# Technical Annex 3: Market Impacts

7 October 2025

# 1 Introduction

1. Our analytical work to assess the potential market impacts from the redress and non-redress costs focuses on two headline questions:
   - What does the market for motor finance currently look like?
   - What might the market look like after the redress policy being considered? Particularly what might the impact be on prices, access, investment, brokers and the market for motor vehicles, and spill-over effects to other financial services markets?
2. CP25/27 Technical Annex 2: State of Competition in the Motor Finance Market sets out our findings on the state of competition in the motor finance market.
3. To assess the potential market impacts, we have developed an analytical framework which considers how lenders may strategically respond to redress and non-redress costs, including the potential for lenders to cease lending in the market, adjust lending volumes (e.g., due to reduced access to capital or reduced lending appetite) and/or lenders' incentives and ability to change prices or commissions to finance liabilities from future motor finance customers or brokers.
4. For further details on our methodology, please refer to CP25/27 Technical Annex 4: Market Impacts Methodology.
5. Our quantitative and qualitative evidence is informed by several data sources, see CP25/27 Technical Annex 1: Data, analysis of loss, and liability and cost methodologies for a description of data sources used.
6. The remainder of this Technical Annex has the following structure:
   - Counterfactual
   - Scale and distribution of estimated redress and non-redress costs
   - Strategic response to estimated redress and non-redress liabilities
   - Impacts on the motor finance market

# 2 Counterfactual

## Market impacts relative to the counterfactual

7. In CP25/27 (Annex 2: Cost benefit analysis) we assess the costs and benefits of the Consumer Redress Scheme (CRS) against a counterfactual scenario which describes what we would expect to happen in the market in the absence of our proposed intervention. That is, we compare a 'future' under the proposed policy, with an alternative 'future' without our proposed intervention.

8. There is significant uncertainty around exactly what would happen in the absence of a CRS because much would depend on the decisions of courts and firms, as well as consumers. Under our counterfactual scenario, we assume consumers would continue to complain directly to firms or to the courts to receive redress.

9. Quantifying the potential market impact of the CRS relative to this counterfactual is challenging, given this state of the world is unobservable and the associated market outcomes within it are highly uncertain. However, we would expect to see significant market disruption.

10. As noted in CP25/27 (Annex 2: Cost benefit analysis), without a consumer redress scheme firms face both significant redress liabilities and costs associated with dealing with complaints, with significant uncertainty remaining for several years. Within the motor finance market, a higher perceived risk of repayment to investors (debt side) and/or lower returns (equity side) could lead to a higher cost of capital for firms. Higher costs to firms could dent profit margins leading some to try and pass on additional costs to future consumers, restrict new lending or, in the extreme, withdraw from the market, discouraging investment in the UK motor finance market.

11. The sub-prime market segment may be disproportionately affected. Commissions in this segment are typically higher than in prime or near-prime segments relative to loan size which could result in a higher number of complaints in the absence of guidance on what disclosure failure would give rise to an unfair relationship. The sub-prime segment may be particularly sensitive to cost shocks as the baseline credit risk is higher. Some of these impacts could flow into the wider economy.

12. Our qualitative assessment indicates that under the counterfactual, the potential total costs, and so the potential impacts arising from those, are likely to be higher (or at least similar) relative to the market impacts under our proposed intervention.

13. For further details on our qualitative assessment of market impacts relative to the counterfactual, please see CP25/27 (Annex 2: Cost benefit analysis).

## Market impacts in absolute terms

14. To fully consider the potential market integrity impacts of the CRS, in the remainder of this Technical Annex we consider the impacts of the proposed intervention on the motor finance market in absolute terms. This means we assess how the market could change relative to how it operated in the recent past, rather than relative to the counterfactual.

15. We analyse the potential market outcomes arising from the firms' strategic responses to redress and non-redress costs taking into account provisions firms have already made. We compare the market outcomes to those in the recent past before those cost liabilities emerged. In doing so, we note that firms would face redress and non-redress liabilities in the "do nothing" counterfactual scenario.

## Scale and distribution of estimated redress and non-redress costs

16. The proposed redress scheme will provide a mechanism through which motor finance lenders address liabilities they have to customers eligible for redress. The number of customers eligible for redress and the size of redress payments will determine lenders' redress liabilities. In addition to redress liabilities, firms are also likely to face additional administrative and operational costs associated with the proposed redress scheme.[1]

17. Under our proposed CRS, we estimate that total costs (redress and non-redress costs) amount to £12.4bn which informs our market impacts analysis. This includes redress liabilities costs of £9.7bn (including interest), and non-redress costs of £2.8bn. The redress liability estimate assumes that 100% of consumers with an agreement that has at least one feature we propose could give rise to an unfair relationship seek and receive redress through the scheme. The actual redress liability incurred across the market is likely to be lower.

18. Our assessment indicates that banking and captive lenders are likely to face the largest liabilities, with independent lenders typically liable for redress and non-redress costs several orders of magnitude lower. While most lenders within our sample are expected to incur some liabilities arising from the proposed redress scheme, there are significant differences in the estimates suggesting a relatively asymmetric impact across lenders.

19. Our assessment indicates that the distribution of the estimated redress and non-redress costs is not evenly distributed across banking and captive lenders. Most of these lenders have relatively low estimated redress and non-redress costs with a few lenders facing higher costs. Lenders with higher estimated redress and non-redress costs tend to have a high share of motor finance agreements in both the new and used segments. Our evidence suggests that captive lenders (subsidiary of a vehicle manufacturer offering finance on sales of their own vehicles) do not typically operate in the sub-prime segment and banking lenders with higher redress associated costs tend to have low market shares in the sub-prime sector.

20. Redress is more evenly distributed across independent lenders. Independent lenders operating in the used segment tend to have higher liabilities than those operating in the new or sub-prime segment.

21. It is a matter for lenders who have listed securities to keep the markets properly apprised of their estimates of liabilities.

[1] As set out in CP25/27 (Annex 2: Cost benefit analysis), we anticipate they would face higher administrative and operational costs if no redress scheme was implemented as their legal liabilities for compensation to their customers would then need to be addressed through the Financial Ombudsman Service and the courts, in a less timely, orderly and efficient manner.

# 3 Strategic response to estimated redress and non-redress liabilities

22. The proposed redress scheme is designed to address legal liabilities faced by motor finance lenders, including in light of the Supreme Court, High Court and other court decisions. In light of the redress liabilities and the implementation of the proposed redress scheme, lenders face a strategic decision about how to finance the redress and non-redress liabilities, as well as broader decisions about whether to continue in the market, lending volumes and pricing strategies.

23. In practice, firm decisions regarding motor finance lending are complex processes informed by a range of factors. These include redress and non-redress liabilities and firms' ability to meet these, as well as the strategic value[2] of the motor finance business to the lenders' wider operations, expected profitability of the motor finance business, access to funding and potential broader developments in the motor finance market (e.g. changes in consumer demand or vehicle sales). Therefore, loss-making firms may remain in the market if they anticipate future returns or if the business is of strategic value, while profitable firms may still choose to withdraw from the market if the opportunity cost of staying is higher than pursuing alternative ventures. The magnitude of the estimated redress and non-redress liabilities also means that past events or decisions may not be a useful guide to the future as lenders' strategic reactions are likely to be different.

