

The complaint

Mr S has complained that he cannot reconcile the amount of interest charged with the stated interest rate on the conditional sale agreement with Santander Consumer (UK) Plc, trading as Kia Financial Services, (“Santander”) for his car.

What happened

Mr S acquired a used Kia in March 2020, using a conditional sale agreement with Santander. The cost of the car was £14,395, of which Mr S borrowed £11,895. The monthly payment was £180.25 over a term of 36 months, with a final balloon payment of £7,097.50 due if Mr S wanted to keep the car at the end of the term. The interest rate was stated to be 3.04%, with an APR of 5.9%. The amount of interest shown on the agreement was £1,691.50. The only other charges listed on the agreement were arrears charges and fees relating to administrative changes, which would only apply if the chargeable event occurred – and I’ve no evidence to suggest that any such event did occur. Mr S has recently told us he fully repaid the agreement in 2023.

Mr S couldn’t reconcile the amount of interest charged to either the interest rate or APR. He complained to Santander about this, and Santander issued its final response letter in January 2023. This letter made reference to a ‘per annum flat rate’ (PAF) of interest of 4.61% and said that this had been stated on the agreement. It also said it was not possible to explain how the APR was arrived at on a specific finance agreement.

Mr S was not happy with this, and brought his complaint to this service. I am sorry to say that Mr S’s complaint was initially mischaracterised as relating to commission rather than interest, and as this service was unable to progress commission complaints at that time, Mr S’s complaint has been delayed.

However, it was realised that the issue was actually the amount of interest, and so our investigator began to look into the complaint. Having done so, he didn’t think there was evidence to suggest that Santander had overcharged Mr S, so he thought the complaint should not be upheld. Mr S disagreed and asked for the complaint to be reviewed by an ombudsman.

Santander provided further information about the interest calculation after our investigator had issued his view, so I issued a provisional decision to give both parties an opportunity to make further comment; I explained in my provisional decision that I didn’t propose to uphold Mr S’s complaint. Santander said it had nothing further to add, and Mr S didn’t respond.

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’ve decided not to uphold Mr S’s complaint. I’ll explain why.

I set out my reasoning in my provisional decision as follows:

“The key issue here is the amount of interest Santander charged Mr S on his motor finance agreement.

We asked Santander about the PAF rate of interest of 4.61% that it mentioned in its final response letter to Mr S. In response, Santander said that it could not find any reference to this rate in its records, and that it must have been quoted in error. It also sent in an extract of its computer record of Mr S’s agreement, in which it’s stated that the APR is 5.9% and that a PAF doesn’t apply. So it’s clear that the final response letter was wrong.

We also asked Santander how it arrived at the interest figure shown on the agreement, and it sent through the formula used in the calculation. In this case, the calculation takes account of, amongst other things, the net present value of the payments due under the agreement – that is, the time value of money. So it involves more than the balance outstanding, interest rate and time period. The annual statement that Mr S sent in gives some idea of the details of the calculation, although I note that a credit facility fee referred to on the statement was not included in this agreement.

This is a more complex arrangement than I have seen elsewhere, but there are different methods of calculation of interest, and the regulatory rules that businesses have to follow do not prescribe a particular method. So I’ve no reason to say that Santander has done anything wrong in calculating interest in this way.

Because interest can be calculated in different ways, the APR is designed to provide a means of comparison between products – in this case, motor finance. The method of calculation of the APR is prescribed in the regulatory rules, and it can be found in the Consumer Credit Sourcebook (CONC) - which is part of the Financial Conduct Authority’s Handbook of rules that businesses have to follow - at CONC App 1.2.6R. I’ve no evidence to suggest that Santander calculated the APR on Mr S’s agreement – 5.9% - other than in accordance with the rules. So overall I’m satisfied that Mr S had enough information to compare the deal offered by Santander with others that may have been available, and to make his choice accordingly, based on the APR on offer.

I understand Mr S’s frustration with the situation – and it’s disappointing that Santander provided incorrect information in its final response letter to Mr S. But my current conclusion is that I don’t have evidence to say that Mr S has lost out, and therefore I can’t fairly say his complaint should be upheld.”

As I noted above, Santander said it had nothing further to add, and Mr S didn’t respond to my provisional decision. As neither party has sent in any new evidence or information, I have no reason to change my conclusions, and therefore I have decided not to uphold Mr S’s complaint.

My final decision

For the reasons given above, I have decided not to uphold Mr S’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr S to accept or reject my decision before 17 March 2026.

Jan Ferrari
Ombudsman