

complaint

Ms J is unhappy with the interest she's been charged when she settled her conditional sale agreement with Moneybarn No. 1 Limited.

background

In May 2017, Ms J was supplied with a car through a conditional sale agreement with Moneybarn. The agreement was for £13,490 over 60 months at an interest rate of 28.9%. Monthly repayments were £404.33 and the total amount payable under the agreement was £23,855.47.

Ms J asked Moneybarn if she could settle the agreement early, and Moneybarn provided an early settlement figure. Ms J complained that Moneybarn were charging an excessive amount of interest on the settlement amount. Moneybarn didn't agree, so Ms J brought her complaint to us for investigation.

Our investigator said the Consumer Credit (Early Settlement) Regulations 2004 tells lenders how to calculate the settlement figure, so it's fair for borrowers. He said he's reviewed the settlement calculation and he thought this was correct and in line with the regulations. So he didn't think Moneybarn needed to do anything more.

Ms J didn't agree with the investigator. She thought the settlement figure was £1,250 more than it should've been. So she's asked for an ombudsman to make a final decision.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. In considering this complaint I've had regard to the relevant law and regulations; as well as any regulator's rules, guidance and standards, and codes of practice.

An early settlement figure is based on the total amount payable, less any payments already made. The remaining sum may then be reduced by an interest 'rebate', to give the final settlement figure. Interest rebates are calculated by a mathematical formula set out in the Consumer Credit (Early Settlement) Regulations 2004 and is designed to protect borrowers from paying more than they need to.

I've seen a copy of the agreement Ms J signed on 29 May 2017. This explains that total amount payable under the agreement; that Ms J needed to provide Moneybarn with written notice of her intent to repay the agreement early; and that payment needed to be made within 28 days. It also explains a rebate of interest may be due.

In their final response letter, Moneybarn explained that, on early repayment, they're entitled to charge interest for the 28-day notice period, plus an additional month 'deferment'. Apart from this, they would *"rebate the customer any future finance charges."* Moneybarn have also explained that interest rebates only apply to early settlement, and not to lump sum payments that don't clear the outstanding balance.

From reviewing her comments, it seems as if Ms J may have based what she thinks is the correct settlement figure on a 'straight line' interest calculation – where the amount of interest charged each month is exactly the same over the full term of the agreement. But this isn't the case. The total interest charged under the agreement isn't applied equally – because the interest is calculated on the outstanding amount, the interest proportion of each payment varies, it's higher on the earlier payments and lower on the later payments.

For example, the July 2017 payment included £288.07 interest, whereas the payment due in September 2020 only included £103.02 interest.

While Ms J had asked Moneybarn for earlier settlement figures, I've seen she asked for an early settlement figure on 26 August 2020. This said Ms J needed to pay £4,932.66 to clear the agreement early. And Ms J paid this to Moneybarn on 2 September 2020. Moneybarn then rebated Ms J's interest and closed the account.

At the time Ms J repaid the agreement, she should've paid Moneybarn a total of £16,035.60 (£7,590.32 capital and £8,445.28 interest). But she actually paid them £16,925.60 - £890 more. Which meant she still owed Moneybarn £6,929.87 under the original agreement.

On 3 September 2020, Ms J paid Moneybarn £4,932.66 to settle the agreement, which meant she'd received a total interest rebate of £1,997.21 - £540.39 in September 2020 and £1,456.82 in February 2019 (relating to an earlier lump sum partial repayment, even though Moneybarn weren't obliged to rebate the interest at this point).

Based on what I've seen and been able to calculate, I'm satisfied that the interest rebates Ms J received were in line with what she was entitled to under the formula laid out in the Consumer Credit (Early Settlement) Regulations 2004. So I won't be asking Moneybarn to apply a further interest rebate to this account, or to refund Ms J any of the settlement figure she paid in September 2020.

I've also seen that, in her comments on the investigator's view, Ms J has said this agreement wasn't affordable because of the rate or interest being charged, because the interest is 'front loaded', and because the total interest charged was more than the amount borrowed.

I've not seen that she's raised this complaint with Moneybarn. And we're unable to deal with a complaint unless the financial business has had the opportunity to consider it first. So I won't comment on this particular point within this decision.

my final decision

For the reasons explained above I don't uphold Ms J's complaint against Moneybarn No. 1 Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 12 April 2021.

Andrew Burford
ombudsman