24. Therefore, there is considerable uncertainty around how lenders might respond to the crystallisation of their liabilities to their customers and implementation of the proposed redress scheme. To reflect the inherent uncertainty in lender response to the proposed redress scheme, we have developed an analytical framework that allows us to test the key dimensions of firms' strategic responses and what that might mean for the integrity of the market and for consumer outcomes. These include:

- Whether to continue in the market: In an extreme, firms may choose to withdraw from the market completely which might reflect an inability to find sources of funding or that the expected return in the market no longer exceeds the firms' profit expectation thresholds.
- Volumes: Firms may contract their lending either because they have reduced access to capital or reduced lending appetite. For example, firms may tighten their lending criteria and agreement terms to reduce the risk profile of new customers, reflecting a reduction in lending appetite.
- Prices: Firms operating in the market may absorb the cost of their liabilities or, to the extent they have the ability and incentive, attempt to finance liabilities from new motor finance agreements by increasing APRs for future consumers or through lowering commission payments to brokers.
- Entry: Firms that are not currently operating in the market and not affected by the redress scheme may consider entry into the market.

[2] In this context strategic value refers to the importance the firm places on long term outlooks, positioning or competitive advantage rather than solely considering immediate financial returns. For example, a captive lender's presence in the market could allow them to promote their parent company's manufactured motor products.

25. Our market impact assessment considers a range of alternative assumptions around the potential for lenders to choose to stop lending or amend lending volumes and prices, and their implications for market impacts. These assumptions, our rationale and the evidence used to inform these are explained further in the section below.

## Key modelling assumptions

*Decision to continue/stop lending*

26. We assume that the majority of lenders, based on market share, will be able to meet their liabilities and continue lending in the motor finance market. We note, however, that we have not assessed in detail the financial resilience of all lenders. Therefore, this is a working assumption and is not a prediction.

27. Our financial resilience assessment, based on the motor finance commission monitoring information requests, considers that some lenders have some recognised provisions and/or have commitments of some form at group level support to service the motor finance redress and non-redress costs if the proposed redress scheme is implemented.

28. For captive lenders, the liabilities are expected to form a small proportion of group equity suggesting capacity at a group level to cover costs.

29. Similarly, most banks are also expected to have capacity at group level to support firm resilience. Responses to our motor finance lender survey indicate return on equity as a key factor for the motor finance business, where the short-term costs of the redress scheme are likely to be outweighed by long term profitability and potential reputational considerations for groups where the motor finance business is otherwise performing well and, in some cases, growing.

30. However, the significant uncertainties associated with lenders' response to the proposed redress scheme also raise the possibility of some lenders choosing not to continue lending in the future. Therefore, we also consider it plausible that a small number of banking or independent lenders could make the strategic decision to discontinue or reduce future lending, reflecting potentially lower ability to cover liabilities, expected profitability no longer meeting their threshold or some other strategic considerations.

31. For example, responses to our motor finance lender survey suggest that for some banks motor finance constitutes a material part of their overall portfolio and contributes to broader strategic objectives (e.g. gaining access to specific consumer segments) while for others, it holds less of a strategic value compared to other lines of credit.

32. Further, some independent retail lenders may be at greater risk of cost of capital increases compared to captive and banking lenders, as they rely more on securitisation and external funding and are less likely to have additional funding or group support available to them. These additional costs could influence their decision to remain in the market.

*Lending contraction*

33. As noted above, we consider it plausible that all lenders will continue lending in the motor finance market without significant changes in lending volumes, reflecting expectations of a healthy motor finance market for new and used vehicles.

34. The qualitative evidence received in response to our motor finance lender survey indicated that in response to previous rises in interest rates, lenders, especially in the non-prime segment, had contracted lending by tightening lending criteria as a means of protecting profitability. For example, some lenders had implemented stricter eligibility criteria and agreement terms through higher minimum deposits or lower maximum loan-to-value ratios.

35. Liabilities could also mean that lenders become more selective and narrow lending to only include lower risk consumers, putting the near-prime and sub-prime segments most at risk of a lending contraction. While redress liabilities are generally lower in the sub-prime segment (compared to the new and broader used segments), we consider the possibility that some firms in the near and sub-prime segments may restrict their lending, reflecting lower capital availability and reduced lending appetite.

*Changes in the cost of capital*

36. Redress liabilities may increase the perceived financial risk of a lender to its shareholders and debtholders, leading to a greater required return to compensate for the increased risk. The cost of equity and cost of debt, and therefore, the overall cost of capital for additional funding, could increase.

37. Assuming that lenders' objectives are to maintain margins, we assume that lenders will look to pass on any increase in the cost of capital – to the extent that these materialise – by increasing APRs for new agreements. This is supported by lenders reporting that APRs typically track changes in the cost of funds over time.

38. Whether firms are able to pass on these costs will depend on whether changes to the cost of capital are uniform across lenders, the degree of competition in the market and the sensitivity of consumers to price increases. If some firms are affected more than others and consumers are very price sensitive, then firms may be constrained in their ability to pass on these costs. Therefore, there are situations where we could see no price effects.

*Financing redress and non-redress liabilities*

39. For those firms subject to redress costs, redress liabilities will represent an increase in costs for the duration of the redress scheme. Given profit maximising pricing decisions are typically a function of marginal costs, redress costs may not impact a lender's optimal pricing decision for new customers.

40. However, in practice, firms' competitive pricing decisions may also include a margin, with profitability levels determined by the competitive constraints they face from competing lenders and customers' price sensitivity. For further details on the potential impact from lenders' ability and incentive to increase margins to finance redress liabilities, please see Technical Annex 4.

41. Therefore, our market impacts assessment considers both the possibility of lenders not attempting to adjust prices to consumers to improve future profits as well as the possibility of lenders attempting to finance some of the liabilities through increases in APRs and/or reductions in commission rates.

42. As set out in Technical Annex 2, competition appears to be less strong in the sub-prime segment compared to the new and broader used segments. This means that lenders may have a greater ability to finance some of their liabilities in the form of higher APRs.

Therefore, all our modelling scenarios (discussed below) assume that lenders may attempt to adjust future margins in the sub-prime segment to improve profits in the face of their costs.

*Commission arrangements*

43. As discussed in our Consultation Paper, we are proposing that lenders will deliver the redress scheme, rather than brokers. This will be simpler and ensure more timely and comprehensive redress, given there are many more brokers than lenders. Brokers played a part in the failings and lenders may seek contributions from them. However, it is not possible to model how management decisions may play out in the future. We assume it will often not be in lenders' commercial interests to pursue dealers. We consider the incentive and ability of lenders to adjust commission levels to increase their margins and finance redress liabilities from future agreements in the sections below.

## Modelling scenarios

44. To aid our assessment of potential market impacts under these alternative assumptions we have considered a range of different scenarios. It is important to note that these are modelling scenarios to illustrate the potential direction and scale of market impacts of the proposed redress scheme and are not forecasts or predictions of market impacts. As discussed above, competitive constraints and the spread of liabilities across lenders may constrain the ability to increase prices.

45. Table 1 below summarises the key assumptions around strategic decisions around continuing or withdrawing from the market, changes in lending volumes and pricing decisions for the modelling scenarios considered.

