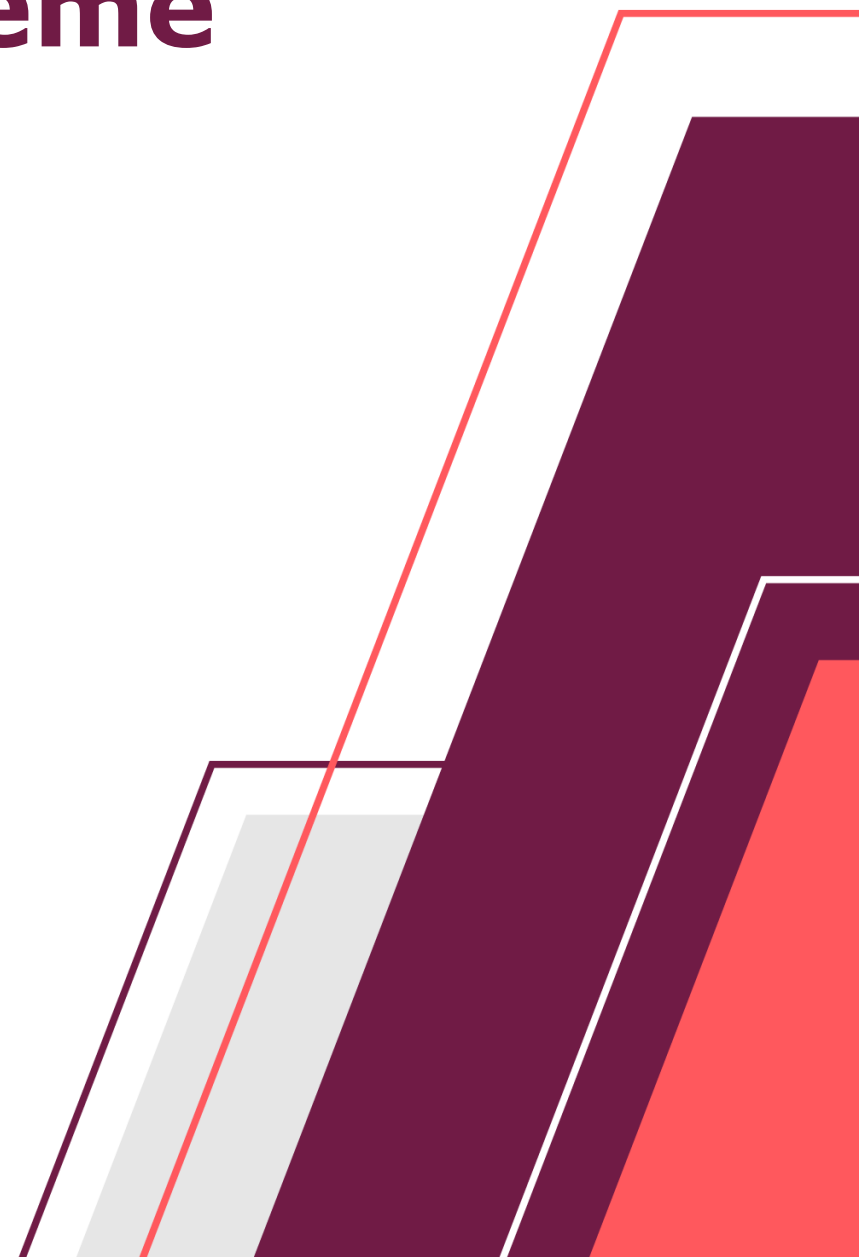


Motor finance redress scheme consultation

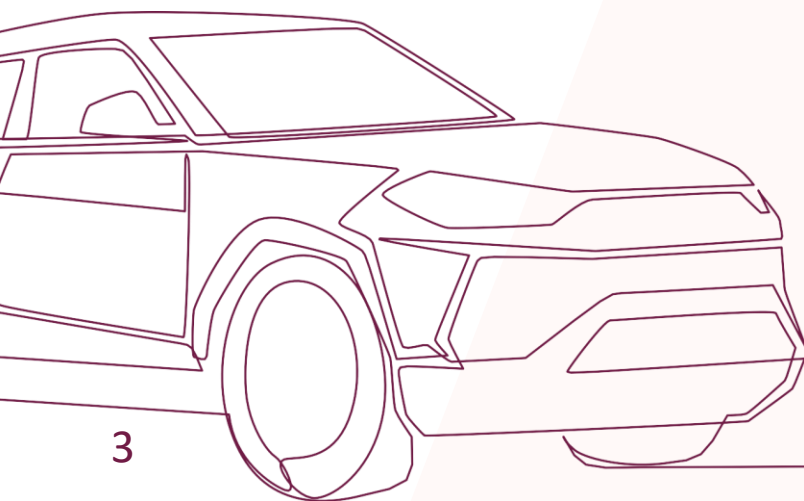


Overview of proposed scheme

- Many motor finance firms did not comply with the law or disclosure rules in force when they sold loans.
- We are consulting on a scheme to compensate customers who were treated unfairly between 6 April 2007 and 1 November 2024.
- This is the best way to ensure consumers receive fair compensation in an orderly, consistent, quick, and efficient way, while ensuring a well-functioning and competitive market.
- We estimate 14.2m agreements – 44% of all agreements since 2007 – will be considered unfair.
- We estimate 85% of eligible consumers could take part, which would mean redress of £8.2bn. Implementation costs would be £2.8bn, taking the total cost to £11bn.



The motor finance market



2 million+

cars bought with motor finance in 2024



£39billion

borrowed on motor finance in 2024



April 2007 – October 2024, around

32.5 million

motor finance agreements



Around

80%

UK new car and

19%

used car purchases funded by motor finance in 2024



On average,

£28,000

borrowed on new cars and

£15,000

on used cars



Customer credit profile:

86% prime

10% near-prime

4% sub-prime

Commission arrangements

Before our ban in 2021, brokers could use discretionary commission arrangements (DCAs) to adjust the customer's interest rate to obtain higher commission, provided they were adequately disclosed.

Around 61%

of all agreements involved a DCA between April 2007 and January 2021

Mean commission*:

£541
£694 (excluding zero commission)

Mean APR:

