Technical Annex 2: State of Competition in the Motor Finance Market

7 October 2025

1 Introduction

1. This paper sets out our understanding of how competition in the motor finance market works. The relevant product for our assessment is regulated consumer motor finance credit agreements in the UK for the purposes of vehicle purchase. Consumers would include sole traders and small partnerships. This is because our proposals are concerned with redress for breaches of s.140A of the Consumer Credit Act leading to the determination of unfair relationships. Accordingly, when we refer to 'motor finance', we mean regulated motor finance credit agreements.

2. Our assessment of competition reflects the market after the Financial Ombudsman Service issued two decisions upholding commission complaints in January 2024, but prior to the Supreme Court judgment in August 2025. Our lender and broker surveys that inform this assessment were completed around the time of the Court of Appeal judgment in October 2024 with most responses received prior to that judgment (of the Court of Appeal).

3. In this assessment, we consider the market context including the role of motor finance in the market for vehicles, the market structure and how the market works in different segments. We requested information from a sample of lenders and brokers to inform our understanding.

4. We have considered different potential market segments. Our analysis points to three distinct segments which we identify as the market for motor finance on new vehicles; on used vehicles; and a subset of the used vehicle segment that provides finance for consumers with sub-prime creditworthiness.

5. The State of Competition Technical Annex has the following structure:
   - Market context
   - How competition works in the new vehicle segment
   - How competition works in the used vehicle segment
   - How competition works in the used sub-prime segment
   - Conclusion on the current state of competition

2 Market context

Key summary:

Motor finance is a key enabler of vehicle sales in the UK.

Over 2m cars were bought with motor finance at the point of sale in 2024.

More used cars are sold with motor finance than new cars by volume, but finance penetration is substantially higher at over 80% for new cars.

The supply chain is made up of Lenders, Brokers and Online Platforms.

Competitive dynamics differ across segments of the motor finance market, based on condition of the car and creditworthiness.

Wider market for vehicles

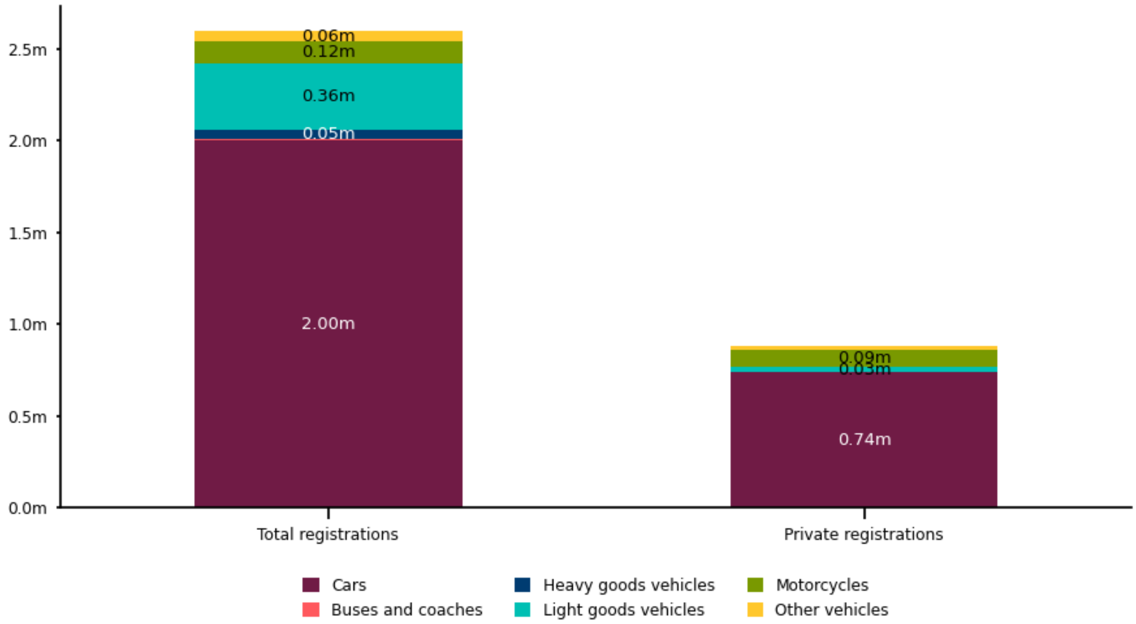
6. Motor finance supports the UK market for new and used passenger vehicles by providing financing options for consumers. We have initially considered the market for new and used motor vehicles to understand the broader market context that motor finance operates within. When we refer to vehicles, we mean motor vehicles as per the proposed definition in Chapter 4 of the Consultation Paper. While we do not provide here an exhaustive list of the types of vehicles included in this definition, it includes more than just cars but excludes, for instance, caravans and jet skis.

7. In 2024, 2.6m new vehicles were registered in the UK for the first time. We focus our assessment on the subset of vehicles used for non-commercial purposes as most regulated motor finance agreements are on privately-owned vehicles[1]. Around a third of new vehicles in 2024 were registered for primarily personal use (874,000 private registrations). Figure 1 shows the breakdown of new vehicle registrations by type. Most private registrations are for new cars.[2]

[1] Businesses can also access finance for business vehicles, typically through business-to-business agreements which are not regulated, except for agreements under £25,000 for sole traders or small partnerships which are regulated.

[2] Department for Transport; Vehicles registered for the first time by body type, keepership and fuel type (veh1153)

Figure 1: Vehicle registrations in the UK in 2024 by vehicle type



Source: Department for Transport (veh1153)

8. Private demand for new cars fell by almost 9% year-on-year to around 740,000 sales in 2024, lower than in 2020 when social distancing restrictions shut down the market.[3] By contrast, average retail prices for new cars has grown significantly; the average retail price of internal combustion engine vehicles in 2024 was 29% higher and for battery electric vehicles 17% higher than in 2019. The increase in vehicle prices has been driven by inflation and increasingly complex safety and emissions regulations resulting in higher costs for manufacturers.[4]

9. There are significantly more used vehicle transactions each year in addition to the 2.6m new vehicle registrations, however, there is no central source for total used vehicle transactions. The Society of Motor Manufacturers and Traders reported that there were over 7.6m used car transactions in 2024.[5] Industry experts forecast there will be almost 1m used van transactions in 2025 and modest growth in the used vehicle market overall.[6]

10. The used car and van markets are expected to follow a steady path to recovery through 2025 as supply stabilises following the knock-on impact on the used vehicle market from a drop in supply of new vehicles during the COVID-19 pandemic between 2020-2022. High living costs and ongoing economic pressures are expected to dampen potential growth. [7]

11. More second-hand buyers are opting for electric vehicles (EVs) with greater choice and affordability reflecting growth in EV sales in the new vehicle market over recent years. The number of used EV transactions grew by 57% in 2024 compared to the previous year.[8]

[3] SMMT; Record EV market share but weak private demand frustrates ambition
[4] JATO; Rising car prices and their impact on Europe's automotive industry - JATO.pdf
[5] SMMT; UK Used Car Sales Data
[6] CoxAutomotive; The Used Market - Cox Automotive Europe
[7] CoxAutomotive; The Used Market - Cox Automotive Europe
[8] SMMT; Demand for used EVs rises to record levels as second-hand car market grows in 2024

12. The new and used vehicle markets can be sub-divided across a number of dimensions including fuel type (such as Petrol, Diesel or different types of EV), body type and brands. While these characteristics may inform the vehicles buying process, we do not find evidence that these sub-segments are a differentiator in the market for motor finance. The Yonder consumer research finds most motor finance consumers pick the vehicle first and then the finance product. The analysis therefore focusses on the new and used market segments.

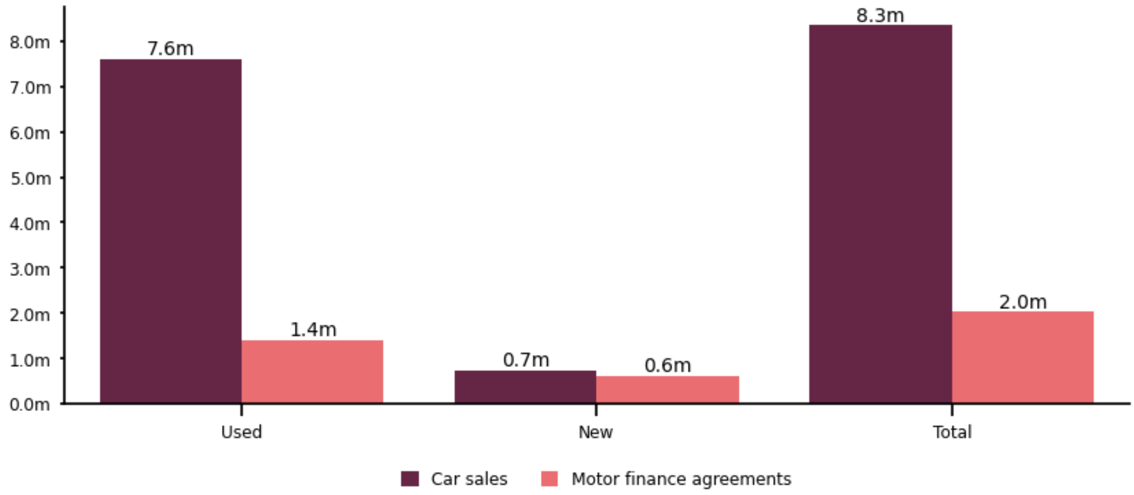
The role of motor finance

13. Consumers have a choice to buy outright or use a form of finance or leasing when looking to acquire a vehicle. The overwhelming majority of new vehicles and many used vehicles are bought using regulated motor finance.

14. Over 2m cars were bought with regulated consumer motor finance at the point of sale in 2024. Figure 2 shows car sales and volumes of motor finance new business for new and used cars in 2024. Used cars account for over two thirds of the agreements by volume, with the remainder on new cars.[9] However, the proportion of new cars purchased with motor finance is substantially higher than in the used market.

15. Motor finance arranged at the point of sale accounts for over 80% of private new car sales and 19% of used car sales in 2024.[10] High finance penetration is also observed across all type of new vehicles based on motor finance volumes reported in our lender survey (c.680,000 on new vehicles in 2023) and private vehicle registration figures. The high proportion of new vehicles sold with motor finance demonstrates the importance of motor finance in facilitating new vehicle sales.

Figure 2: Regulated motor finance on car sales in 2024 by vehicle condition



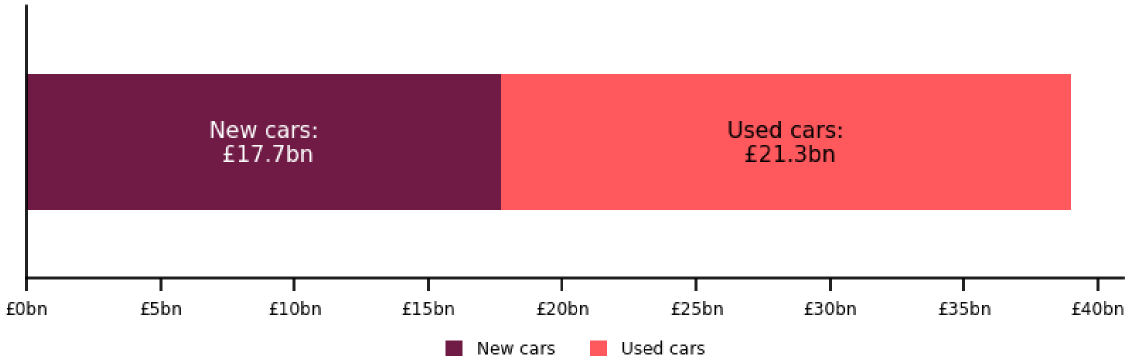
Source: Finance and Leasing Association – consumer car finance volumes at the point of sale in 2024; Society of Motor Manufacturers and Traders – used car transactions and private new car registrations in 2024

16. Consumers borrowed a total of £39.0bn through regulated motor finance in 2024 to support the purchase of new and used cars.[11] Motor finance advances can be a variable proportion of the purchase price dependent on the size of deposit, therefore

[9] Finance & Leasing Association Consumer car finance volumes in December 2024
[10] Finance & Leasing Association Consumer car finance volumes in December 2024; SMMT – new private car registrations in 2024: 746,276; used car transactions in 2024: 7.6m.
[11] Finance & Leasing Association Consumer car finance volumes in December 2024

borrowing does not reflect the value of car sales supported by motor finance. Figure 3 shows total borrowing (value of advances) on car sales in 2024 broken down by vehicle condition.