**Table 1: Key assumptions for modelling scenarios**

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| **Decision whether to continue or withdraw from the market** | Lenders continue to operate in the market | Lenders continue to operate in the market | Lenders continue to operate in the market | Some small lenders decide to withdraw from the market |
| **Decision around lending volumes** | No changes to lending volumes | No changes to lending volumes | Small lending contraction in near and sub-prime segments | No changes to lending volumes |
| **Pricing decision – changes in cost of capital** | Pass through to consumers in the form of higher APRs to the extent these materialise | Pass through to consumers in the form of higher APRs to the extent these materialise | Pass through to consumers in the form of higher APRs to the extent these materialise | Pass through to consumers in the form of higher APRs to the extent these materialise |
| **Pricing decision – financing redress** | No adjustment to prices in light of liabilities | Some adjustments to prices in light of | Some adjustments to prices in light of | Some adjustments to prices in light of |

| | | | | |
|---|---|---|---|---|
| **and non-redress liabilities** | (new, used segments)<br><br>Some adjustments to prices in light of liabilities (sub-prime segment) | liabilities across all segments | liabilities across all segments | liabilities across all segments |

# 4 Impacts on the motor finance market

## Motor finance for new vehicles

*Lenders' response to liabilities*

46. We consider the likelihood of lenders deciding to withdraw from the market in the new segment to be very low. Most lending in the new segment is under a captive product either through the captive lender or a white-label agreement with a bank partner. As subsidiaries of original equipment manufacturers (OEMs), captive lenders help achieve wider group objectives by enabling vehicle sales and establishing long-term relationships with customers to nurture brand loyalty. Most new vehicle sales are supported by motor finance. FLA data shows that in 2024, cars sold with consumer motor finance at the point-of-sale accounted for 84% of private car registrations.[3] Given the strategic importance of motor finance in supporting new vehicle sales, we consider that OEMs are likely to be willing to support captive lenders.

47. While we expect OEMs to ensure ongoing availability of competitively priced motor finance on new vehicles in some form, this may not necessarily be through the existing legal entity. OEMs may consider forming new partnerships, consolidating or transitioning to new entities. In such cases, volumes and access to motor finance (discussed below) could be maintained as a new captive finance offer replaces the lender withdrawing from the market.

48. Smaller banks and independent lenders could be more likely to consider withdrawing from the market. However, such decisions by smaller lenders are not likely to affect a significant share of volumes as the role of these lenders is very limited in this segment.

49. We expect there will be continued appetite to lend on current terms and criteria among lenders remaining in the market. Lending to prime customers on new vehicles carries lower risk compared to financing used vehicles or non-prime customers. The majority of lending in the new segment is agreed under tight lending rules on narrow eligibility criteria. We do not anticipate significant changes in criteria or terms as result of redress and non-redress costs as eligibility in this segment is already carefully selected.

*Impact on competition*

50. Any potential decision by lenders to withdraw from the market is likely to have minimal impact on competition and market concentration in the new segment. Effective competition in the new segment is primarily driven by strong competition between vehicle brands, which we expect to continue. Lenders that may stop lending or reduce lending volumes have a relatively low share of agreements in the new segment and therefore do not significantly influence competitive dynamics in this segment.

*Impact on volume of agreements*

51. In response to any lenders withdrawing from the market, we consider there is likely to be full replacement of lost volumes. Where the potential scale of lenders withdrawing from the new segment is limited, the volumes to be replaced are minimal and likely to

[3] Source: FLA - 627,257 new cars bought on finance by consumers at the points of sale; SMMT - 746,276 private car registrations

be within the capacity of the captives and banking group lenders that remain in the market. Many lenders in our motor finance lender survey were considering expanding lending to new products or mentioned plans to grow their existing business suggesting there would be appetite to absorb volumes from lenders that are no longer active in the market.

52. Even in the case of more lenders withdrawing from the market, there is likely to be continued appetite to lend in this segment. Lending on new vehicles is attractive to all types of motor finance lenders as it carries lower risk than other segments. Most lenders in our sample offer products for the new segment even where this accounts for a very small proportion of lending and is not their main business. This suggests there is wider appetite to lend to this segment outside the core captive lenders.

*Impact on access to motor finance*

53. We consider there is unlikely to be a material impact on access to motor finance for new vehicles. There is strong appetite to lend to this segment. Most consumers that buy new vehicles are prime borrowers and are likely to be able to secure an alternative motor finance agreement or another finance product at competitive rates through lenders remaining in the market. As discussed above, unsecured personal loans or leasing are likely to be close substitutes for most consumers in this segment.

*Impact on motor finance prices*

54. We consider a significant increase in motor finance prices to be unlikely. Competition between captives, consumer price sensitivity and the availability of alternative finance options are likely to limit the ability for lenders to adjust consumer prices to improve future profit margins without a fall in demand.

55. Any attempt by lenders to pass-through redress and non-redress costs to consumers is likely to be constrained to a significant degree by competition between OEMs, including new entrants, to sell vehicles. The estimated redress and non-redress costs suggests an asymmetric distribution across lenders operating in the new segment. In addition, new entry of vehicle manufacturers, particularly in the electric vehicle (EV) market, who have no liabilities will create a competitive constraint on those that do.

56. Captive lenders in our motor finance lender survey reported motor finance to be strategically important to drive vehicle sales for the wider group and establish loyal relationships with their customers to generate repeat sales. The significance of repeat sales is supported by the Yonder consumer research which found that 81% of those that currently hold motor finance on a new vehicle had held motor finance before. In addition, almost a quarter of those that hold motor finance stated that one of the main reasons they chose their provider was because they had used them before. While this could indicate a degree of brand loyalty, captives could risk damaging long-term customer relationships and undermining OEM vehicle sales by raising motor finance prices to finance costs associated with redress. Strong competition between OEMs to maintain vehicle sales is likely to constrain any potential increase in the price of motor finance due to a short-term cost shock such as those associated with redress and non-redress liabilities.

57. In addition, consumers in the new segment typically have access to alternative forms of finance with some of the best terms available given their prime credit profile. Lenders are aware of these alternatives which places a further competitive constraint on potential

price rises. For example, banking lenders in our motor finance lender survey referenced benchmarking prices against unsecured lending as well as against competitors. Personal loan rates have ranged from 6.2% to 7.2% on a £25k personal loan since March 2023[4]. As the weighted average APR in 2023 was around 6.0% based on our lender survey and cost of living data[5], this implies lenders have little flexibility to increase APRs in the new segment if rates are to remain competitive relative to unsecured lending.

58. Customers in the new segment may also consider leasing as an alternative to motor finance. Leasing has become more popular across Europe in recent years, especially for EVs with tax-efficient salary sacrifice schemes and is likely to appeal to those who want flexibility to own their vehicle at the end of their finance deal. In the Yonder consumer research, one fifth of current holders of Personal Contract Purchase (PCP) on a new vehicle said that Personal Contract Hire (PCH) would be their first choice if PCP was not available. For holders of PCP that do not intend to pay the balloon payment to own their vehicle long term, leasing is likely to represent an attractive alternative with potentially lower monthly payments.

59. We do not consider there is likely to be a significant impact on the cost of capital as a result of redress and non-redress costs. While there could be a small decline in the perceived financial resilience of lenders given their liabilities, most lenders in the new segment access group funding as part of OEM or banking groups with generally healthy financial positions. This is likely to mitigate potential impacts on access to and on the cost of capital.

60. Captive and bank lenders, with access to group support, in their responses to motor finance commission monitoring information requests mentioned relatively stable cost of funds dependent on prevailing market rates. Some lenders anecdotally noted a potential increase in spreads in response to the Court of Appeal judgment, however information from the secondary market suggests that spreads have subsequently tightened. The information we received from lenders on changes in their cost of funds as a result of the Court of Appeal or Supreme Court judgments did not provide evidence of an increase, however, this may in part be due to reductions in the Bank of England base rates offsetting the increase in spreads.