11.4% DCA
8.9% non-DCA

We found widespread disclosure failings

Our review, covering data from 32m agreements, found:

In no DCA files reviewed were customers told it **involved a DCA**

In no DCA cases were customers told **the amount of commission paid***

In 4% of non-DCA cases, customers were **told the amount of commission paid***

In 14% of cases reviewed, there was an **undisclosed right of first refusal**

We estimate a **market-wide breach rate of 44%**
2007 to 2024

5 *Where commission was high, this should have been disclosed

Many people have lost out



Our analysis indicates that APRs on **DCA loans were over**

20% higher

than comparable flat fee loans.



Borrowing costs on DCA loans would have been on average

17% lower

had they had a **flat fee commission** arrangement.



For flat fee loans, where commission was at least 50% of the total cost of credit, every additional **£1 of commission was indicatively linked to a £1.54 increase in borrowing cost.**

There is now greater legal clarity



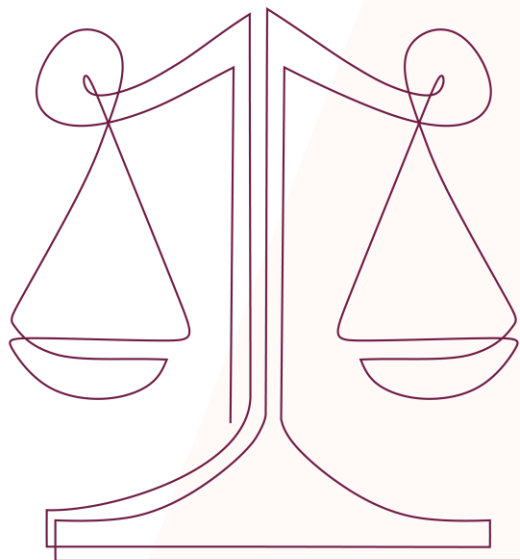
Over
4 million
complaints to firms



Over
80,000
complaints with the
Financial Ombudsman



Several thousand
cases in the County Courts



On 17 December 2024, the High Court ruled that the Financial Ombudsman was entitled to find that a dealer and lender did not adequately disclose a DCA, and that the relationship between the lender and the borrower was unfair.

On 1 August 2025, the Supreme Court found a lender acted unfairly – and therefore unlawfully – because of the high, undisclosed commission paid to the broker and the failure to disclose a contractual tie.