Figure 3: Total value of advances on new motor finance business in 2024



Source: Finance and Leasing Association – value of advances for cars bought on motor finance at the point of sale in 2024

17. Total borrowing in 2024 was similar to the level in 2023, while the volume of new business fell by 2%. This reflects an ongoing trend of growth in the average advance value while the volume of motor finance sales contracted, driven by car price inflation and high living costs reducing demand in the new and used vehicle markets.

18. The average value of funds advanced is around £28,000 on new cars and £15,000 on used cars, reflective of higher prices for new vehicles.

19. Motor finance sales in-year represent a subset of all outstanding agreements or book value as motor finance agreements are typically multi-year. In total, there were around 6.4m outstanding agreements in 2024 with the total value of advances around £92bn.[12]

20. Consumers have several options for motor finance, including personal contract purchase (PCP), hire purchase (HP), conditional sale plans and car loans. PCP is the most common type of motor finance arrangement for new vehicles, while HP is more common for used vehicles. Over the last ten years PCP agreements have become the most common form of financing, accounting for over half of agreements reported in the Cost of Living consumer credit data collection. PCP offers lower monthly payments and flexibility for consumers to choose whether to keep the car at the end of the agreement.

21. The purchase of motor finance is typically bundled with the purchase of a vehicle. This is particularly the case for new vehicles where consumers typically choose the vehicle first and then seek motor finance through the dealership at the point of sale. For used vehicles, a subset of purchasers may seek a finance deal first using price comparison websites or a finance broker and then look for a vehicle that they can afford based on the finance offer and terms.

22. Motor finance agreements typically have a term of 2-5 years with a fixed APR over the length of the agreement. Consumers can also choose to refinance their vehicle, which involves taking out a new motor finance agreement to pay off their existing loan. Refinancing may be used to reduce monthly payments by securing a lower

[12] CCR003 Consumer credit data, 2025

interest rate or longer agreement term, or to cover a larger balloon payment to keep the vehicle when coming to the end of an agreement.

23. Motor finance is available to consumers across the creditworthiness spectrum. Financing for new vehicles is generally restricted to prime customers, but motor finance options are available for sub-prime customers seeking to purchase a used vehicle. Most motor finance lending falls within a prime credit profile, accounting for 86% of agreements in our lender sample. Sub-prime lending accounts for c.4% of new agreements in our sample, with the remaining 10% falling in the near-prime category.

24. The motor finance market is forecast to increase in terms of volume over the next five years. However, slow growth in the new and used vehicle markets is likely to be reflected in a modest rate of growth in the volume of motor finance sales. Consumer caution dampened demand for major purchases and borrowing in 2024, however, the FLA's Q2 2025 industry outlook survey suggests optimism for potential growth with three-quarters of motor finance respondents anticipating some increase in new business over the next year.[13]

25. There are several alternative forms of finance to purchase a vehicle that consumers may consider including personal loans, leasing, credit cards and cash savings. The extent to which these alternatives are viewed as substitutes to motor finance varies by segment of the market and consumer group and is explored further in our assessment of competition.

Market structure

26. We consider the structure of the market for motor finance in the UK. The relevant product for our assessment are regulated consumer motor finance credit agreements for the purposes of vehicle purchase. This reflects the scope for our proposals which are concerned with redress for breaches of s.140A of the Consumer Credit Act leading to the determination of unfair relationships. Accordingly, when we refer to 'motor finance', we mean regulated motor finance credit agreements.

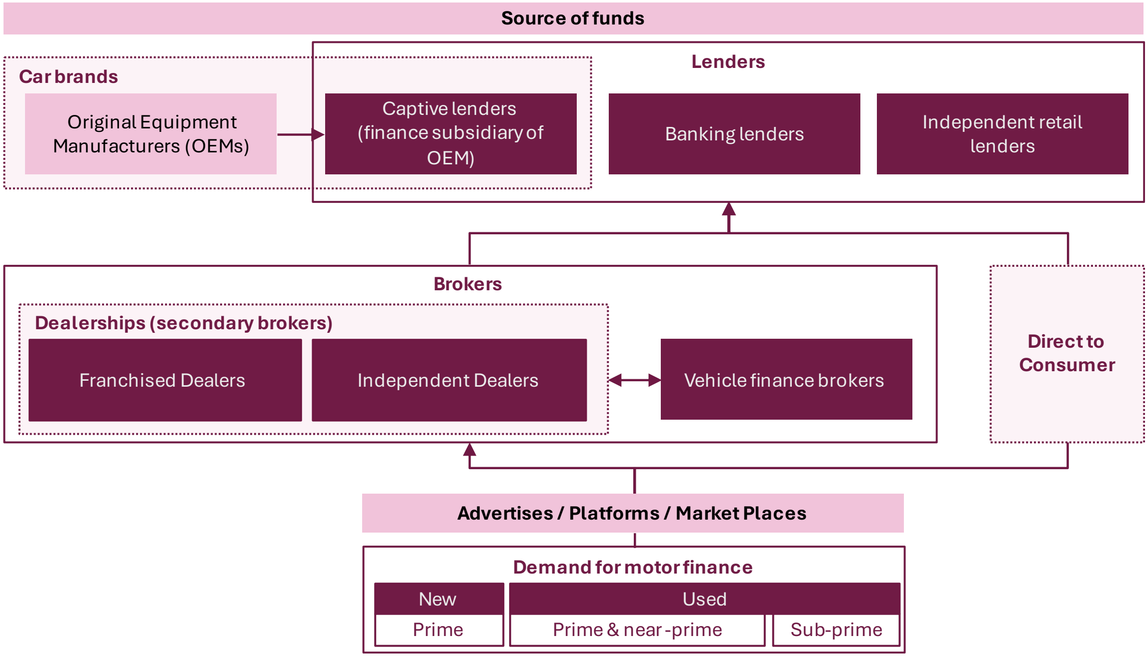
27. The market for motor finance is made up of:

- Lenders
- Brokers
- Online platforms (Advertisers/Marketplaces)

28. Figure 4 sets out the supply chain and categorises the types of firms at each level, which is described in more detail in the rest of this section.

[13] FLA (2025) Consumer car finance volumes fell by 5% in April 2025

Figure 4: Market participants in the motor finance market



This captures the supply chain across the entire market. Some firm types do not operate across all segments of the market.

Lenders

29. Lenders provide finance options to consumers seeking to acquire a vehicle. We estimate that over 100 lenders are currently active in the motor finance market. Our best estimate is that around 200 firms have offered regulated consumer credit motor finance since 2007, suggesting that at least 100 firms have extended motor finance in the past but have since been bought out, exited the (motor finance) market, wound up solvently or failed.

30. The market is served by several large lenders who make up most lending activity in the motor finance market, followed by a long tail of smaller lenders. The types of lenders that participate in the market can be grouped based on whether they are captive or independent, and for non-captives, whether they are part of a large banking group or not.

31. **Captive lenders** are a subsidiary of a vehicle manufacturer offering finance on sales of their own vehicles. Consumers can access the financing through dealerships or directly from the vehicle manufacturer. Financing terms are set by the motor manufacturer.

32. Independent lenders offer financing independently of the vehicle sale, and the customer can choose their vehicle from any manufacturer. These are further categorised as:

- **Bank lenders** operate within a banking group, such as Black Horse and Santander Consumer Finance. In addition to offering finance direct to consumers, banks may also provide wholesale finance to vehicle manufacturers in the form of ‘white label’ products.[14] These white label products are used by vehicle manufacturers without a finance arm or larger non-franchised dealers to offer finance under their brand name to customers that is fulfilled by the lending partner.

- **Independent (retail) lenders** are independent lenders that are not part of a banking group, such as Oodle Car Finance.

Brokers

33. Brokers facilitate motor finance transactions by connecting customers to lenders. Brokers in the motor finance market can be distinguished between primary finance brokers and secondary brokers such as dealerships. There are approximately 11,000 brokers, including dealerships and vehicle finance brokers, based on unique firm reference numbers in the loan level data between 2019-2022.

34. **Vehicle finance brokers (primary brokers)** act as intermediaries whose primary activity is the sale of motor finance. Customers may contact vehicle finance brokers directly or be referred by a dealer. Primary brokers help customers to find financing based on their budget and compare offers across multiple motor finance providers. The available financing products will depend on the panel of lenders the broker searches. Once financing has been chosen, the customer can use the broker’s list of dealers or independently approach dealers or manufacturers to find a vehicle.

35. **Dealerships are secondary brokers** whose primary activity is the sale of a vehicle but also provide broker services to arrange motor finance for customers as a secondary activity. Dealerships can be distinguished between captive and independent dealers:

    - **Franchised dealers** hold rights from brands or manufacturers to sell new vehicles to the public. Franchised dealers may also retail used vehicles of the same manufacturer or, less frequently, other manufacturers from part-exchange stock. Each dealership site typically has one or two brands, although dealer groups often operate dealerships of multiple brands.

    - **Independent dealers** operate in the used vehicle market and do not have an association with a particular vehicle manufacturer. Independent dealers range from large car supermarkets to small, local dealerships.

    - A minority of vehicles are not sold through a dealer. Some manufacturers are starting to adopt **direct selling models** and as part of their marketing may introduce customers to a motor finance lender or other credit brokers. In the used vehicle market, **private sales** between individuals also take place as an alternative to sales through dealers. Around 8-9% of respondents in surveys by NFDA and Which? said that the purchase of their current vehicle had been privately advertised.[15]

[14] For example, Santander Consumer Finance has a white label agreement with MG Cars trading as MG Motor Financial Services, which is one of eight white label agreements described in the 2023 annual report. Source: SCUK-ARFS-FY2023-Final-Signed.pdf

[15] Source: NFDA (2024) NFDA-Consumer-Attitude-Survey-Results-FINAL.pdf; Which? (2023) How to buy a car online - Which? News

Online platforms (Advertisers/Marketplaces)

36. Online platforms and marketplaces connect sellers of new and used vehicles with buyers. Sellers are charged for advertising (e.g., a fee per vehicle advertised) and value-add products, such as access to data and resources providing market insights. The Yonder consumer research found that 5% of current motor finance holders had purchased their vehicle through an online dealership or platform.

37. Platforms may also offer buyers complementary services alongside a purchase, such as finance, insurance and after-sales support. As an example, Auto Trader's 'Deal Builder' product allows vehicle buyers to value their part-exchange vehicle, apply for finance, and reserve a vehicle directly on the platform.

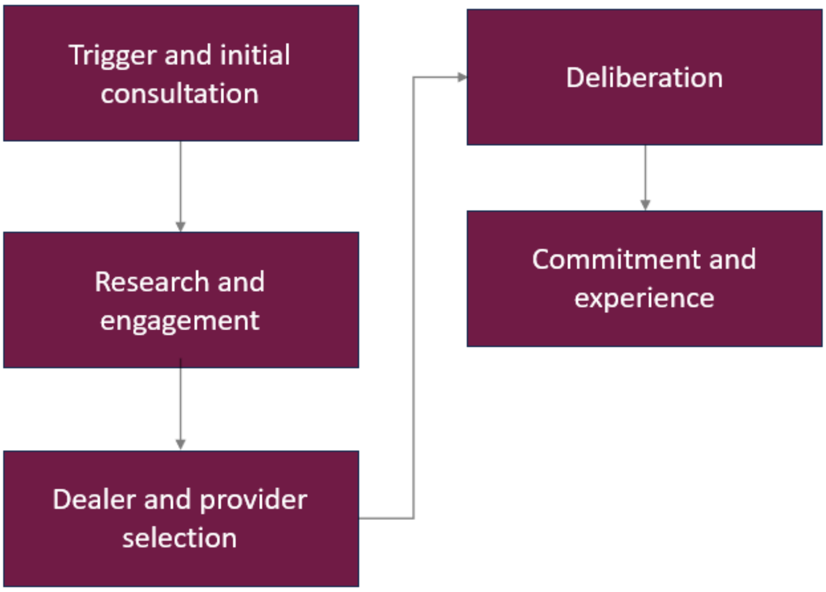
38. Price comparison websites allow customers to compare motor finance options across multiple providers. The Yonder consumer research found 28% used online comparison websites to understand or research motor finance options and 8% of current holders of motor finance have used price comparison websites as part of the purchase process. Consumers with sub-prime characteristics in the sample were more likely to have used price comparison websites. Half of consumers with sub-prime characteristics had used comparison sites to understand or research motor finance options and 17% reported using price comparison websites as part of the purchase process to arrange motor finance.