61. Any potential increase in the cost of capital is likely to be small in the new segment. Most lenders in the new segment have similar funding arrangements so would be likely to face a similar cost pressure. Any increase in the cost of capital is likely to be passed through to consumer prices. Lenders in the motor finance lender survey reported that APRs typically track changes in the cost of funds over time.

62. Table 2 below summarises the illustrative potential price impacts in the new segment under different assumptions around adjustments to consumer prices in light of liabilities and any changes in the cost of capital.

63. Illustratively, under the simple assumption of no price adjustments in light of liabilities (scenario 1), the weighted average APR may increase by up to 0.1 percentage points reflecting a potential small increase in the cost of capital. Illustratively, for a four-year Hire Purchase agreement[6] this would suggest an increase in monthly payments of

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[4] Source: Monthly interest rate of UK monetary financial institutions (excl. Central Bank) sterling personal loan, £25k to households Bank of England | Database; average motor finance advance is around £26k for new vehicles

[5] For further details, please see Technical Annex 4 .

[6] We note that a four-year Hire Purchase agreement is used for ease of computation, which is not reflective of market outcomes where a high proportion of deals are PCP agreements.

around £2 or around £74 over the course of the agreement, reflecting a higher cost of capital firms may face in light of the liabilities.

64. Conversely, under the assumption that lenders may adjust prices to improve future margins to finance a portion of their liabilities – along with any increases in the cost of capital – there may be potential for a small increase in APRs in the region of 0.4-0.5 percentage points (scenarios 2-4). Illustratively, for a four-year Hire Purchase agreement[7] this could result in an increase in monthly payments of around £5 or around £225-258 over the course of the agreement. This reflects both the higher cost of capital firms may face in light of the liabilities and the possibility of firms seeking to finance some of their liabilities from future consumers.

**Table 2: Illustrative price impacts in the new segment under different assumptions**

| | **Scenario 1** | **Scenario 2** | **Scenario 3** | **Scenario 4** |
|---|---|---|---|---|
| **Potential impact on price** | No material change in price | Potential small increase in price | Potential small increase in price | Potential small increase in price |
| **Illustrative impact on weighted average APR** | Potential increase in weighted average APR of up to 0.1pp | Potential increase in weighted average APR of around 0.4pp | Potential increase in weighted average APR of around 0.5pp | Potential increase in weighted average APR of around 0.5pp |
| **Illustrative impact on monthly payments** | Average monthly payments may increase by £2, equating to £74 per agreement | Average monthly payments may increase by £5, equating to £225 per agreement | Average monthly payments may increase by £5, equating to £257 per agreement | Average monthly payments may increase by £5, equating to £258 per agreement |

*Note: In the absence of our proposed intervention (i.e. under the counterfactual), the potential impacts would likely be at least as high as those indicated in absolute terms.*

*Impact on brokers and commission*

65. There is unlikely to be a material impact on the composition of lending panels. Franchised dealers account for over 90% of motor finance sales on new vehicles and hold rights with manufacturers to sell new vehicles. We expect that captive lenders and banks offering white-label captive finance products are likely to remain in the market. If an OEM were to re-partner as is the case from time to time, franchised dealers would be likely to establish relationships with the new finance provider quickly.

66. We do not consider a reduction in commissions to be likely. Franchised motor dealers have a central role brokering motor finance to support new vehicle sales. This creates a close interdependent relationship between franchised dealers, OEMs and their captive lenders. This is likely to limit the extent to which captive lenders can reduce commission without risk of damaging relationships with dealers.

67. Franchised motor dealers may be willing to consider a small reduction in commission to offset increases in APRs. However, as commissions in the new segment are typically

[7] We note that a four-year Hire Purchase agreement is used for ease of computation, which is not reflective of market outcomes where a high proportion of deals are PCP agreements.

lower, there may be limited scope for lenders to cover increased costs by squeezing commission. We considered whether there is evidence of lenders reducing commissions in the new segment in response to changes in prevailing market rates which may result in higher funding costs for lenders. In our loan level data, we do not find evidence that historic trends in Bank of England base rates have led to a fall in commission in the new segment.

*Impact on vehicle sales*

68. We do not anticipate material impacts on the volume of vehicle sales or vehicle prices, given limited expected impacts on access and prices for motor finance in the new segment.

69. Competition between OEMs to secure sales is likely to constrain the potential for price rises on new vehicles, in the same way as it would for motor finance on new vehicles. Any changes in new vehicle prices would be driven by OEMs pricing decisions, reflecting how they choose to balance RRPs and finance costs in response to competition and customers' demand sensitivity. European manufacturers also face competition from new entrants particularly from China in the EV space which may limit the potential for price rises in the new segment.

## Motor finance for used vehicles

70. We note that the results reported for the used segment also include the figures for sub-prime consumers, reflecting challenges in adjusting for these impacts in our model. However, as overall volumes in the sub-prime segment are small, we do not consider that this affects our results significantly.

*Lenders' response to liabilities*

71. We assess that most, if not all, lenders will continue operating in the market if the proposed redress scheme is implemented. The lenders in our motor finance lender survey reported no plans to stop lending suggesting the business currently meets their profitability and commercial criteria as well as contributing to achieving broader group objectives in the case of captive lenders.

72. However, we also consider that there is potential for more lenders deciding to stop lending compared to the new segment. Significant redress and non-redress liabilities could undermine profitability in the short term and reduce appetite to remain in the market, especially for banking groups and independent lenders.

73. The lack of group support and potential constraint to secure funding for their lending may also lead to some independent lenders choosing not to continue future lending. Therefore, our assumptions consider the possibility of some lenders withdrawing from the motor finance market. We note that there are small independent lenders operating in the market for whom we have not assessed their financial viability. These firms are small and do not account for a material share of agreements in the segment, however, may decide to withdraw from the market.

74. We consider a tightening of lending criteria to be unlikely as we anticipate motor finance to remain profitable.

75. However, as noted above, it is plausible that firms in the near and sub-prime segments restrict their lending reflecting lower capital availability and reduced lending appetite.

*Impact on competition*

76. Any potential lenders withdrawing from the market or changes in lending volumes is likely to have minimal impact on competition and market concentration in the used segment.

77. In the used segment, competition takes place directly between lenders who compete on APR and the commission paid to brokers to generate new business. We do not anticipate that the proposed redress scheme will affect the nature of competition in the used segment and consider that the mix of lenders operating in the segment will remain diverse, indicating no material change in the intensity of price competition.

*Impact on volume of agreements*

78. In response to some lenders choosing not to continue lending, we consider that remaining active lenders have the capacity and capability to replace lost volumes in full.[8]

79. Responses to our motor finance lender survey indicate that banking lenders, especially those with larger volumes of agreements, are likely to be able to leverage existing technology and operational capabilities to expand lending at scale to replace volumes lost following the decision of some firms to stop lending.

80. While captive lenders also play an important role in lending in the used segment, we assume that OEMs have lower incentives to expand lending beyond their own brands. Responses to our motor finance lender survey indicate that captive lenders have not significantly expanded their operations in the used segment in recent years, nor have indicated plans to do so.[9]

81. Independent lenders generally account for lower lending volumes in the used segment and tend to rely more on securitisation which might constrain their ability to secure funding and expand lending. Therefore, we consider that independent lenders are also less likely to have capacity to increase lending and substitute lost volume at scale.

82. In addition, we have also considered the possibility of lenders replacing most but not all volumes lost following the decision of some firms to stop lending. Some responses to our motor finance lender survey noted that significant redress and non-redress liabilities could raise concerns around funding and capital availability, constraining lenders' appetite and capacity to expand lending.