Liability under our proposed scheme

A relationship would be considered unfair if there was inadequate disclosure of one or more of:



A discretionary commission arrangement



High commission - at least **35% of the total cost of credit and 10% of the loan**

(these are specific to this scheme and should not be read across to any other market)



Tied arrangements that gave a lender exclusivity or a first right of refusal

- Where a case includes one or more of the three arrangements above, a lender may be able to prove that:
 - it was fair not to disclose it e.g. because a DCA was not acted upon or because the customer was sophisticated
 - that the consumer did not suffer any loss e.g. as they would not have secured a lower APR from any other lender the broker had arrangements with
- Consumers with complaints about inadequate disclosure of a commission or tie that isn't covered by our proposed scheme would only be able to get a different outcome from the Financial Ombudsman if the scheme rules weren't followed. Consumers could still take their claim to court.

Proposed redress methodology

- ① The Financial Ombudsman awarded refund of some of the interest paid. High Court in *Clydesdale* confirmed FOS was entitled to do so.

- ② The Supreme Court (*Johnson*) awarded the commission plus interest.

- ③ We must consider Courts' approach and our evidence of consumer loss.

- ④ Consumers whose cases align closely with *Johnson*, would be awarded the commission plus interest - cases with a contractual tie and commission at least 50% of the total cost of credit and 22.5% of the loan.

- ⑤ For all other cases, consumers would be compensated at the average estimated loss (APR – 17%) and the commission paid.

- ⑥ Simple interest would be paid on compensation, based on average base rate per year plus 1% from date of overpayment to the date compensation is paid. We now estimate the weighted average interest rate payable will be 2.09%.

- ⑦ If the commission paid or the average of estimated loss and commission paid is lower than the estimated loss on its own, then consumers would get the estimated loss.

Firms' liabilities and costs of scheme



We estimate
consumer uptake of
85%
which would result in
£8.2bn
redress.

Estimated cost of implementing the scheme is £2.8bn, taking **total costs to firms to £11bn.**

Under a very unlikely uptake of **100%** redress would be **£9.7bn.**

If uptake was **70%** then redress would be **£6.8bn.**

Consumers would receive an **average of around £700 per agreement.**

Estimate of 85% uptake is based on past redress schemes and research which shows 14% of motor finance holders do not intend to claim.

Without a scheme, the cost to firms of dealing with complaints could be **£billions higher.**

Estimated redress for different breaches

Breach	Remedy	Breach Rate	Eligible Agreements	Redress Liabilities	Mean Redress
Inadequate disclosure of a DCA	Hybrid remedy	37.20%	11.4m	£7.6bn	£666
Inadequate disclosure of a high commission payment (35/10)	Hybrid remedy	9.50%	2.9m	£3.2bn	£1,108
Inadequate disclosure of a tied arrangement	Hybrid remedy	10.50%	3.2m	£2.1bn	£686
Inadequate disclosure of a Johnson-level commission payment and a tie	Commission repayment remedy	0.05%	13,751	£34.8m	£2,532

Notes:

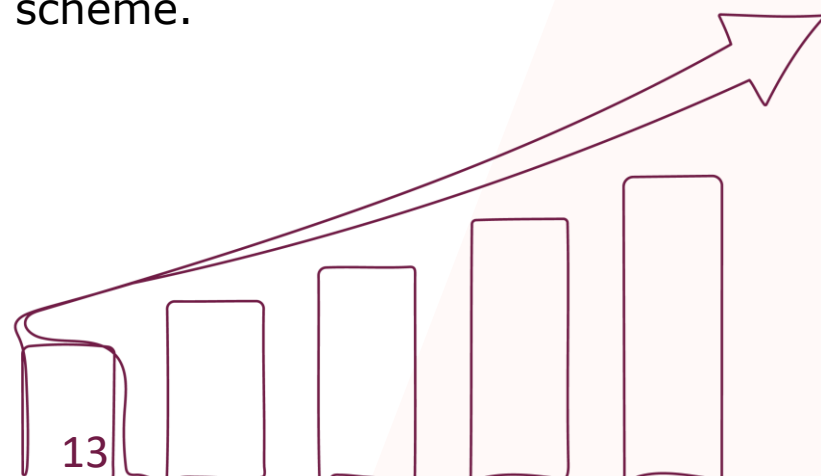
- (1) Figures represent ~99% of the market;
- (2) Mean and median estimates are based on in-sample data (~89% of the market);
- (3) Data covers April 2007 to October 2024;
- (4) Totals may not sum due to multiple breaches per agreement.