Consumer journey

39. We commissioned independent consumer research from Yonder Consulting to explore the consumer journey through to purchasing a vehicle and taking out motor finance, and how consumers would respond if motor finance products were unavailable or prices higher.

40. Yonder consumer research mapped the decision-making journey for consumers of motor finance. The consumer journey typically consists of five stages set out in Figure 5.

Figure 5: Consumer journey map in motor finance



Source: Yonder Consumer Research

41. Motor finance is often triggered by external factors, such as necessity or financial change. Consumers tend to focus on the vehicle purchase first, but some consider finance at the same time.

42. During the second stage, consumers undertake research and engagement. 51% of current finance holders reported shopping around. Common information sources involve online research, talking to vehicle dealerships or to friends and family. Of those consumers that did not shop around, the reasons provided for not shopping around include already being familiar with the provider (47%), having only one finance option available for the vehicle they wanted (23%) or not having time (19%).

43. Dealer and provider selection shapes the motor finance experience, determining financial terms, service quality and the foundation of consumer trust. Dealers often influence decisions while providers are chosen for affordability or on the back of recommendations. Over half of current motor finance deals have been arranged via a vehicle dealer or manufacturer finance provider. Monthly payments (68%) and getting the vehicle they want (59%) are the most important factors in choosing motor finance. Monthly repayments are almost twice as important as other factors.

44. During the deliberation stage, consumers briefly consider key finance details but often sign documents quickly. Most current holders of motor finance felt they understood what was going on at each stage (82%), and the provider explained the finance terms clearly (78%). However, consumers often overlook key contract details and are unaware of negotiation opportunities on the final price and terms of the deal. While 60% of current holders reported negotiating, this was primarily on price of the vehicle (55%) and add-ons (40%).

45. Finally, the consumer commits to a deal and experiences the ongoing reality of their motor finance arrangement including managing monthly payments and vehicle maintenance. This stage determines long-term satisfaction, influences future financial decisions, and can impact the consumer's perception of the vehicle, the dealership and the provider.

46. Whilst these general stages apply across the market, the strength of consumer response and behaviours may vary across segments of the market based on consumer characteristics. This is considered in more detail in our assessment of how competition works in different segments of the market. In the following sections, we consider consumer behaviour and characteristics specific to each segment that may influence how consumers interact at each stage.

Market segments

47. Competitive dynamics are not homogenous across the market for the motor finance. We therefore consider which market characteristics could define distinct market segments, such as vehicle condition (new, nearly new or used) and creditworthiness (prime, near-prime or sub-prime).

48. Differences in the market for motor finance on new and used vehicles are reflective of differences in the supply chain for the sale of new and used vehicles. Original equipment manufacturers (OEMs) and franchised motor dealers have close relationships to sell new vehicles supported by motor finance typically from a captive lender or partner. By contrast, dealers have more flexibility over the sale for used and nearly new vehicles. Both franchised and independent dealers sell used and nearly new vehicles and compete on the bundled cost of the vehicle including the motor finance element. We consider that motor finance on new vehicles forms a distinct segment of the market, while motor finance on used and nearly new vehicles forms a broader used segment.

49. Lenders have different criteria for lending based on customer creditworthiness. Prime consumers have good credit ratings and have little difficulty obtaining a loan. Near-prime customers have a fair credit record but may struggle to borrow on standard terms from banks or other mainstream lenders. Meanwhile, sub-prime consumers have poor credit ratings and can find it difficult to secure finance.

50. We consider the sub-prime lending forms a distinct segment as lending requires specific underwriting, funding and credit strategies given higher credit risk which creates barriers to entry. Sub-prime lending accounts for 4% of agreements in our sample. While this is a small subset of the market, these consumers tend to have fewer alternative options. Given lower credit limits, sub-prime lending is exclusively on used vehicles and forms a subset of the broader used segment.

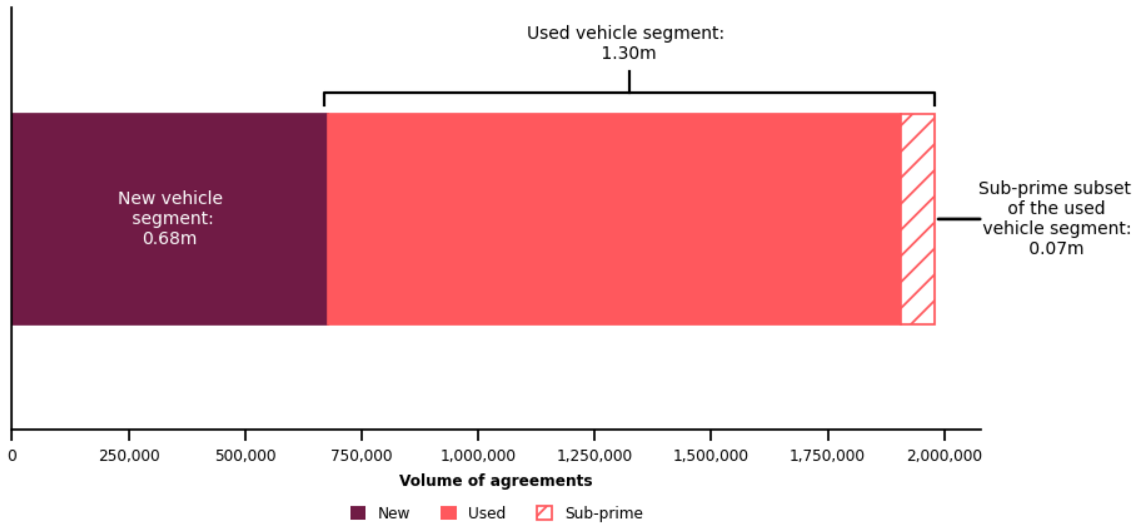
51. We also considered whether near-prime lending which represents 10% of agreements in our sample could form a distinct segment or part of a broader non-prime segment. Most sub-prime lenders in our sample also offer near-prime motor finance. However, overall there are more lenders offering motor finance to near-prime customers than to sub-prime customers, including those that offer motor finance for prime and near-prime customers, but not sub-prime. We understand that it is also easier for prime lenders to enter near-prime lending than sub-prime. A few

prime lenders referenced the potential to extend existing scorecards and policies to apply to near-prime lending, which would not be possible or appropriate for sub-prime. We therefore do not consider near-prime lending to be a distinct segment of the market.

52. Based on this initial assessment, we consider competitive dynamics in three distinct segments of the market for motor finance on new vehicles; used vehicles; and the sub-prime subset of the used vehicle segment.

53. The used vehicle segment (including the sub-prime subset) is the largest with 1.30m motor finance sales in 2023 reported in our lender survey as set out in Figure 6. The new vehicle segment accounts for around 680,000 in our lender survey. The sub-prime subset of motor finance agreements on used vehicles represents around 70,000 agreements.

Figure 6: Motor finance volumes in 2023 reported in our Lender Survey by market segment



Source: FCA Lender Survey

3 How competition works in the new vehicle segment

Key summary:

- Captive lenders represent most motor finance agreements on new vehicles.
- Strong competition between OEMs drives competitive pricing for motor finance.
- Most motor finance sales are arranged at the point of sale by franchised motor dealers.
- PCP is the most popular form of motor finance with an average APR of 5%.
- Growth in electric vehicle sales could increase use of leasing and salary sacrifice if incentives continue given higher purchase prices.

Market participants

54. Historically most new vehicles have been sold through franchised dealerships. These dealers have relationships with OEMs to purchase stock wholesale and with the manufacturer's finance arm, the captive lender, to offer customers financing options. Captive lenders often offer the most competitive rates and heavily influence the new vehicle finance market.

55. Franchised dealerships buy stock from the manufacturer at a wholesale price, which gives the dealership a fixed margin in relation to the recommended retail price (RRP). The dealer can offer discounts on the RRP or offer complementary services such as financing to attract customers. Manufacturers may incentivise dealers to secure higher sales volumes by offering volume bonuses.

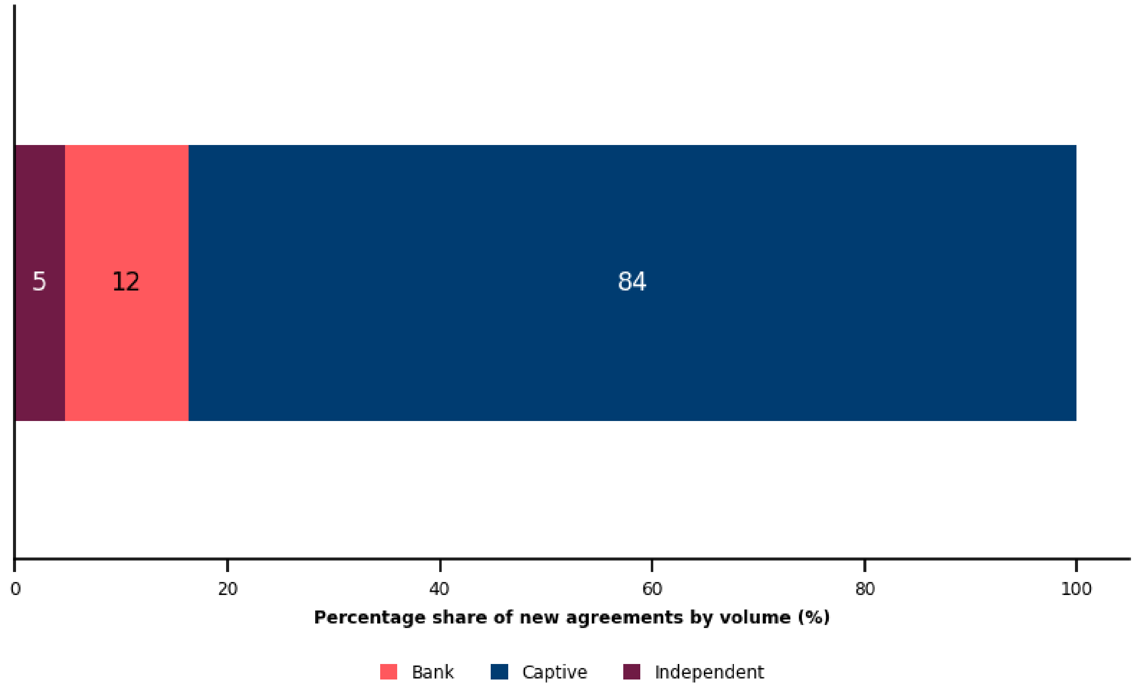
56. Some firms operate across more than one part of the supply chain as part of vertically integrated groups. Such as:
    - Stellantis Group, manufacturer of 14 brands including Citroen, Fiat, Peugeot, and Vauxhall, amongst others, operates a network of c.30 franchised dealerships under the name Stellantis &You UK (previously PSA Retail UK), an independent car supermarket (CarSupermarket.com, formally Motor Depot, via Aramis Group), as well as lending to customers under Stellantis Financial Services.
    - Porsche Retail Group, one of the largest Porsche Dealer Groups in the UK, is a wholly owned subsidiary of Porsche Cars GB Ltd (sole UK and Ireland importer of Porsche cars and is wholly owned by Porsche AG).
    - Day's Motor Group, a franchised dealership group and lender, Day's Finance.

Lenders

57. Most lending in the new vehicle segment is by captive lenders or large banking group lenders that have partnership agreements with OEMs to provide motor finance.

Captive lenders account for most motor finance agreements on new vehicles as shown in Figure 7. The top 5 lenders in our lender survey by market share are all captive lenders, with a further two in the top 10.