83. New entrants into the used segment over the last decade have focused on leveraging digital technology (e.g., FinTech start-ups), providing fast, easy-to-use and personalised digital services in motor finance. Our evidence indicates that the market shares of recent new entrants remain small.

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[8] As noted below, we anticipate that most lost volumes would be replaced by banking lenders. However, our quantitative model uses a simplifying assumption that lost volume is reallocated across remaining firms in the market according to diversion ratios, which are informed by historic market shares. We do not consider this simplifying assumption to materially affect our modelling results and conclusions on potential market impacts.

[9] Responses to our motor finance lender survey indicated two exceptions: a captive lender stated that it has expanded its operations into the near-prime segment, and another lender indicated potential, smaller scale expansion plans in the used segment to retain more control over its brand and customer experience. In both cases the expansion was driven by specific strategic objectives and therefore, in our view, these do not reflect a broader trend around expansion by captives in the segment.

84. While potential new entrants may see an opportunity to enter the market without facing any liabilities, responses to our motor finance lender survey indicate that entry costs and barriers remain significant. Given high entry costs (as discussed in Technical Annex 2), incumbent firms' ability to leverage existing distribution networks and brokers prioritising lenders with larger volumes, we consider it unlikely that new firms will enter at scale in the short-to medium-term.

85. We assume that lenders that have stopped lending in recent years will not seek to become active in the market, as the proposed redress scheme is not anticipated to have a direct impact on the specific factors these firms highlighted as key to their decision to not continue future lending (for example, unsustainable costs, difficulty getting new business as a small lender).

*Impact on access to motor finance*

86. Table 3 below summarises the illustrative potential impacts on the volume of agreements and access to motor finance in the used segment under different assumptions around strategic decisions about future lending, replacement of lost volumes and changes to lending appetite and volumes (for a description of these scenarios, please see the Modelling scenarios section and Table above).

87. We assess a significant reduction in access to motor finance in the used segment to be unlikely. However, a lending contraction or decisions by some lenders not to continue lending along with less than full replacement of volumes could have a small impact on motor finance volumes and may reduce access for a small subset of consumers.

**Table 3: Illustrative impacts on access to motor finance in the used segment under different assumptions**

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| **Potential impact on volumes and access** | No material change in volumes or access | No material change in volumes or access | Approx. 17,000 fewer agreements (1.1% reduction in volume) | Approx. 6,000 fewer agreements (0.4% reduction in volume) |

*Note: In the absence of our proposed intervention (i.e. under the counterfactual), the potential impacts would likely be at least as high as those indicated in absolute terms.*

88. If access to motor finance was reduced, we consider that most consumers in the used segment would have access to alternative forms of credit with (unsecured) personal loans likely to be a close substitute for most consumers.

89. Consumers in the near- and especially sub-prime segments may have fewer alternative options available to them. We consider the implications in further detail in the motor finance for sub-prime consumers section below.

90. Lenders offering personal loans generally accept applications from all types of consumers, although terms and conditions tend to be less favourable for those with weaker credit profiles, including near- and sub-prime consumers.[10] The Yonder consumer research indicates that if their current motor finance product became unavailable,

[10] However, the interest rate charged on unsecured debt (including on unsecured personal loans) tends to be higher compared to motor finance products, reflecting the higher risk to the lender due to the loan not being backed by an asset.

between 26% and 52% of consumers[11] with used vehicles would consider personal loans as their first choice and over 70% would consider it as an alternative but not necessarily as their first choice.

91. Credit cards are likely to be a less common alternative to motor finance for those purchasing used vehicles. The Yonder consumer research found both lower previous use of credit cards[12] (reported by 6% of current holders for used vehicles) as well as lower willingness to switch should motor finance become unavailable.[13] In addition to consumer preferences, the lower uptake of credit cards may also reflect generally lower borrowing limits (with the UK average credit card limit reported to be between £3,000 and £4,000[14]) and fewer dealers accepting payments on credit cards.[15]

92. While leasing is increasingly popular for new vehicles, our evidence suggests that alternatives such as PCH and subscription services[16] are much less commonly used to lease used vehicles, especially for personal use.[17] The Yonder consumer research also indicated significantly lower levels of willingness to consider these options[18] as alternatives to motor finance.

*Impact on motor finance prices*

93. Under the assumption that lenders do not attempt to adjust consumer prices except to reflect any changes in the cost of capital, we consider that motor finance prices may not change materially in the used segment.

94. We also assess that there is potential that lenders may attempt to adjust their future margins to improve profits in the face of redress and non-redress costs in the form of higher interest rates.

95. At the same time, the firm-level estimates indicate that most lenders operating in the used segment will face redress and non-redress costs associated with the proposed redress scheme. Our assessment indicates that these costs are likely to be distributed asymmetrically across firms with some lenders potentially facing significantly greater costs compared to others. We consider that this reduces the likelihood of lenders raising margins to finance costs via higher prices for future consumers.

96. Our evidence indicates that consumers in the used segment typically have access to alternative forms of credit such as (unsecured) personal loans and are sensitive to changes at least to some degree. The Yonder consumer research found that just over half of current motor finance holders in the used segment (52%) shopped around and

[11] Consumers with used vehicles holding a Conditional Sale were most likely to indicate personal loans as their first choice (52%), followed by those holding a Hire Purchase (35%) and a PCP (26%).

[12] Results from the Financial Lives Survey indicate similarly levels of credit card use enabling vehicle purchases: for example, in 2024 over 20% of credit card revolvers used credit cards to finance one-off larger expenses including a car, holiday or wedding. Credit card revolvers refer to consumers who do not usually repay, or don't know if usually repay, the balance on their card in full every month or most months. Financial Lives 2024 survey - Credit & loans - Selected findings

[13] Consumers with used vehicles were much less likely to indicate credit cards as their first choice (between 3% and 6% for those holding a PCP, Hire Purchase or Conditional Sale). Depending on the current product held, between 32% and 44% of consumers with used vehicles reported that they would consider credit cards as an alternative more broadly.

[14] How Do Credit Card Limits Work? | money.co.uk

[15] For example, see: Can I buy a car using a credit card? (Updated for 2025) | Autotrader.

[16] A subscription service is a hire arrangement a consumer can end by giving notice to the firm. It may include other areas such as servicing arrangements, road tax, or MOT. It does not include hiring a vehicle for a short period or under a PCH plan.

[17] For example, figures reported by the BVLRA indicate that despite an 8.5% increase in used car leasing volumes between Q3 and Q4 2024, total numbers account for less than 1% of the BVRLA car lease fleet. Note that these figures include both business and personal contract hire contracts for new cars and vans. BVRLA Leasing Outlook, April 2025, online.

[18] Depending on the current product held, between 3% and 15% of current holders with used vehicles reported that they would consider PCH as their first choice, with 2% to 4% indicating using a subscription service as their first choice.

compared options before deciding on their motor finance product and/or provider.[19] In addition, in response to a one percentage point increase in motor finance interest rates, results from a conjoint analysis[20] suggest a 1.5-3% decrease in the take up of an illustrative Hire Purchase agreement in the used segment.[21] At the same time, a sizeable share of consumers continued to prefer the typical motor finance deal offered even where an alternative finance option at a lower interest rate was available.

97. In addition, we also identified several factors that could dampen consumers' response to changes in the price of motor finance.