Sensitivity of redress cost estimates to alternatives

Scenario	Description	Eligible agreements	Redress liabilities (£bn)	Mean redress (£)
1	Base case: Commission repayment remedy for Johnson cases; hybrid remedy for all other cases; compensatory interest at BR+1pp	14,242,856	£9.7bn	£695
2	Commission repayment remedy for Johnson cases; loss-based remedy (APR-17%) for all other cases; compensatory interest at BR+1pp	14,244,095	£6.2bn	£442
3	Commission repayment remedy for all cases; compensatory interest at BR+1pp	14,243,898	£13.2bn	£949
4	Base case with compensatory interest rate of 5.5%	14,241,918	£12.0bn	£888
5	Base case with compensatory interest rate of 8%	14,244,229	£14.3bn	£1,029
6	Base case with commission repayment remedy for all cases with commission above 35% of total credit cost and 10% of loan amount and a contractual tie	14,243,385	£9.9bn	£714
7	Base case with high commission payment threshold of 40% of total credit cost and 11% of loan amount	13,903,440	£9.3bn	£685

The market is working well

The motor finance market continues to function well following the Supreme Court judgment and our announcement we would consult on a scheme.



Consumer credit borrowing, including motor finance, rose from

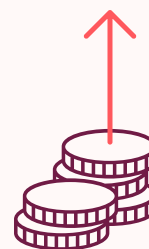
£0.9 billion

in May 2025 to

£1.7 billion

in August 2025

(Bank of England)



In the 2 weeks following our announcement that we intended to consult on a scheme, impacted lender

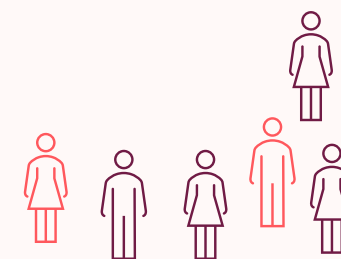


share prices

were up 2 – 30%

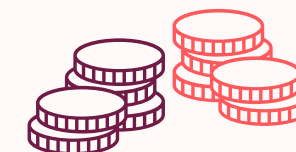
Sizeable public securitisation

of UK automotive loans in September



75%

of motor finance firms expect lending to increase over next year (FLA)



And we expect it to continue working well



We conclude there will continue to be good product availability and competition among lenders. We cannot rule out modest impacts on product availability and prices. But without a scheme, impacts on access and prices for consumers could be significantly higher, with uncertainty continuing for longer.



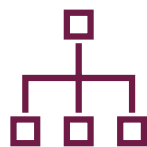
We have heard concerns about the impact on lenders focused on non-prime markets. Some non-prime lenders have told us they did not use DCAs or tied arrangements.

They may also be able to prove that the consumer would not have secured a better APR from any other lender the broker had arrangements with at the time. If so, they are less likely to have to pay redress.

Wider action on redress



We have acted against misleading CMC advertising - over 740 promotions removed or amended since Jan 2024



Working to reform the redress system to provide greater predictability



No further mass redress events on our radar



The Consumer Duty sets a higher standard of consumer protection

Next steps



Further details

- These slides contain summary information only and do not supersede our consultation. See our [consultation and associated documents](#) for full details.

Annex

Loans sold by bank/non bank

(£'m) Average 2024 H1 ²⁸ Cohort	Motor finance loans in £m ²⁹				
	Sum	% of total across cohorts	Lowest	Median	Highest
High Street Banks	22,916	23.1%	5	1,300	15,600
Challenger Banks	13,646	13.7%	23	558	3,920
OEM Captives	59,725	60.1%	148	3,868	15,954
Non-Bank Lenders Institutionally Backed	2,556	2.6%	4	71	795
Non-Bank Lenders Non-Institutional	548	0.6%	1	13	208

Source: Publicly disclosed financial statements, Interpath analysis

Market impact assessment on cost of capital and investment in the motor finance market (page 17)

Loans sold by bank/non bank

Our assessment indicates that banking and captive lenders are likely to face the largest liabilities (51% and 47% of total redress and non-redress costs, respectively), with independent lenders typically facing liabilities several orders of magnitude lower (2%). Banks and captive lenders with higher redress associated costs tend to have a high share of motor finance agreements in new and used segments. We consider these firms to be more resilient in relative terms, with potential for financial support from their group, greater access to funding and ability to absorb cost shocks, however we cannot accurately model how management actions may play out in the future.

[CP25/27: Motor Finance Consumer Redress Scheme](#) (page 215)



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