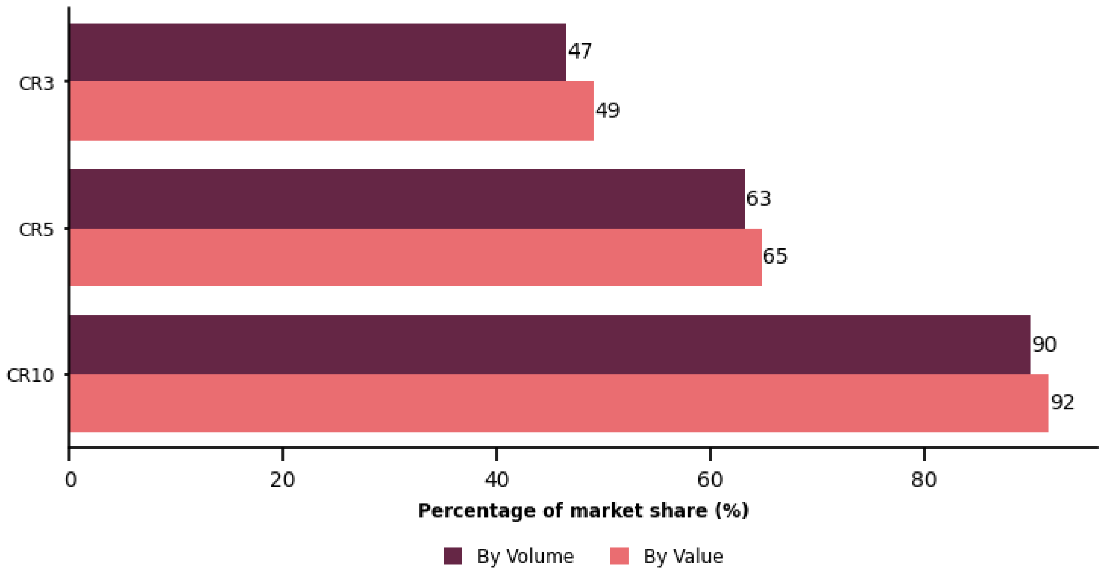
Figure 7: New segment market shares by lender type, by volume in 2023



Source: FCA Lender Survey

58. Figure 8 shows concentration ratios for the new segment. The top 3,5 and 10 lenders by volume of new motor finance agreements in 2023 hold a 47%, 63% and 90% share of the sample total respectively.

Figure 8: Concentration ratios by volume of new agreements in the new segment in 2023



Source: FCA Lender Survey

59. Captive lenders tend to focus on facilitating new vehicle sales for franchised dealerships or manufacturer direct-to-consumer sales. However, captives also offer motor finance products to support sales in the used vehicle divisions of the franchised dealers that they work with. As such, no motor finance lenders in our sample operated exclusively in the new market in 2023. Motor finance agreements on new vehicles account for more than half of agreements for most captive lenders, including a few with relatively low volumes agreements on used vehicles.

60. A competitive finance offer is seen as a prerequisite to support vehicle sales, with OEMs subsidising low and sometimes below-cost APRs through their captive lenders. APR rates are viewed as key to promote vehicle sales given customer focus on monthly affordability and benefits of an ongoing customer relationship.

61. Some banking lenders offer 'white label' products for OEMs that do not have a finance arm forming a captive finance offer. This allows them to provide a more competitive offering and achieve scale in the new segment by leveraging the brand's network of franchised dealers as a distribution channel. 73% of new agreements written by banks are sold via franchised motor dealers (compared to 17% in the used segment) based on our lender survey.

62. PCP products remained the most popular finance option for financing new vehicles in 2023 based on our sample. Interest rates tend to be lower than other products, such as HP agreements. However, with PCP agreements, monthly payments are to cover the vehicle's depreciation, plus interest. This means that if consumers wish to buy the vehicle, they will have to make a final balloon payment. With an average advance of over £28,000 on new vehicles, balloon payments are likely to be large. Customers can re-finance with a subsequent PCP or HP deal if they are unable to afford the balloon payment. Re-financing allows consumer to keep the vehicle but increases the total cost to own the vehicle. Customers can also choose to return the vehicle and upgrade. If the Guaranteed Minimum Future Value is lower than the market value of the vehicle, the positive equity can be put towards the deposit on a new motor finance agreement making this an appealing option to many.

63. APRs for motor finance on new vehicles are typically competitive with OEMs subsidising low and sometimes below-cost APRs through their captive lenders. The weighted average APR in the new segment for lenders in our sample was 5.9% in 2023. The minimum APR reported by lenders on new vehicles is 0%. We understand that 0% APR deals are deals subsidised by manufacturers through captive lenders or 'white label' finance products to promote certain vehicles. In the loan level data, 19% of motor finance agreements for new cars between 2019 – 2022 were 0% APR agreements.

64. Motor finance offers in the segment cater almost exclusively to prime customers, with little to no variation in pricing between customers. Pricing models where the main consideration is the cost of funding or overall operational costs in setting customer pricing (cost-based models) appear to be most common in the new segment and particularly by captive lenders based on our lender survey.

Profitability

65. Most lenders are subsidiaries of parent groups (both financing arms of vehicle manufacturers and motor finance subsidiaries of wider banking groups). In these cases, the profitability of the lender in isolation may not be reflective of the long-term profitability of lending to the group as a whole (and therefore the value of remaining in the motor finance market). For vehicle brands, a compelling motor finance offering is seen as a necessary requirement to drive vehicle sales.

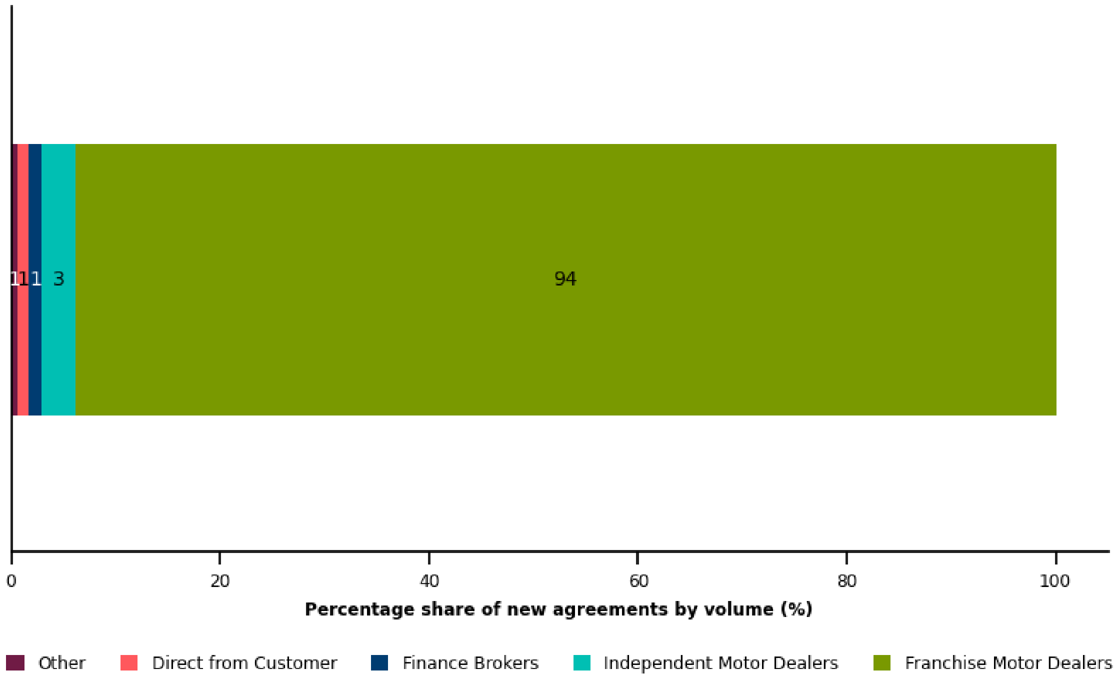
66. Captive lenders in our survey said that the motor finance business is strategically important to support the sale of vehicles by making them affordable for customers and fostering long term relationships which improve retention for their next vehicle purchase.

67. We also asked current lenders the factors they would consider before deciding to withdraw from the market in part or completely. Most firms mentioned returns and the regulatory environment (costs, penalties and uncertainty). Captive firms also mentioned reputational risks and the impact on the wider group, brand and dealer partners, and customers as key considerations reflecting the strategic importance of motor finance to vehicle sales and customer outcomes.

Brokers

68. Most motor finance sales on new vehicles are arranged by franchised dealers at the point of sale. This creates close relationships between OEMs, captive lenders and franchised dealerships for the sale of new vehicles and associated motor finance.

Figure 9: Motor finance agreements on new vehicles in 2023 by sales channel



Source: FCA Lenders survey

69. Franchised dealerships play a central role in the sale of new vehicles and many also have sizeable used vehicle businesses too. The franchised dealerships in our brokers survey operate in both the new and used vehicle market with a mainly prime and near-prime customer base. The four Top 10 franchised dealers that responded to our sample are large multi-brand dealership groups. Each has over 150 outlets covering around 20+ brands each. We also received a response from one smaller franchised dealer with two outlets.

70. Franchised motor dealers support the sales of motor finance agreements as a secondary activity to support vehicle sales. In most cases, the captive lender is the most common choice and default option for motor finance arranged through a franchised dealer. Based on the responses we received, we understand that this is typically due to captive lenders offering the lowest APRs for new vehicles or other benefits supported by manufacturer offers. Exclusivity agreements exist on certain new vehicle campaigns for some brands but do not appear to be common or driving behaviour by franchised dealers. Where a customer is not eligible for finance with the captive lender for a new vehicle purchase, the franchised dealer may offer alternative options.

71. Franchised dealers in our sample considered other franchised dealers as their main competitors in the new segment and a wider set of franchised and independent motor dealers as competitors in the used segment. In the new segment, APRs are often the same as the result of nationally advertised APRs through the manufacturer. Franchised dealerships therefore have little to no pricing flexibility, and competition may be based on non-price and non-motor finance factors such as customer experience.

72. Manufacturers offer deals such as volume bonuses to incentivise dealers to secure more sales by offering discounts on recommended retail prices (RRPs), or complementary services.

Market entry and exit

73. In the new segment, new entry has been in the wider vehicle market and alternative finance options. These include low-cost EV suppliers and are aimed at capturing the market in light of the recent shift in favour of EVs. Some of these new entrants have introduced a subscription-based motor finance option. These subscriptions combine insurance and maintenance as a part of a “subscription fee”, which let you change between different vehicles during the subscription period.[16]

74. There has been some consolidation of captive lenders. Notably, Stellantis Financial Services was created in 2023 to combine the activities of PSA Finance, Vauxhall Finance and Fiat Chrysler Automobiles Automotive Services as a joint venture with BNP Paribas. The reorganisation of financing activities allows for improved agility and synergies to support all Stellantis automotive brands.[17]

75. There are high barriers to entry to the new segment as lenders are generally manufacturer-owned captives which makes it hard for new entrants to compete on price or access to distribution channels. There may be opportunities to partner with OEMs to provide a white-label finance product, however, to achieve sufficient scale new entrants would likely need to secure partnerships with multiple manufacturers.

[16] https://www.zap-map.com/ev-guides/ev-subscription

[17] https://www.stellantisfinancialservices.co.uk/about

76. We observe limited exit in the captive market given the strategic importance of motor finance to the overall business, brand and reputation for manufacturers. Wider group profitability is a key consideration for any decision to exit for captive lenders. Captive lender, Shogun, which was previously a joint venture with Lloyds Banking Group recently exited the market. According to the Shogun Finance Limited annual report, the company ceased trading following the decision by the manufacturer, Mitsubishi Motors, to exit the new vehicle market in the UK in 2021. In this case, the commercial decision of the OEM to withdraw from the market subsequently led to the captive lender exiting.

77. There has been regular consolidation in the franchised dealership market, and this is expected to continue. In 2023, the UK was seen to be an attractive investment for foreign groups, with Pendragon selling its dealerships to leasing business Lithia for £397m in December 2023 and Lookers purchased by Global Auto Holdings (GAH) for £504.2m in September 2023. Hedin Mobility acquired four dealerships from Mercedes-Benz Retail Group UK in April 2023 and Stephen James Group in August 2023.

Broader market trends

78. The competitive dynamics in the broader market for new vehicles in the UK are evolving over time, influenced by international trends and the shift to electric vehicles (EVs). These changes can have implications for motor finance.

Leasing

79. We consider the extent to which broader trends towards leasing could change the market for motor finance in the short to medium term. Vehicle manufacturers are global entities, who supply international motor leasing and financing companies. International trends can influence the vehicle financing model that manufacturers expect from providers. Therefore, trends towards leasing in Europe, if sustained, could lead to providers shifting to a similar model in the UK over time.