98. The final cost of motor finance is influenced by various factors, including length of term, deposit and part exchange value, as well as the interest rate (APR) offered. Therefore, some consumers can find it difficult to effectively compare different options. While results from the Financial Lives Survey indicate that two thirds of motor finance holders agreed that it was easy to understand the total cost of borrowing[22], a small number of in-depth interviews conducted as part of the Yonder consumer research found that consumer understanding of motor finance agreements and terms was often more superficial and limited than high-level quantitative results suggest.

99. They also found that consumers tend to focus on monthly payments[23] when selecting motor finance deals rather than the interest rate offered. Therefore, brokers may have some scope for adjusting other aspects of the motor finance deal[24] to mitigate the impact of an increase in price whilst ensuring that monthly payments remain within consumers' budget.

100. Moreover, qualitative interviews with current holders of motor finance identified urgency as one of the common triggers for motor finance, which could reduce the extent to which consumers consider the potential options available to them. Consumers who chose not to shop around cited not having time to shop around as one of the key reasons for their decision.

101. We assess that any changes in the cost of capital, should they materialise, are likely to be passed through to consumers. Responses to our motor finance lender survey and motor finance commission monitoring information requests suggest that consumer prices

[19] The Financial Lives Survey also found that, although lower than for other consumer credit products, a considerable proportion of consumers (38% of consumers in 2024 across all vehicle types) reported shopping around for motor finance. We note that the Financial Lives Survey defines motor finance as "finance to acquire a motor vehicle, e.g. hire purchase (HP), personal contract purchase (PCP), or conditional sale". Therefore, any statistics reported for motor finance exclude personal loans. Financial Lives 2024 survey - Credit & loans - Selected findings

[20] Conjoint analysis is a statistical analysis that uses survey data to simulate how consumers react to different product configurations (in this case, variations of e.g., deposit level, term, APR), therefore testing those product features that consumers value, and at what price they are willing to consider purchasing motor finance.

[21] The conjoint analysis considered two scenarios: one where in addition to the typical motor finance product (illustratively, a Hire Purchase agreement for the used segment) no alternative credit products were offered to consumers, and another where an alternative finance option (personal loan) was assumed to be available. The decrease in the take up of motor finance in response to an increase in the motor finance interest rate was slightly more pronounced in the presence of the personal loan due to consumers switching to the alternative credit product offered. For further details on the conjoint methodology, scenarios considered, assumptions and indicative results, please see Yonder Consulting: Motor Vehicle Finance Consumer Research.

[22] Financial Lives 2024 survey - Credit & loans - Selected findings

[23] As part of the Yonder consumer research, the conjoint analysis found that in general consumers prefer options with the lowest monthly payments over other features of motor finance deals (e.g. length of term, deposit). This is in line with the findings from the quantitative consumer survey where 31% of current holders with used vehicles stated that monthly payments being in their budget was the key reason for their choice of finance.

[24] Responses to our motor finance lender survey indicated that brokers typically have some discretion to adjust the terms of the overall deal for used vehicles. This does not extend to the interest rate which cannot be adjusted by brokers at the point of sale.

typically fluctuate to reflect changes in the cost of funds over time, indicating high levels of pass through.

102. We note that there remains significant uncertainty around the extent to which the liabilities faced by lenders may impact their perceived resilience, riskiness and cost of capital.

103. Most lenders operating in the used segment are captive and banking lenders with healthy financial positions and access to group support to meet redress and non-redress liabilities. Nevertheless, the liabilities might lead to an increase in the perceived riskiness of firms, increasing their cost of capital to compensate for the increased risk. We consider that independent lenders might be at greater risk and are likely to face higher increases in the cost of capital given greater reliance on securitisation and capital markets.

104. Table 4 below summarises the illustrative price impacts in the used segment that could arise under different assumptions around adjustments to prices in light of liabilities and any changes in the cost of capital.

105. Illustratively, under the simple assumption of no price adjustments in light of liabilities (scenario 1), the weighted average APR may increase by up to 0.2 percentage points reflecting a potential small increase in the cost of capital. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £1 or around £69 over the course of the agreement, reflecting a higher cost of capital firms may face in light of the liabilities.

106. Conversely, under the assumption that lenders may adjust prices to improve future margins to finance a portion of their liabilities – along with any increases in the cost of capital – there may be potential for a small to moderate increase in APRs up to 1-1.4 percentage points (scenarios 2-4). Illustratively, for a four-year Hire Purchase agreement this could result in an increase in monthly payments of around £7-10 or around £345-484 over the course of the agreement. This reflects both the higher cost of capital firms may face in light of the liabilities and the possibility of firms seeking to finance some of their liabilities from future consumers.

**Table 4: Illustrative potential price impacts in the used segment under different assumptions**

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| **Potential impact on price** | No material change in price | Potential small increase in price | Potential small to moderate increase in price | Potential small to moderate increase in price |
| **Illustrative impact on weighted average APR** | Potential increase in weighted average APR of up to 0.2pp | Potential increase in weighted average APR of around 1-1.1pp | Potential increase in weighted average APR of around 1.2-1.3pp | Potential increase in weighted average APR of around 1.3-1.4pp |
| **Illustrative impact on monthly payments** | Average monthly payments may increase by £1, | Average monthly payments may increase by £7-8, | Average monthly payments may increase by £10, | Average monthly payments may increase by £9-10, |

| | | | | |
|---|---|---|---|---|
| | equating to £69 per agreement | equating to £345-360 per agreement | equating to £466-484 per agreement | equating to £436-460 per agreement |

*Note: In the absence of our proposed intervention (i.e. under the counterfactual), the potential impacts would likely be at least as high as those indicated in absolute terms.*

107. In response to a small to moderate increase in APRs, consumers may switch to alternative finance options (e.g. unsecured loans) leading to a small decrease in motor finance agreements. Given the magnitude of the potential increase in APRs, consumers' focus on monthly payments and brokers' ability to adjust other elements of the deal to ensure continued affordability of motor finance deals, we consider that any demand response from consumers is unlikely to significantly affect motor finance volumes.

*Impact on brokers and commission*

108. We assess that the proposed redress scheme is unlikely to have a significant impact on broker panel arrangements. However, the impact on smaller brokers may be more significant and, in some cases, might lead to their withdrawal from the market.

109. Responses to our motor finance broker survey indicate that brokers (independent and franchised dealers and finance brokers) typically operate a panel of lenders enabling them to work with a wide range of lenders to meet diverse consumer needs and characteristics within the segment. Brokers in our sample reported an average of 5 to 13 lenders on their panels, with only one independent dealer noting that it relied on a single lender to provide motor finance.

110. Given the diversity of panels in terms of lender types and the consumer profiles served, we do not expect a material impact on broker panel arrangements if a few smaller lenders decide to stop lending. Most brokers noted that they would expect the impact of their main motor finance lender withdrawing from the market to be low as they would approach other lenders on their panel to maintain a broad range of competitively priced offers.

111. Where leveraging existing panel arrangements may not fully mitigate the impact of some lenders choosing not to continue future lending, brokers might seek to enter into new agreement(s) with other lenders. Responses to our motor finance broker survey suggest that establishing such agreements would typically take between one to three months, with some more complex agreements taking up to 12 months to reach. We anticipate that by giving firms time to implement the redress policy, most brokers will be able to make changes to their panel arrangements to mitigate the impact of some lenders choosing not to continue future lending on the range and price of motor finance products offered.

112. At the same time, smaller brokers relying on a single or a few lenders may be more significantly impacted if their main lender(s) withdraws from the market. For example, a smaller finance broker noted that it would close almost immediately if it lost its main lender as the business would no longer be sustainable. Our evidence indicates a large number of smaller independent motor dealers operating in the used segment that may be at risk of a more significant impact should their main lender(s) withdraw from the market.

