failed to calculate interest in accordance with how it said it would in the Credit Agreement, mostly for the reasons I explained in my provisional decision (as set out in the 'what happened' section of this decision). So, I do not think there has been a breach of contract or any other regulatory breach in this regard.

The Credit Agreement did not give a set formula or algorithm for how interest would be calculated. It gave a description, and I think the method that has been used complied with that description, again for the reasons I gave in my provisional decision. Furthermore, there is no set definition in the Credit Agreement of daily outstanding balance that contradicts how the Lender calculated the interest in this case.

As to the point about the assumptions made about repayment behaviour, the only assumption made was the date payment would be made i.e. monthly. I do not think this assumption contradicted the relevant wording in the Credit Agreement as to how interest would be worked out.

I do still think that Mr B got what he agreed, the APR is correct, the monthly repayment is correct based on the interest rate, the amount to be repaid is correct, and clear, and the interest rate is not inconsistent with the way the agreement said it would be worked out.

But even if the interest wasn't described correctly on the relevant part of the credit agreement, I remain unpersuaded that Mr B would have made a different decision (in the sense he would not have entered into the credit agreement) as there's nothing to indicate he was more interested in the way the interest rate calculation was worked out/described than he was the actual repayment figures on the Credit Agreement. And he was given an APR that he could use to compare the loan with anything else on the market and still chose to go ahead with it. I do not therefore think it would be fair or reasonable to require the Lender to pay compensation to Mr B.

My final decision

For the reasons I have explained, I do not uphold Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 20 February 2026.

Michael Ball
Ombudsman