80. Personal Contract Hire (PCH) agreements are the most common type of consumer lease deal. The monthly cost of a PCH agreement is usually lower in comparison to HP or PCP, however, at the end of the contract there is no option to take ownership of the vehicle. Most leasing agreements are for new cars, with only 3.5% of additions to the PCH fleet involving a used car.[18] Leasing primarily takes place in the new sector, with the trend reflective of the cost-of-living concerns of consumers. Consumers often use the terms "leasing" and "renting" interchangeably with PCH.

81. Leasing has become increasing popular across Europe in recent years. Affordability concerns combined with convenience and flexibility requirements could encourage more consumers to consider leasing. New leasing volumes for passenger vehicles across Europe increased by 14.5% in 2023, with continued but slower growth in the first half 2024 at 8.6% overall.[19] Growth in vehicle leasing may be in part driven by incentive programmes for EVs in many countries which encourage use of leasing. It is unclear to what extent this trend may sustain as EV incentive schemes come to an end.

[18] BVRLA (2025) Leasing Outlook Report (April 2025)

[19] Leaseurope (2024) Biannual Statistics 2024 Results Press Release

82. Growth in vehicle leasing in the UK appears to be largely driven by businesses with 79% of additions to the car fleet of BVLRA members unregulated.[20] PCH has been in decline since the start of 2021 with latest figures for 2024 showing a fall of 13.4% on the previous year. Strong growth (+61%) in salary sacrifice to just over 100,000 cars has partially offset the decline in PCH resulting in overall growth in the consumer car fleet of 1.2% to 374,407 cars in 2024.[21] Outside of salary sacrifice incentives, this is not indicative of a broader shift towards leasing on a material scale in the short to medium term.

Electric Vehicles

83. The rise of EVs with the approaching ban on sales of new petrol and diesel cars in 2030 and vans in 2035 is likely to impact the motor finance market for new vehicles. This will depend on motor finance providers' ability to adapt and align their products around sustainable credentials.

84. Manufacturers under pressure to meet the zero emission vehicle (ZEV) mandate may consider offering discounts on motor finance in addition or as an alternative to RRP discounts that have been observed on EVs in 2024.[22] Industry feedback suggests OEMs often prioritise competitive financing costs given consumers' purchase decisions are often driven by affordability of monthly payments and the customer retention benefits of forming an ongoing monthly relationship. As such, during promotional periods many OEMs will prioritise discounting financing costs rather than the RRP of the vehicle, as they consider this to be a more effective way of driving demand.

85. Tax efficient incentive programmes encourage the adoption of EVs. Incentive programmes are currently in place across a number of European countries, including Belgium, France, Germany, Italy, Netherlands, Poland, Spain and the UK.[23] The type of incentive programme available may influence the use of motor finance. Subsidies in the UK are through salary sacrifice schemes which offers employees tax benefits on EVs leased through the scheme.

86. Incentive programmes can have a substantial impact on demand. When Germany's national purchase incentive scheme supported direct purchase ended in late 2023, private demand for BEVs fell by 47% in the following quarter.[24] Affordability concerns given the high purchase prices of EVs have subsequently led to a shift towards leasing which typically offers lower monthly costs for consumers. For similar reasons, leasing is more popular on EVs than other types of new vehicles in the UK. A higher proportion of EVs are leased than other fuel types but there remains a role for motor finance.[25]

87. It is unclear how the UK market would respond to the end of the salary sacrifice scheme. Currently the scheme is due to continue until at least 2028 with the rate of benefit set to decrease by 1% per year.[26] Beyond 2028, there is significantly more uncertainty dependent on UK government policy.

88. Recently, there have been more EV options entering the market from Chinese manufacturers at significantly lower cost compared to UK and European offerings. A

[20] BVRLA (2025) Leasing Outlook Report (April 2025)
[21] BVRLA (2025) Leasing Outlook Report (April 2025)
[22] JATO Average EV discounts in UK dealerships double those for ICE vehicles
[23] Fleet Europe (2024) EV incentives in 2024: Europe's major fleet markets | Fleet Europe
[24] ZDK (2024) Car dealership: 47 percent fewer private BEV orders | German motor vehicle trade
[25] BVRLA (2025) Leasing Outlook Report (April 2025)
[26] Office for Zero Emission Vehicles Electric vehicles: costs, charging and infrastructure - GOV.UK

significant increase of low cost EVs in the market could reduce demand for UK and European motor financing models, reduce sales and lead to fewer financing opportunities for UK and European vehicle brands. Consumer concerns about quality, however, may slow adoption of lower cost EV manufacturers.[27]

89. Used EVs have also become increasingly more affordable with prices declining as a result of a surge in supply reflecting rapid growth in new EV sales. This has led to increased interest in used EVs which generate 15 times more enquiries than new ones, according to AutoTrader.[28] If demand shifts away from new EVs as a result, this could threaten ZEV targets placing further competitive pressure on OEMs to offer an attractive package (including motor finance rates) on EVs to secure vehicle sales on new EVs.

Consumer behaviour

90. The vast majority of consumers use motor finance to buy a new vehicle. Typical customers in the new segment have a prime credit profile with access to outside options such as personal loan.

91. These customers typically have access to alternative forms of financing under some of the best terms available given their prime credit profile. Despite this, most choose to use motor finance to buy a new vehicle because it is convenient, offers a good deal and provides flexibility. Motor finance makes new vehicles more affordable and accessible to a broader potential customer base. One fifth of respondents in the Yonder consumer research said they were considering motor finance for a future purchase as it would allow them to get a new rather than used vehicle.

92. Many consumers in the new segment are repeat purchasers of motor finance. The Yonder consumer research found that over 80% of current holders of motor finance on a new vehicle have used motor finance before. Captive lenders in our survey also reported the importance of motor finance for repeat business. A large proportion of motor finance agreements on new vehicles are PCP which provides flexibility to upgrade to a new vehicle at the end of the agreement by putting any equity towards a deposit on a new motor finance agreement. Price competition may be constrained by consumers' outside options but is also driven by the desire of vehicle manufacturers to sell new vehicles.

93. Price and affordability is the main driver for consumers choosing motor finance. The Yonder consumer research found consumers tend to focus on monthly payments rather than APRs. This means other aspects of the deal including deposit and term length may also be important to influence consumers' perception of a given finance offer. Monthly payments being within budget are cited as one of the reasons for choice of finance type by 64% of motor finance borrowers.

94. Consumers in the new segment appear to be somewhat sensitive to changes in price. Using a set of illustrative scenarios for consumers purchasing new vehicles, the Yonder consumer research indicates that increasing motor finance interest rates reduces take up of motor finance by between 1.5-3% per 1 percentage point increase in interest rate depending on the modelling scenario.

95. The consumer research found that 46% of current holders of motor finance on a new vehicle said they had shopped around before selecting their motor finance deal.

[27] AutoTrader (2025) Road to 2030 Report

[28] AutoTrader (2025) Road to 2030 Report

Consumers shop around to get confidence that they are getting a good deal (68%), improve their understanding of different options (56%) and to help them negotiate the cost of finance (39%). The most common reason given by those who did not shop around was that they were already very familiar and / or had held motor finance with the lender before (57%). This suggests many that do not shop around have prior knowledge or experience to inform their choice of provider. Combined with findings on price sensitivity, these consumers may be more inclined to shop around in future if the terms they were offered diverged materially from those that they had been offered in the past.

96. Overall, the presence of outside options available on good terms to consumers in this segment and a degree of price sensitivity places a competitive constraint on lenders.

4 How competition works in the used vehicle segment

Key summary:

- Banking and captive lenders account for most agreements in the used segment.
- HP is the most popular form of motor finance with an average APR of 12%.
- Franchised and independent dealers play an important role in motor finance sales at the point-of sale.
- Commissions are an important source of revenue for independent dealers to supplement low profit margins on used vehicle sales.

Market participants

97. All types of dealers and lenders operate in the used segment. Relationships across the supply chain may differ for different types of brokers and lenders. Dealers have more flexibility and choice of lenders in the used segment, though strong relationships between franchised dealers and captive lenders remain.

98. Most brokers operate a panel of lenders. Prime lenders tend to conduct a hard credit search which can impact a customer's credit score. Therefore, brokers typically approach lenders sequentially for prime applications. The hierarchy used to approach lenders typically considers factors such as interest rate and likelihood of acceptance but may also differ based on the product or lender chosen by the customer. Lenders can compete for their place on lending panels by offering lower APRs and/or higher commission to brokers.

99. There are some examples of vertically integrated groups:
    - Evolution Funding provides brokering services, including a platform for dealer partners and a direct-to-consumer broker (My Car Credit), as well as lending via Evolution Loans.
    - Auto Trader Group operates an online marketplace, Auto Trader, and a digital leasing platform, Autorama.

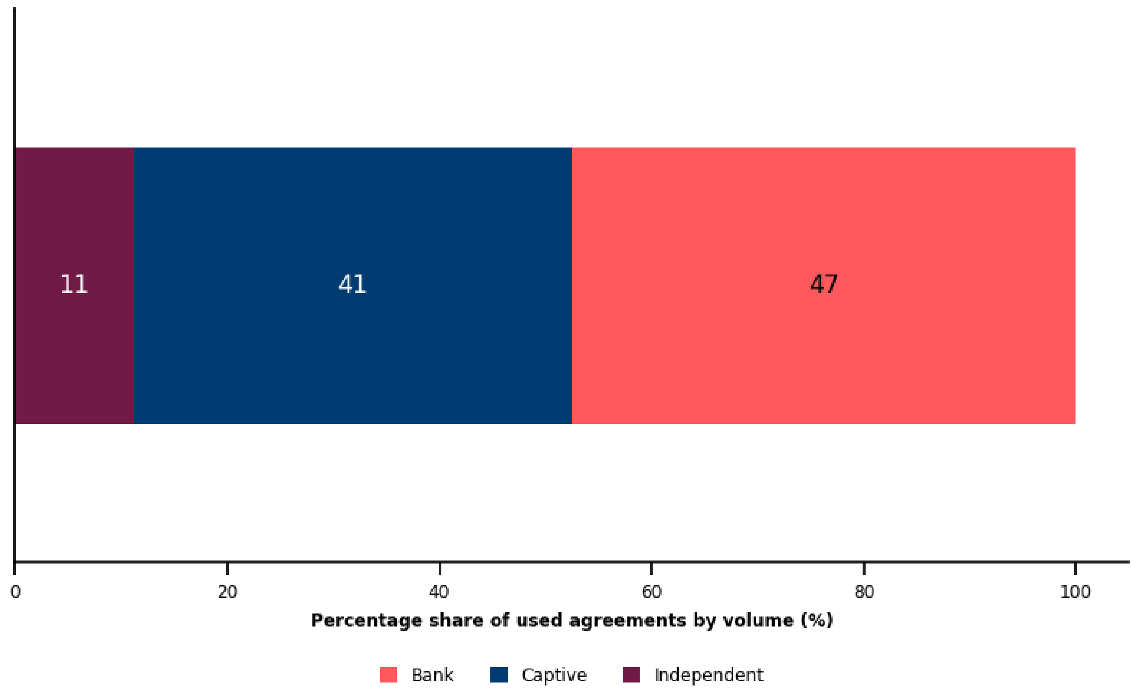
Lenders

100. In the used segment, a broad range of lenders caters to a wide customer base and varying vehicle age and condition. Lenders of all types, including captive lenders, operate in the segment reflecting the sale of used vehicles across franchised and independent dealerships.

101. Banking lenders take a greater role in the used segment alongside captive lenders. Absent OEM-supported rates, captive lenders compete with banking group lenders in the used segment. Banking lenders hold almost half (47%) of motor finance sales on

used vehicles in 2023, followed closely by captive lenders with a 41% share as shown in Figure 10.