113. We consider that there is limited scope for lenders to squeeze commissions in the used segment. However, as part of our assessment of price impacts, we have considered the potential for a small decrease in broker commissions as a sensitivity.

114. Responses to our motor finance lender survey indicate that lenders operating mostly in the used segment pay higher average commission rates compared to those active in the new segment.[25] This may provide some additional scope for lenders to finance redress and non-redress liabilities through lower commissions paid to brokers.

115. However, the risk of brokers withdrawing from the market as a result of a significant change in commission arrangements is likely to limit the extent to which lenders may reduce commission levels. Responses to our motor finance broker survey highlighted commission income as a key driver of competitively priced motor finance offers in the used segment across all broker types.

116. Franchised and independent dealers both reported small operating margins with some indicating a strong reliance on income generated from finance to keep their business economically viable and maintain a competitive vehicle and motor finance offering. For example, a franchised dealer commented that in the absence of remuneration for arranging finance, they estimate at least a £1,000 increase in the retail price of vehicles.

117. In addition, several finance brokers reported motor finance commission to be their only source of income, suggesting that a substantial reduction in commission earned may lead to brokers withdrawing from the market.

118. Responses also indicated that brokers in the used segment generally have some pricing flexibility over certain elements of the vehicle and motor finance sale (e.g. list price and part-exchange value), which means that brokers may attempt to recover lost commissions through these elements. However, the scope for recouping lost commission income through other aspects of the sale may be limited as brokers in the used segment compete on the bundled cost of a sale.

*Associated impact on vehicle sales*

119. We do not anticipate a significant impact on vehicle sales in the used segment either due to change in access or any potential increase in motor finance prices as a result of the proposed redress scheme.

120. Should motor finance become unavailable to some consumers, as discussed above, we anticipate that consumers in the used segment will have access to alternative forms of credit such as unsecured personal loans enabling them to purchase a vehicle.

121. In response to an increase in the price of motor finance, the conjoint analysis conducted as part the Yonder consumer research found that most consumers would either still select the motor finance option offered or would switch to an alternative credit product offered (if available).

122. Of those consumers who did not select either option, most responded that they would still proceed with a vehicle purchase either through waiting and trying again after a period of time or looking for a cheaper vehicle, with only a minority indicating that they would not buy a vehicle at all. Therefore, any decrease in finance take-up as a result of

[25] For example, in the loan level data, the weighted average commission per agreement in 2024 in the used segment was £980 compared to £352 in the new segment.

an increase in the price of motor finance will most commonly lead to demand shifting to cheaper vehicles or purchases being delayed, rather than to a decrease in the demand for vehicles.

## Motor finance for sub-prime consumers

*Lenders' response to liabilities*

123. We assess the likelihood of lender strategic decisions to stop lending in the sub-prime segment (forming a subset of lending on used vehicles) to be relatively low.

124. Responses to our motor finance lender survey indicate that independent retail lenders and banking groups account for all motor finance agreements in the sub-prime motor segment. The financial resilience assessment suggests that independent lenders may be at higher risk of choosing not to continue future lending given the lack of group support. However, we have assessed that it is reasonable to assume that only a few smaller lenders may choose to stop lending in this segment and that the three largest lenders are likely to continue operating.

125. We consider a tightening of lending criteria to be unlikely as we anticipate motor finance to remain profitable.

126. However, it is plausible that some firms in the near and sub-prime segments restrict their lending in the event of lower capital availability and reduced lending appetite.

*Impact on competition*

127. We do not anticipate a material change in competitive dynamics following decisions by a few smaller lenders to stop operating in the segment.

128. The sub-prime segment is more concentrated than the broader used vehicle segment, with three lenders accounting for 86% of agreements for sub-prime consumers in our motor finance lender survey. In a scenario where any of the leading sub-prime lenders withdraw from the market, it is likely that there will be higher concentration and reduced competition. In a relatively concentrated sector, these impacts are likely to further increase market power of large lenders in the segment.

*Impact on volume of agreements*

129. Should a few smaller lenders withdraw from the market, we consider there is likely to be full replacement of lost volumes. Our assessment indicates that lenders that might choose to stop future lending have low volumes in the sub-prime segment while lenders with greater volumes in the segment in our motor finance lender survey have indicated scope and appetite to grow their business.

130. In the case of further lenders choosing not to continue lending in the sub-prime segment, capital constraints and limited appetite among lenders in the broader used segment to serve sub-prime customers could limit the ability to replace lost volumes in full. Brokers in the sub-prime segment have noted a reduction in lenders' risk appetite and firms becoming inactive in the segment, due to unsustainable costs and regulatory burden. Compared to prime lending, the sub-prime segment faces difficulty in generating sufficient capital to meet the funding level and cost of funds requirements.

131. We consider significant new entry into the segment to be unlikely given segment-specific regulatory challenges and the complex nature of sub-prime lending. The increased risk of default means that underwriting needs to be tailored to consumers with lower creditworthiness resulting in a more bespoke set of requirements. Sub-prime lending, therefore, generally requires different technology, funding and credit strategies. This makes it difficult for lenders operating in other segments to expand into the sub-prime segment as well as creating higher entry costs for new firms to enter the market. Even for lenders meeting capital requirements and having the access to the technology required, differences in risk appetite may limit their willingness to expand into the sub-prime segment. Our lender survey indicated some appetite for lenders to expand into the near-prime segment, however, no respondent indicated an interest in expanding lending into the sub-prime segment.

132. In addition, we have also considered the possibility of lenders replacing most but not all volumes lost following decisions by some firms to stop lending. Lenders operating in the sub-prime segment tend to be more reliant on securitisation and external funding which might constrain their ability to secure funding and expand lending.

133. We note that this assessment is highly sensitive to the reaction of the key lenders accounting for the majority of sub-prime agreements (approx. 86% of our sample), given capacity constraints and low likelihood of new entry in the segment. Should one or more of these lenders withdraw from the market or contract lending in any meaningful way, it is unlikely that volumes would be replaced by other lenders. This could have a material impact on access to motor finance for sub-prime customers.

*Impact on access to motor finance*

134. Table below summarises the illustrative potential impacts on the volume of agreements and access to motor finance for sub-prime consumers under different assumptions around lender decisions about future lending, replacement of lost volumes and changes to lending appetite and volumes (for a description of these scenarios, please see the Modelling scenarios section and Table above).

135. We assess that under most assumptions a significant reduction in access to motor finance for sub-prime consumers is unlikely. However, a lending contraction (scenario 3) or the withdrawal of some lenders along with less than full replacement of volumes (scenario 4) could have a larger impact on motor finance volumes and may reduce access for some consumers.

**Table 5: Illustrative impacts on access to motor finance in the sub-prime segment under different assumptions**

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| **Potential impact on volumes and access** | No material change in volumes or access | No material change in volumes or access | Approx. 7,000 fewer agreements (10% reduction in volume) | Up to 200 fewer agreements (0.3% reduction in volume) |

*Note: In the absence of our proposed intervention (i.e. under the counterfactual), the potential impacts would likely be at least as high as those indicated in absolute terms.*

136. A reduction in access to motor finance may materially impact outcomes for a subset of sub-prime consumers, reflecting fewer available alternative sources of credit.

137. In the Yonder consumer research, most consumers with sub-prime characteristics said they would access a vehicle through other means such as continuing to use their old vehicles, buying a cheaper vehicle with cash or borrowing money from friend and family if no motor finance or substitute finance product was available to them. However, the largest subset (37%) said they would not have been able to afford a vehicle in cash if no motor finance or substitute had been available to them. This group would likely be most severely impacted by reduced access to motor finance.