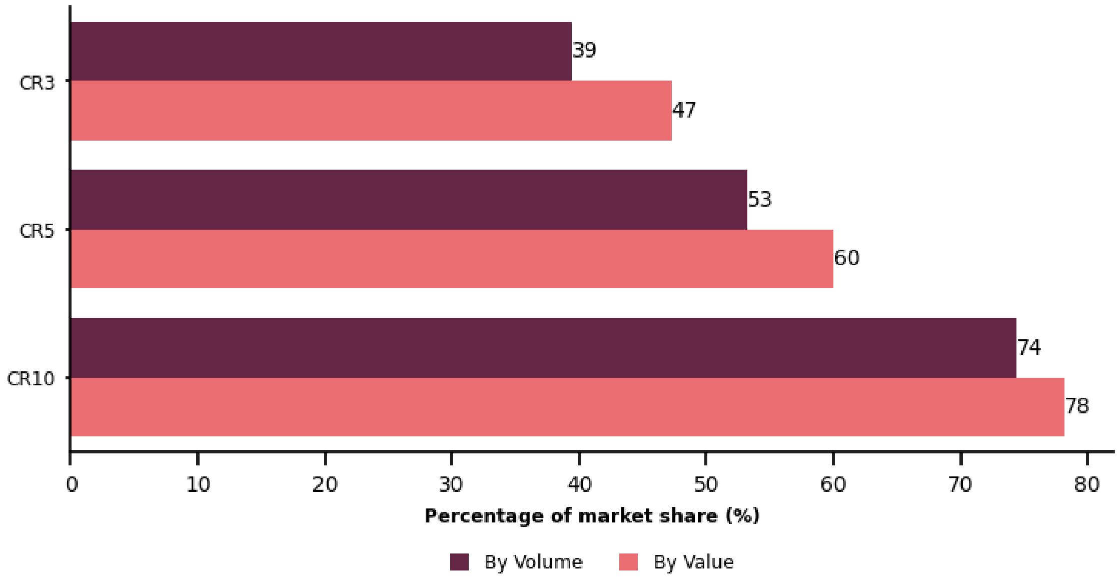
Figure 10: Used segment market shares by lender type, by volume in 2023



Source: FCA Lender Survey

102. Lending in the used segment is mostly through captive or banking group lenders, with a few independent retail lenders that offer motor finance to a wide customer base, including some that specialise in sub-prime lending. The subset of the used segment catering to sub-prime customers is considered separately in Section 5. Figure 11 reflects concentration ratios based on volume and value of motor finance agreements on used vehicles across the entire creditworthiness spectrum.

Figure 11: Concentration ratios by volume of new agreements in the used vehicle segment in 2023



Source: FCA Lender Survey

103. The used segment is less concentrated than the new segment with a wider range of participants. The top 3, 5 and 10 lenders account for 39%, 53% and 74% of agreements in our sample.

104. Lenders compete on the APR package and commission they offer brokers to attract new business. Banking and independent lenders often negotiate rates and commission with each broker independently. Captive lenders agree rates alongside their franchised dealer network considering factors such as returns and volume expectations.

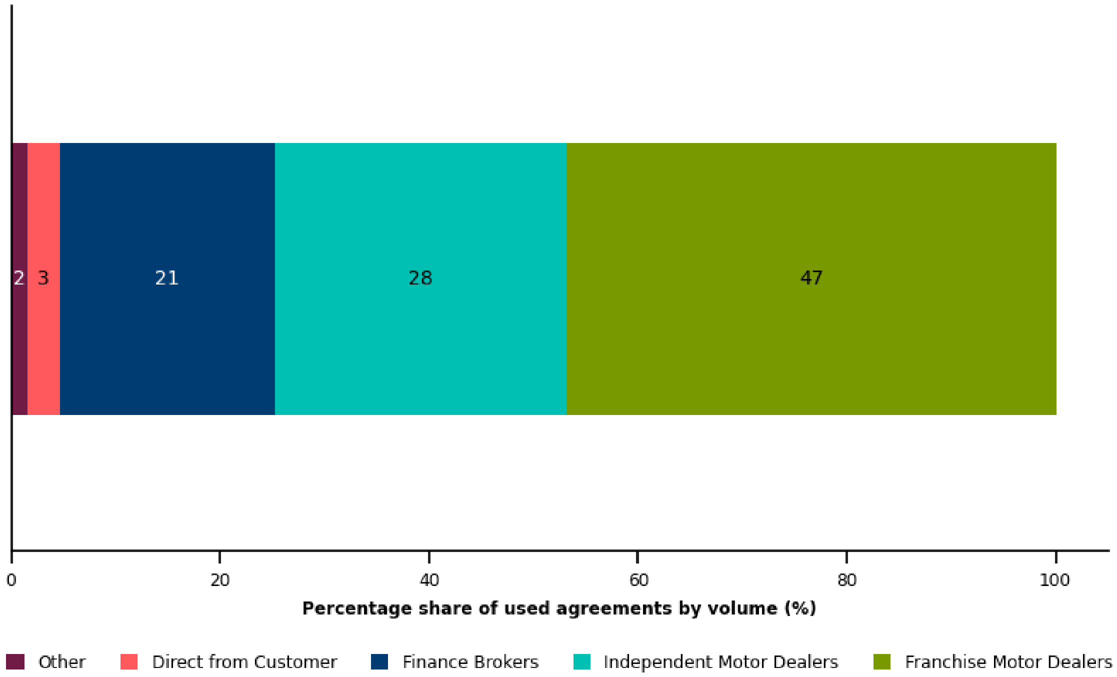
105. Most lenders felt competition impacts pricing. Lenders in our survey referenced reviewing their rates against competitors and monitoring customer performance indicators, such as origination rates and take up. Some lenders noted pricing sensitivity can be seen in volume of applications and credit risk. If pricing is not competitive, brokers are likely to use other lenders on their panel and negative selection may result in receiving higher risk applications.

106. Average APRs in the used segment are higher than the new segment. This reflects the broader customer base and absence of manufacturer-supported deals. The weighted average APR in the used segment is 13% with the weighted average maximum APR across lenders of 28%. There is significant variation between lenders, with higher rates reported by independent lenders that operate across creditworthiness segments. The maximum APR for motor finance agreements on used vehicles offered by most captive and banking group lenders in 2023 was less than 20%.

Brokers

107. Franchised dealers, independent dealers, and finance brokers all operate in the used segment. Franchised dealers account for the largest share of motor finance sales for lenders in our sample. Direct customer sales appear to play a limited role in sales of motor finance. Figure 12 shows the proportion of new motor finance agreements by sales channel for the wider used segment in 2023.

Figure 12: Motor finance agreements on used vehicles in 2023 by sales channel



Source: FCA Lenders survey

108. Most motor finance sales on used vehicles in the prime segment are arranged through motor dealers. This reflects the sale of used vehicles by both franchised and independent dealers with a small proportion privately advertised by individuals. Many dealers offer motor finance broker services as a secondary activity to complement vehicles sales.

109. Along with franchised motor dealers that sell both new and used vehicles, independent dealers specialise in the sale of used vehicles. There are a number of large used car supermarkets as well as a long tail of smaller independent motor dealers. As an indication of scale, there are at least 1,400 members of the Independent Motor Dealer Association which represents the sector.

110. Dealerships have more pricing flexibility over used vehicle sales, including greater flexibility in the choice of lender they introduce a customer to. Dealers compete with other used vehicle sellers including other local dealerships and online platforms on the bundled cost of a sale (including vehicle price, finance, part-exchange value). Competitively priced financing is viewed as a key driver of vehicle sales given customers' focus on monthly affordability.

111. Independent dealers face strong competition from franchised dealers who made up almost half of motor finance sales in 2023. Industry experts note that groups like Arnold Clark and Marubeni have continued to develop their own used car supermarkets in recent years. Alongside wider economic uncertainty this has contributed to erosion of turnover for top 10 independent dealers in 2023.[29]

112. Franchised dealers have a high proportion of captive lenders on their panel. Building on established relationships in the new segment, franchised dealers negotiate terms with the captive lenders to win used vehicle business by offering attractive motor finance rates. We understand some captive lenders offer motor finance to non-captive customers in the used segment through relationships with the used division of multi-brand franchised dealers.

113. Independent dealers typically have a more varied panel of lenders holding relationships with mainly banking group and independent retail lenders. Independent dealers offer motor finance as a complementary service to support sales of used vehicles. Offering brokerage services provides convenience and affordability for customers, which they now expect as a base level of service. Maintaining a suite of lenders is important to ensure availability of motor finance at competitive rates for potential customers. A broad lender panel is needed to cater to the range of customers and vehicle characteristics in the used segment. Independent dealers operate mostly in the used segment, but some dealers also support motor finance sales in the near- and sub-prime segments or refer non-prime customers onto specialist primary vehicle brokers.

114. The main route to market for vehicle finance brokers in the used segment is point of sale applications sourced from motor dealers. Most finance brokers in our survey offer services for or on behalf of dealers. This can range from technology solutions and platforms that streamline customer finance journeys to white-label products where finance intermediation is fulfilled by the finance broker. As an example, online used car marketplace, AA Cars, offers motor finance intermediation under the AA Car Finance name which is fulfilled by Evolution Funding.

115. Commissions form the main revenue stream for most vehicle finance brokers and are an important revenue stream for many dealers, particularly in the context of falling margins on vehicle sales. Both independent and franchised dealers referenced motor finance as business critical and strategically important to support their primary business of vehicle sales. Motor finance helps to make vehicles affordable to customers.

116. Independent dealers in our sample reported motor finance underpins their business and they would not be viable without it. Secondary income from motor finance supplements low margins for independent dealers which enables them to offer affordable vehicles to customers. This is significant given four of the top 10 independent dealers reported pre-tax losses in 2023 losing almost £45 million combined. Cazoo, the second largest independent dealer in 2022 shifted its operating model to an online platform before going into administration in May 2024 having never recorded a pre-tax profit.[30]

[29] AM (2024) AM100 UK's largest franchised dealer groups
[30] AM (2024) AM100 UK's largest franchised dealer groups

Market entry and exit

117. Captive and banking motor finance providers have faced competition from new entrants over the past decade in the used segment. Many consumers now demand fast, easy-to-use, and personalised digital services in motor finance, like the services that they receive in other financial services product markets.

118. Challengers may exploit digital technology in the provision of motor finance with a focus on the user interface to offer convenience and lower costs. Several Fintech start-ups have entered the market in the used segment in the past 10 years, for example, Blue Motor Finance and Oodle Car Finance.

119. Peer-to-peer (P2P) lending initiatives can also offer an alternative to traditional motor finance. These platforms crowd-source funds from investors and offer these funds in the form of loans on vehicle purchases. Metro Bank launched a digital car loan product under its P2P lending brand, RateSetter, in early 2023 which provides hire purchase loans for used vehicles. While there has been some new entry, customer trust in P2P is low and some big players, such as Zopa, have closed the P2P side of their business.[31] Since launching a digital bank in 2020, Zopa have expanded their motor finance offer including HP, PCP and personal loans products.

120. Ayan Capital launched Shariah-compliant motor finance for sole traders and SMEs in 2024, with plans to get FCA authorisation and expand to motor finance in 2025.[32] They use a rent-to-buy model as an alternative to traditional hire purchase agreements. This involves regular payments to use the vehicle with the right to purchase the vehicle at any time by paying the outstanding vehicle balance.

121. For potential new entrants, access to capital is a substantial barrier to entry. Establishing a motor finance offering requires significant capital, and new entrants must abide by regulatory minimum capital reserve requirements and must account for the risk of default. Expertise in market complexities, such as residual values and stock management, poses a further challenge. These processes can take time for new firms to understand and develop effective processes to manage.

122. Banking group and independent lenders of varying sizes have exited the motor finance market in the last decade. Commercial factors and profitability have been key factors in the decision to withdraw.

123. Banking group lender, Clydesdale Financial Services trading as Barclays Partner Finance, closed to new motor finance lending in 2019. The decision to cease lending was made following a strategic review of their portfolio.[33]

124. PCF Bank closed to new lending in 2021 having decided to withdraw from the UK banking market completely after failing to raise growth capital.[34] One small family-run business mentioned the difficulty getting new business, keeping up with technology and regulatory risks as key factors in the decision to withdraw.

125. By contrast, there has been minimal entry and exit of captive lenders given their strategic importance to vehicle brands. However, some captive lenders have plans for expansion in the used segment. In the captive space, one lender referenced plans to expand to increase control over their brand and customer experience. Another

[31] Zopa (2021) Press release: https://www.zopa.com/blog/article/an-update-on-p2p-at-zopa
[32] Ayan Capital (2025) About us: https://www.ayan.co.uk/about-us
[33] Motor Trader News (2019) https://www.motortrader.com/motor-trader-news/automotive-news/barclays-partner-finance-exit-motor-finance-market-12-07-2019
[34] https://www.retailbankerinternational.com/news/pcf-bank-exits-uk-banking/

lender mentioned plans to expand into non-captive markets in the used segment and the near-prime creditworthiness segment to cater to a broader spectrum of customers. Expansion of captive lenders into non-captive finance mirrors the expansion of used vehicle divisions by many franchised dealerships. This provides an opportunity for captive lenders to offer finance on wider vehicle sales by developing relationships with the used divisions of their dealer partners.

126. There has been regular consolidation in the franchised dealership market, and this is expected to continue. Despite falling average margins[35], the UK appears to be an attractive investment destination for foreign groups. In 2024, Lithia acquired Pendragon's motor division and Group 1 Automotive made a number of acquisitions, including Inchcape. Arnold Clark have continued to expand in the used segment by continuing to develop its used car supermarket.[36]

Consumer behaviour

127. Consumers in the used segment have a wide range of choice of motor finance providers. Most customers using motor finance to buy a used vehicle have prime or near-prime credit profiles and have access to alternative forms of credit outside motor finance. The Yonder consumer research found that around 30% of current holders of motor finance on used vehicles had used personal loans to finance a vehicle purchase before and many would consider a personal loan to buy a vehicle outright as an alternative if the type of motor finance they currently hold was no longer available.

128. Consumers are generally engaged in the market. More than half of motor finance holders on used vehicles report that they had shopped around for finance deals, suggesting consumers may be price sensitive. This is supported by conjoint analysis which simulates how consumers react to different product configurations. The analysis suggests that if no alternative finance options were available, a 1 percentage point increase in APRs could see a drop in uptake of motor finance of between 1.5-3% for a typical Hire Purchase agreement. The reduction in uptake of motor finance is more pronounced when an alternative such as a personal loan on a typical market rate is assumed to be available due to consumers switching to the alternative credit product offered.

129. Price sensitivity and a wide range of options for consumers in the used vehicle segment means that lenders have to offer competitive APRs to maintain volume and quality of applications. This was also reflected in the responses to our lender survey. This suggests consumers are able to exercise a competitive constraint on lenders in the used segment.

[35] The top 100 franchised dealers experience a combined fall of 26% in the level of profit before tax, leading to a fall in net margin from 2.3% to 1.4%. Source: AM100 2024 report
[36] AM (2024) AM100 UK's largest franchised dealer groups

5 How competition works in the used sub-prime segment

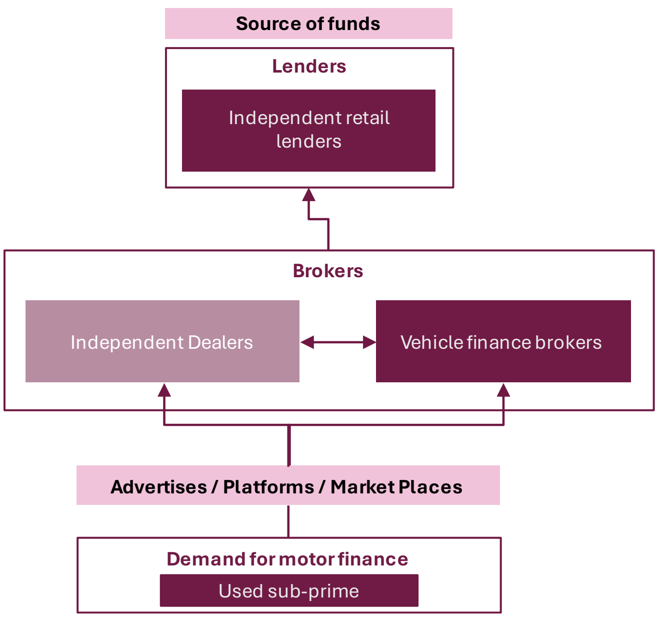
Key summary:

- Sub-prime lending is generally undertaken by non-prime specialist independent retail lenders. There is little overlap with lenders in the prime segment.
- The segment is highly concentrated with top three lenders accounting for more than 86% of motor finance new business volumes in 2023 in our lender survey.
- The segment is highly intermediated by finance brokers.
- Prior to the ban on DCAs, there was limited use of DCAs in the sub-prime segment.
- Pricing is typically risk-based assessed in credit tiers, with average APR of 33%.
- Consumers with sub-prime characteristics typically have fewer alternative finance options available so appear to be less sensitive to increases in the price of motor finance than those with prime characteristics.
- However, consumers with sub-prime characteristics who would no longer select the motor finance offered at a higher interest rate are also most likely to look for a cheaper vehicle or wait and try again after a period of time (54% and 36%, respectively) rather than decide not to buy a vehicle at all (4%).

Market participants

130. Sub-prime lending is generally undertaken by sector specialist independent retail lenders and intermediated by finance brokers. Lenders do not typically have direct customer relationships in this segment.

Market structure (used, sub-prime segment)



131. Most dealers do not offer services to arrange finance in the sub-prime segment but may have relationships with specialist finance brokers. Depending on the business model, dealers can act as an introducer to the finance broker for the motor finance sale or vice versa for the vehicle purchase.

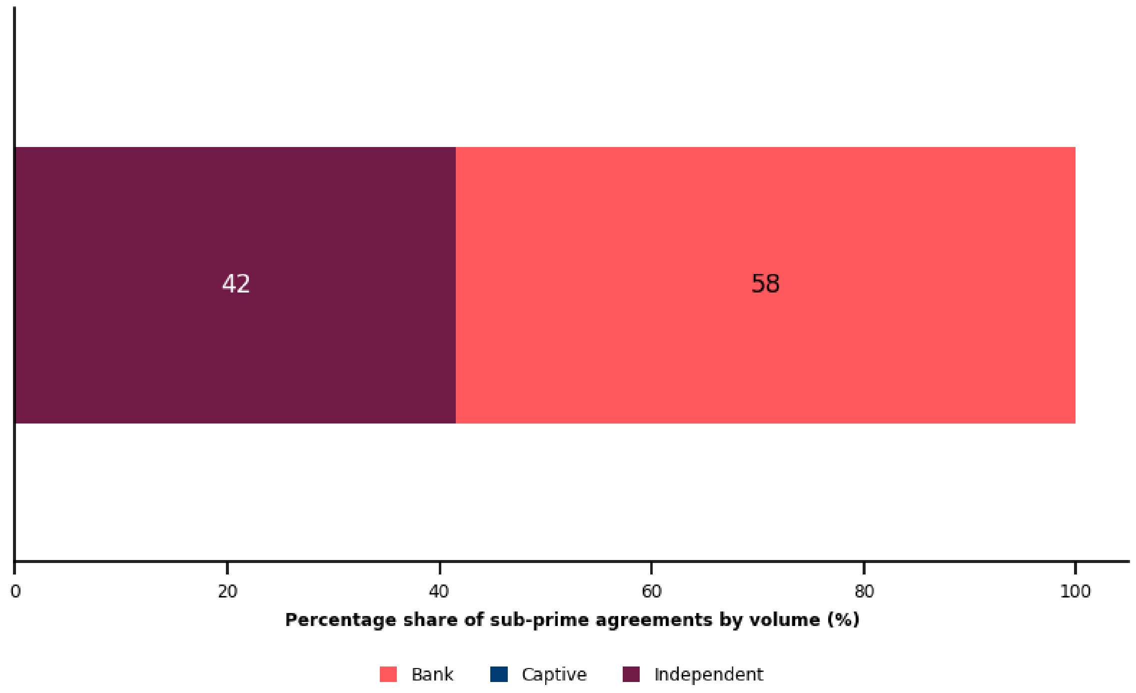
132. In contrast to the prime segment, we heard that finance brokers tend to submit applications to all lenders on

their panel simultaneously rather than using a waterfall approach. Brokers in our sample stated the best offer is presented to the customer.

Lenders

133. Lending to sub-prime customers requires bespoke underwriting and carries higher regulatory risk as customers are more likely to be vulnerable or have complex needs. As a result, most lenders operating in this segment specialise in near- and sub-prime lending. Most firms in our sample that lend to sub-prime customers in our sample operate almost exclusively in the used vehicle segment.

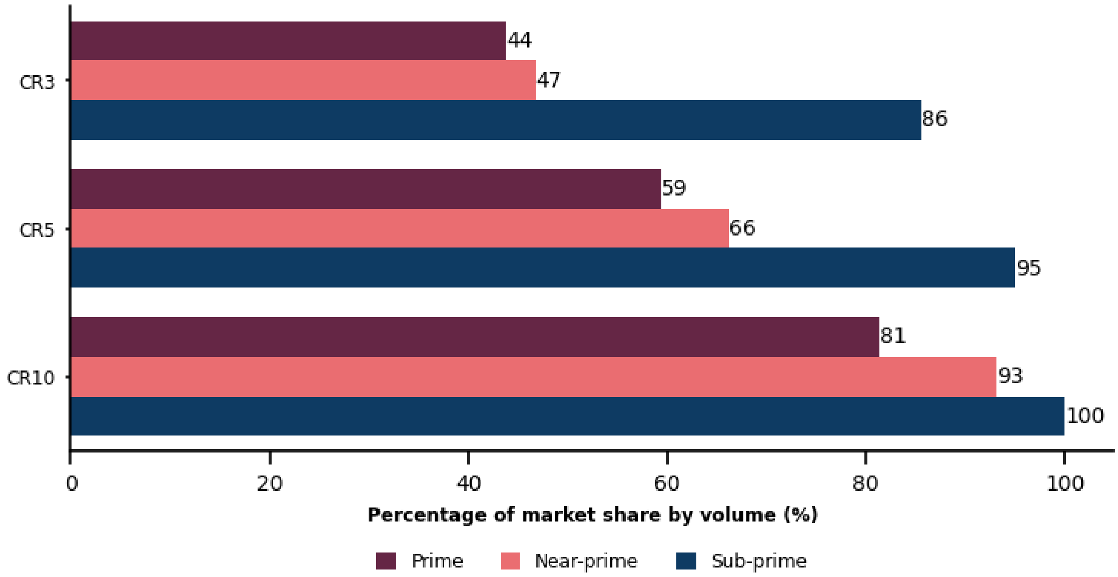
Figure 13: Sub-prime segment market shares by lender type, by volume in 2023



Source: FCA Lender Survey

134. The sub-prime segment is highly concentrated with top three lenders accounting for more than 86% of motor finance new business volumes in 2023 in our lender survey. This is considerably higher than the corresponding concentration of lenders that offer motor finance to prime and near-prime customers which are shown in Figure 14 for reference.

Figure 14: Concentration ratios by volume of agreements in 2023 for sub-prime segment



Source: FCA Lender Survey

135. Lenders often discussed a broader non-prime market, referencing credit tiers across a spectrum. The competitors identified by lenders in the sample were also across near- and sub-prime, including a lender that only reported near-prime agreements in 2023. Near-prime includes consumers with a fair credit record but who may struggle to borrow on standard terms from banks or other mainstream lenders. Expanding the definition of sub-prime to include near-prime would increase the segment size by c.200,000 agreements and would suggest a lower concentration.

136. While many lenders offering motor finance to near-prime customers specialise in non-prime lending, there is some overlap with mainly prime lenders in the broader used segment. Roughly half of predominantly prime lenders and all sub-prime lenders in our lender survey reported new agreements with near-prime customers in 2023. Near-prime lending may be easier for lenders to enter than the sub-prime segment. The overlap with lenders in the broader used segment suggests near-prime is not a distinct segment. Lenders acknowledged a distinction between sub-prime and near-prime lending in the lender survey. Sub-prime lending is typically viewed as less attractive with higher barriers to entry given higher risk of default and additional regulatory requirements.

137. Specialist vehicle finance brokers are the main channel for receiving applications for most lenders and typically operate on a best rate outcome. Most sub-prime lenders offer soft search quotations which do not impact a customer's credit file. As a result, finance brokers in this segment often submit applications to multiple lenders simultaneously to find motor finance deals that the customer is eligible for. This gives the finance brokers and to an extent, customers, some visibility of pricing, which may encourage a degree of price competition between lenders. Lenders

mentioned monitoring fluctuations in volumes to assess how competitive their package is and responding when needed.

138. However, price competition appears to be imperfect, with lenders holding some market power. Lenders mentioned a limited ability to analyse competitor price levels, including a lack of pricing transparency between competitors with differing use of fees and charges and approaches to defining risk cohorts.

139. Pricing is typically risk-based with APRs increasing as the assessed credit risk increases. Lenders referenced assessing credit risk in 7-8 tiers. Most lenders reported pricing is fixed within credit tiers, though some operate narrow bands or vary pricing based on factors like loan terms and size and advance. The pricing strategy for most lenders in our sample is anchored in achieving a target yield relative to cost of funds and other cost factors.