138. The Yonder consumer research further indicated that younger people and those with lower incomes are considered higher risk and are likely to pay higher interest rates. These consumers could face restricted access to the motor finance market and, to the extent available to them, may need to resort to alternative forms of finance such as (unsecured) personal loans or in some cases credit cards.[26] The average rates for credit cards for sub-prime consumers are usually over 30% APR,[27] and for personal loans can be up to 60% for those with poor creditworthiness,[28] compared to an average APR of 33% for sub-prime agreements in our sample.[29] Loss of access to motor finance could therefore lead to higher costs of acquiring vehicles and for some consumers may mean that vehicle purchase becomes unaffordable entirely.

*Impact on prices*

139. Our assessment indicates that lenders may attempt to adjust future margins to improve profits in the face of redress and non-redress costs as well as any increases in their cost of capital which could result in small to moderate increases in prices.

140. Sub-prime lenders are generally smaller in scale with specialised product offerings and fewer revenue streams. This means their ability to absorb cost shocks is likely to be lower. Therefore, we consider that lenders may attempt to adjust their future margins to improve profits in the face of redress and non-redress costs in the form of higher interest rates.

141. In contrast to the new and broader used segment, lenders may be more likely to be able to adjust prices in light of their liabilities as there is relatively high market concentration and fewer options for motor finance available to consumers. In addition, the lack of alternative credit options may affect how consumers respond to changes in prices.

142. The Yonder consumer research found that consumers with sub-prime characteristics are most likely to have used motor finance before (89% compared to 74% of consumers with prime and 75% of consumers with near-prime characteristics), indicating a strong reliance on motor finance to access vehicles. It also found that consumers see motor finance as a means to getting a vehicle, with 59% of consumers with sub-prime characteristics stating that they chose a product as it was the most affordable option to obtain the vehicle they would like.

143. Therefore, consumers with sub-prime characteristics may be less responsive to a change in price. In particular, the conjoint analysis conducted as part of the Yonder consumer research found that indicatively, a one percentage point increase in interest rate translates into an approximately 1% lower take up for a typical Conditional Sale

[26] We note that often car purchases cannot be made by credit card, as many dealerships do not allow purchases by credit card.

[27] Subprime Credit Cards And Debt. Red Card Report. StepChange

[28] Calculated: Cost of loans for those with a poor credit score - TotallyMoney

[29] Based on average of 2022 and 2023 motor finance lender survey data and weighted to firm volumes.

agreement when no alternative finance options are available, indicating that consumers with sub-prime characteristics appear less sensitive to changes in the price of motor finance. This may reflect that, given their circumstances, consumers in this segment consider higher interest rates and monthly payments for motor finance to be more acceptable or necessary.[30]

144. In addition, the Yonder consumer research also noted that consumers with sub-prime characteristics are more likely to have low financial confidence and understanding of products. This may lead to consumers being unaware of what constitutes a 'high' interest rate, and therefore consumers may have a higher tolerance for high rates compared to the new and wider used segments.

145. However, potential increases in the likelihood of defaults and affordability could limit the extent to which lenders can adjust prices in the sub-prime segment. Price increases may also have an impact on access for some sub-prime customers if motor finance products become unaffordable or mean that they are ineligible for finance.

146. We assess that any changes in the cost of capital, should they materialise, are likely to be passed through to consumers. In our lender survey, sub-prime lenders have also noted that previous increases in the Bank of England base interest rates were generally passed through to customers via higher APRs.

147. We note that there remains significant uncertainty around the extent to which the liabilities faced by lenders may impact their perceived resilience, riskiness and cost of capital.

148. However, the cost of capital in the sub-prime segment may be particularly sensitive to cost shocks as the baseline credit risk is higher. As a larger share of independent lenders rely on capital markets this could also indicate higher exposure to cost shocks.

149. Table 6 below summarises the illustrative potential price impacts for sub-prime consumers under different assumptions around price adjustments in light of liabilities and any changes in the cost of capital.

150. Illustratively, under the assumption of limited ability for lenders to adjust prices to improve profits in light of liabilities[31] (scenario 1), the weighted average APR may increase by around 0.6 percentage points also reflecting a potential increase in the cost of capital. Illustratively, for a four-year Hire Purchase agreement this could result in an increase in monthly payments of around £2 or around £116 over the course of the agreement. This reflects both the higher cost of capital firms may face in light of the liabilities and the possibility of firms seeking to finance some of their liabilities from future consumers.

151. Under the assumption of greater adjustments to prices to improve profits in light of redress and non-redress costs – along with any increases in the cost of capital – there may be potential for moderate increases in APRs of around 0.9-1.5 percentage points (scenarios 2-4). Illustratively, for a four-year Hire Purchase agreement this could result in an increase in monthly payments of around £4-5 or around £174-285 over the course of the agreement. This reflects both the higher cost of capital firms may face in light of

[30] For further details on the conjoint methodology, scenarios considered, assumptions and indicative results, please see Yonder Consulting: Motor Vehicle Finance Consumer Research.

[31] This reflects our assessment that competition in the sub-prime segment appears to be working less well compared to the new and broader used segments.

the liabilities and the possibility of firms seeking to finance some of their liabilities from future consumers.

**Table 6: Illustrative price impacts for sub-prime consumers under different assumptions**

| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|---|---|---|---|---|
| **Potential impact on price** | Potential small increase in price | Potential moderate increase in price | Potential moderate increase in price | Potential moderate increase in price |
| **Illustrative impact on weighted average APR** | Potential increase in weighted average APR of around 0.6pp | Potential increase in weighted average APR of around 0.9pp | Potential increase in weighted average APR of around 1.2pp | Potential increase in weighted average APR of around 1.3-1.5pp |
| **Illustrative impact on monthly payments** | Average monthly payments may increase by £2, equating to £116 per agreement | Average monthly payments may increase by £4, equating to £174 per agreement | Average monthly payments may increase by £5, equating to £233 per agreement | Average monthly payments may increase by £5, equating to £245-285 per agreement |

*Note: In the absence of our proposed intervention (i.e. under the counterfactual), the potential impacts would likely be at least as high as those indicated in absolute terms.*

*Impact on brokers and commission*

152. We assess that the proposed redress scheme is unlikely to have a significant impact on broker panel arrangements. Most sub-prime motor finance sales are arranged through specialist motor finance brokers operating with a panel of lenders. In response to our motor finance broker survey, most finance brokers indicated that one or two lenders withdrawing from the market are not likely to affect panels materially as they aim to have a wide lender panel.

153. However, the decisions by multiple (key) lenders to stop lending may impact brokers' ability to meet consumer needs. Finance brokers noted a decrease in risk appetite in the sub-prime segment in recent years, indicating some existing challenges in maintaining a panel of lenders.

154. Less diverse panels might lead to less choice for consumers as well as a lower chance of finding a suitable lender and motor finance product for sub-prime consumers given generally greater challenges around access to credit in this segment.

155. We consider a material change in commissions to be unlikely. Motor finance intermediation is typically the main and often only business for most specialist finance brokers operating in the sub-prime segment. Therefore, brokers may not be willing or able to accept a material reduction in commission rates. Lenders in our sample also referenced the role of specialist finance brokers to support motor finance sales in the sub-prime segment. The importance of these relationships and a degree of concentration in the broker space suggest that a material decrease in commission rates is unlikely.