140. Lenders operating in the sub-prime market offer higher average rates. The weighted-average APR for sub-prime agreements in our sample is 33%. We asked lenders about the minimum and maximum APR rates for agreements in 2022 and 2023. The weighted average minimum APR across sub-prime lenders is 13% and the average maximum APR is 46%. However, there was substantial variation between lenders. The lowest minimum APR reported by lenders in our sample was 6% and the highest maximum APR reported was 76%. This compares to the broader used segment where most lenders reported a maximum APR under 20%.

141. Hire purchase (HP) and conditional sale (CS) agreements account for most agreements in the used sub-prime segment, in contrast to prime segments where PCP is common. The source of funding for lenders in this segment is typically wholesale markets which is less resilient and more at risk of capital market shocks. PCP agreements involve an optional balloon payment which exposes lenders to an additional residual value risk. By comparison, HP and CS agreements are usually fully amortising with the full amount borrowed paid down in equal instalments over the course of the contract which carries lower risk. Given that the inherent risk is already higher for sub-prime agreements on used cars, it is easier for lenders in this segment to securitise HP or CS loans which explains why these products are more common.

Brokers

142. The segment is highly intermediated reflecting the increased difficulty for sub-prime customers in accessing credit. Most finance brokers operating in the sub-prime segment in our sample are specialist motor finance brokers where motor finance is their sole or primary business. While many operate across segments, most activity is in the used and non-prime segments given the role of dealers in the sale of motor finance in prime segment.

143. We understand there is some concentration in brokers in the sub-prime segment. Lenders do not typically have direct customer offerings in this segment and one lender mentioned that due to concentration in the introducer space, larger players are able to negotiate higher commissions.

144. Commissions paid to finance brokers by the sub-prime lenders in our survey are typically flat fee or percentage of the advance. Lenders stated they use these models

to increase transparency and fair outcomes for consumers. Prior to the DCA ban, there was limited use of DCAs in this segment, with over half of the sub-prime lenders in our survey stating they had never used discretionary commission arrangements. Lenders operating in the sub-prime segment also reported that they do not have exclusivity agreements or tied relationships with brokers for motor finance. Therefore, the size of commission is likely to be the main consideration in potential unfair relationship breaches for sub-prime lenders.

145. Most finance brokers in the sub-prime segment in our sample mentioned using online digital marketing to acquire new customers. These brokers may introduce their motor finance customers to dealers to purchase a vehicle. By contrast, some finance brokers acquire most of their business through dealers who refer all or more complex cases on to the specialist broker. In both cases, an introduction fee may be charged by the introducer. Finance brokers whose main route to market is through dealers may also forward a proportion of commissions to dealers.

Market entry and exit

146. There are high barriers to entry into the sub-prime segment given the specialist nature of sub-prime lending with specific customer needs. While we have found some evidence of captive lenders expanding into near-prime lending by extending the existing scorecard and policies, this does not apply to sub-prime. Lenders noted sub-prime lending requires different technology, funding, and credit strategies.

147. Lenders who traditionally provided finance in the sub-prime space are increasingly targeting near-prime customers. Brokers noted a reduction in risk appetite among lenders in recent years and lower approval rates as sub-prime lenders have tightened their lending criteria, specifically around affordability, in response to base rate increases.

148. We received mixed responses in terms of changes to lender panels in the sub-prime segment. Some brokers had the same number of lenders but with reduced risk appetite, while others reported the number of options for sub-prime customers have substantially reduced over the last two or three years. One finance broker referenced the recent withdrawal of a non-prime lender in 2024 citing unsustainable costs and regulatory burden. Another finance broker mentioned that they had been able to mitigate withdrawals by onboarding new lenders but noted this has not been enough to fully compensate for the level of lender loss.

149. It can be harder for sub-prime lenders to attract investment particularly during periods of uncertainty as sub-prime lending on used vehicles carries higher inherent risk compared to prime. Prime lending is considered more straightforward where banks are able to generate sufficient capital to meet the funding level and cost of funds requirements. Access to funds at prices that facilitate a competitive commercial offering and forbearance risks make operating in the sub-prime segment challenging and deter new entry.

150. Regulatory risk is perceived to be higher in the sub-prime segment. This reflects the demographics of sub-prime consumers who are more likely to be vulnerable and susceptible to harm. As a result, assessing creditworthiness and affordability is likely to be more complex for these customers with greater resource requirements to

ensure effective regulatory compliance. In addition, the compliance costs for specialist lenders that operate at a smaller scale may represent a higher proportion of revenue. This can pose a barrier to entry and make it more challenging for lenders to respond to changes in regulation.

151. Given the challenges lending to a sub-prime demographic as well as wider economic and regulatory environment, new entry of lenders in this segment appears unlikely. Improvement in broader conditions and reduction in the cost of funds may increase the risk appetite of existing lenders.

Consumer behaviours

152. The external consumer research commissioned found that consumers with sub-prime characteristics[37] had a lower average household income compared to those with prime and near-prime characteristics, with 18% having an income of less than £15k and a further 22% with a household income of between £15-30k. Consumers with sub-prime characteristics were also found to be younger, with 41% aged between 18-34.

153. Consumers in the sub-prime segment have poor credit ratings and typically have more difficulty finding credit. These consumers have fewer alternative options to motor finance to acquire a vehicle. The Yonder consumer research finds that 89% of current holders of motor finance with sub-prime characteristics had used some form of motor finance before. This suggests these consumers may rely on motor finance as a means to access a vehicle and may be likely to use motor finance again in future.

154. Despite this, the consumer research found that consumers with sub-prime characteristics were more likely to shop around for finance (reported by 67%) compared to the broader market. The reasons for shopping around included getting confidence that they are getting a good deal (66%), improving their understanding of different options (49%) and to negotiate the cost of finance (42%). However, half of those that did not shop around said the reason was that their provider or deal was the only option available to them. This suggests that while some consumers within this segment may exhibit price sensitivity, they may be less easily able to act on this by switching providers due to the more limited choice available to them with their only alternative not purchasing a vehicle at all. This is supported by conjoint analysis which simulates the response to an increase in price of motor finance. The analysis suggests consumers with sub-prime characteristics are less sensitive to an increase in price than other segments of the market.

155. In addition to ensuring that monthly payments are within their budget, recommendations from friends and family also play an important role in their decisions when choosing their deal and provider. These consumers were less likely to have negotiated before agreeing their deal (although negotiating in general focuses on the price of vehicle and add-ons rather than the finance element of the purchase). They can also find the sales process pressured and the amount of detail confusing and have reported feeling that there was too much information to deal with and that they were taken by surprise later by additional fees or terms.

[37] The research developed broad categorisations for consumers with prime, near-prime and sub-prime characteristics using information collected on the interest rate paid as well as their financial circumstances. We note that this is different to the approach taken to "sub-prime" in our RFIs.

156. While consumers with sub-prime characteristics tend to use price comparison sites and finance brokers and shop around more than those in the wider used vehicle segment, they have fewer options of motor finance provider and limited access to alternative forms of credit to fund a vehicle purchase. This limits the extent to which they can exercise a competitive constraint on lenders in this segment.

6 Conclusion on the current state of competition

157. The overall motor finance market is characterised by several large firms, followed by a long tail of smaller providers. We estimate there are over 100 motor finance lenders and over 11,000 motor finance brokers including vehicle finance brokers and motor dealers.

158. Around 680,000 motor finance sales on new vehicles in 2023 were reported in our lender survey, accounting for around 80% of private new vehicle registrations[38]. Captive lenders and franchised dealers account for most motor finance sales for new vehicles. Competition between motor finance lenders on new vehicles appears to be working well, driven by strong competition between OEMs to secure vehicle sales. High finance penetration of over 80% means that an attractive finance offer is integral to new vehicle sales. APRs are competitive with OEMs subsidising low and sometimes below-cost APRs through their captive lenders. Consumers are somewhat price sensitive and have access to alternatives to motor finance, such as leasing and unsecured loans, which places further competitive pressure on lenders.

159. Around 1.3m motor finance sales on used vehicles in 2023 were reported in our lender survey. Around 20% of used car purchases are sold with motor finance at the point of sale based on more recent FLA and SMMT data for 2024.[39] Both banking group lenders and captive lenders are prevalent in the used segment with most sales of motor finance through independent or franchised dealers.

160. The market for motor finance on used vehicles is less concentrated with a diverse pool of lenders driving effective competition. Lenders compete on price and commission to win business through brokers, while dealers compete on the overall vehicle sale bundle including finance. Commissions from sales of motor finance are an important secondary source of income for independent motor dealers who report low margins on vehicle sales. Consumers are engaged and somewhat price sensitive which puts pressure on lenders to offer competitive APRs to maintain volume and quality of applications.

161. Sub-prime agreements account for around 70,000 motor finance sales in 2023 based on information provided in our lender survey. Sub-prime lending is generally undertaken by a few sector specialist banks and independent retail lenders that mainly offer motor finance on used vehicles. The segment is characterised by a high concentration of lenders with top three lenders accounting for more than 86% of motor finance new business volumes in 2023 in our lender survey. Widespread use of specialist finance brokers and soft search applications provide a degree of price competition as brokers submit applications to multiple lenders simultaneously providing some visibility of prices.

162. Consumers with sub-prime characteristics are more likely to shop around for motor finance than other consumers and over half reported using price comparison websites to understand finance options. Despite this, they appear to be less sensitive to a change in price based on the Yonder consumer research, as they typically have

[38] Proportion of c.874,000 vehicles privately registered in 2023; Department for Transport (veh1153)

[39] Finance & Leasing Association: 1.4m used cars with consumer car finance; SMMT: 7.6m used car transactions in 2024

more difficulty accessing credit and fewer options available to them. Falling risk appetite among sub-prime lenders observed by some finance brokers in recent years may further reduce choice for some consumers.

163. New opportunities are arising for incumbents and new entrants to increase market share through embracing technology and innovating products in both the new and used segments to meet consumer needs with the rise of electric vehicles. There has been entry into the motor finance market in the used segment in recent years and ongoing innovation into digital products and technology. By contrast, in the sub-prime segment, options for customers have been reducing over time. Reduced risk appetite among lenders have meant some finance brokers have found it increasingly difficult to maintain a suite of lenders to meet customer needs in the sub-prime segment.

Table 1 provides an overview of the key market attributes that determine the state of competition in the new, used and sub-prime segments.

Table 1: Key market characteristics in motor finance by segment

	New	Used	Sub-prime
Size (volume of new agreements in 2023 from our lender survey)	c.680,000	c.1,300,000	c.70,000
Concentration of lenders	Unconcentrated	Unconcentrated	Highly concentrated
Lender type	Mainly captives	Mainly captive and banks	Independents and banks
Broker type	Mainly franchised motor dealers	Mainly motor dealers (franchised and independent); some use of vehicle finance brokers and direct sales	Mainly vehicle finance brokers
Pricing	Strategic pricing. Price competition is driven by broader motor market dynamics and OEM’s level of support in subsidising motor finance deals.	Generally, risk adjusted pricing, driven by competition between lenders.	Rate-for-risk pricing, assessed in credit tiers. As with used, driven by brokers who generally send applications to multiple lenders and offer the best deal to the customer.

Price Sensitivity	Somewhat sensitive given segment largely serves prime customers with access to alternative products.	Price sensitive as customers predominantly have prime and near-prime credit profiles with access to alternative options outside of motor finance.	Low sensitivity given lack of outside options available to them, although customers reported that they shopped around more when compared to prime and near-prime customers.
Barriers to entry	High barriers to entry as lenders are generally manufacturing owned captives which makes it hard for new entrants to compete on price or access to distribution channels. New entry has been in the wider vehicle market and alternatives to motor finance. Limited exit in recent years.	Lower barriers to entry relative to the new and sub-prime segments due to the lack of dominant players. However, sales are dependent on broker relationships and high capital costs to set up the technological infrastructure required. New entry has been seen in the market in the last decade, including Fintechs using digital platforms to establish themselves. Banking group and independent lenders of varying sizes have exited the market. Commercial factors and profitability have been key factors in the decision to withdraw.	High barriers to entry given the additional expertise and technical infrastructure required to accommodate a customer base characterised by higher credit risk. Contraction in options for sub-prime customers has been seen in recent years due to reduced risk appetite.