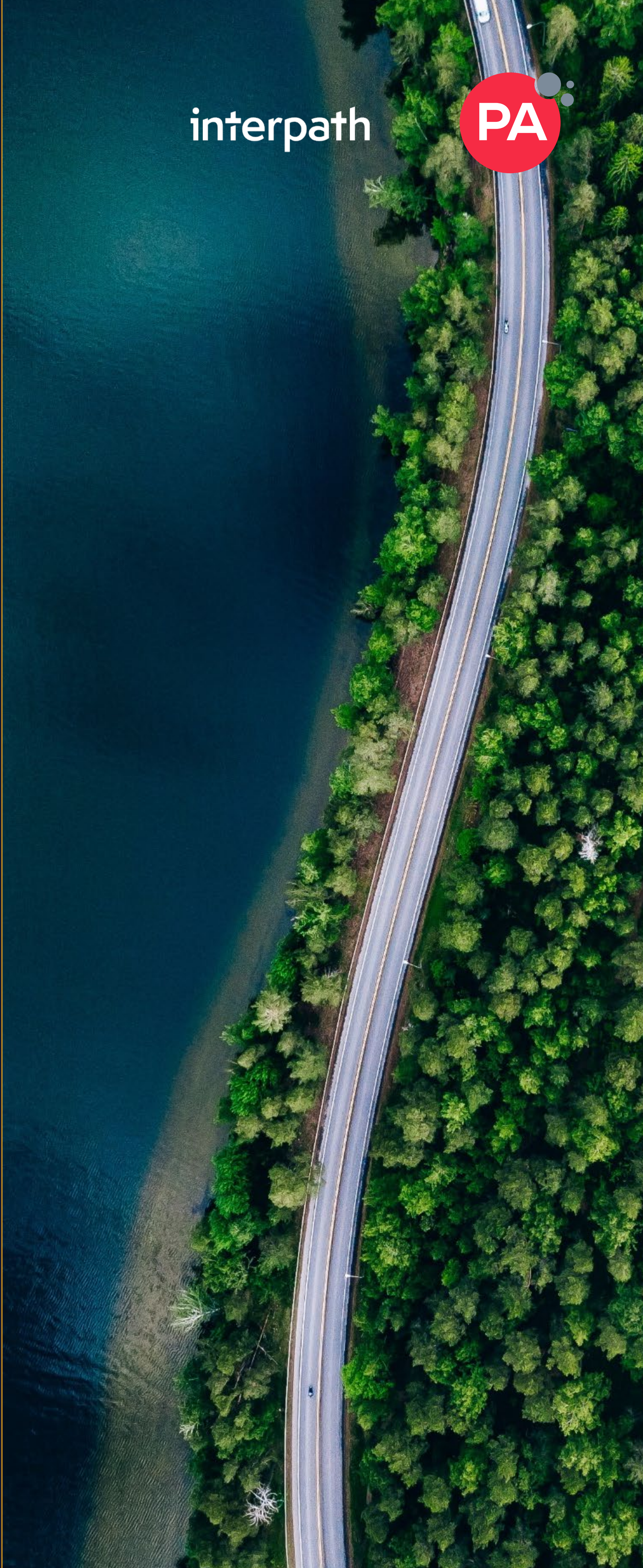
Market impact assessment on cost of capital and investment in the motor finance market

6 October 2025



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Executive Summary

The Financial Conduct Authority ("**FCA**") commissioned this report to present the findings of a market impact study on the potential effects of motor finance related redress liabilities. The report's agreed scope relates to the potential impact on the cost and level of debt and equity capital in the sector. The report has been jointly prepared by Interpath Ltd and PA Consulting Services Limited as independent specialists.

This report is designed to help the FCA understand (i) the financial impacts on lenders arising from the FCA's estimates on motor finance commission related redress; (ii) the potential impacts on the cost and availability of capital (debt and equity); and (iii) potential impacts on market competition and views on the risk of spillover into other markets in the UK.

The report contains analysis that is considered market sensitive and no longer reflects the current position of the FCA and therefore, this has been redacted.

Our approach

Based on our proprietary knowledge, desktop research and our read of market competition documents provided by the FCA, we developed a detailed overview of the UK's motor finance industry, including the size of the market, key products, credit segments, types of lenders, and our observations on the state of debt and equity markets.

To better understand the potential financial impact of redress on lenders, we categorised them into five cohorts as these cohorts exhibit substantial differences in financial strength and performance: (i) High Street Banks; (ii) Challenger Banks; (iii) Non-Bank Lenders Institutionally Backed; (iv) NBNI ("Non-Bank Lenders Non-Institutional"); and (v) OEM ("Original Equipment Manufacturer") Captives. The table below is not exhaustive but offers a representative overview of the sector.

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Cohort name	Count	Motor finance loan book (£m)[1]	Total market share[2]	Key credit segments
High Street Banks[3]	6	22,916	23.1%	Prime
Challenger Banks	13	13,646	13.7%	Prime, near prime & non-prime
Non-Bank Lenders Institutionally Backed	12	2,556	2.6%	Near prime & non-prime
Non-Bank Lenders Non-Institutional	12	548	0.6%	Near prime & non-prime
OEM Captives	14	59,725	60.1%	Prime
Total	**57[4]**	**99,391**	**100.0%**	

[Redacted due to market sensitivity]

As part of our assessment of the impact on the cost and availability of capital we interviewed senior deal team members who are key decision makers across debt and equity capital providers that actively assess opportunities in the UK motor finance sector. From a debt perspective, we interviewed nine debt funders including four private credit funds, two banks and three Auto ABS investors. From an equity perspective, we interviewed nine equity investors including seven private equity investors and two fund managers with listed equity strategies. All sources have been kept anonymous.

Lastly, to assess the potential impacts on market competition, we analysed the UK motor finance landscape, cohort structures, and historical regulatory case studies to estimate the likely impact on incumbents and new entrants. We assessed competitive, entry, and exit dynamics post-redress.

Key Findings

Non-bank lenders operating in the near prime and non-prime credit segments of the UK motor finance sector are not entering the redress phase from a position of strength, [*Redacted due to market sensitivity*].

The prime segment of the UK motor finance is dominated by OEM Captives and High Street Banks (by market share), which are well capitalised and/or have well capitalised parent companies.

Both institutionally backed and non-institutional non-bank lenders, who typically operate in the near prime and non-prime segments, have the weakest starting financial

[1] Latest available information per publicly disclosed financial statements.
[2] Total market share by size of loan book, not split by credit segments due to lack of detailed (and complete) granular data to perform market share analysis at segment level.
[3] Some High Street Banks have Joint Venture (JV) partnerships with OEMs and are included within our analysis.
[4] Based on Interpath's analysis of publicly available data for lenders, which varies from the list of lenders provided by the FCA for whom redress has been estimated.

position amongst the five cohorts, noting that seven out of the 24 non-bank lenders were loss making based on publicly available data for lenders.

[*Redacted due to market sensitivity*]

The confidence of debt and equity providers was significantly impacted by the Court of Appeal judgment in October 2024. The subsequent Supreme Court judgment restored a degree of confidence, but uncertainty remains.

From an investment perspective, equity capital and M&A deal activity in motor finance have been limited over the last 15 years, indicating that favourable market conditions have been absent regardless of the motor commissions redress issue. As far as we are aware, there has been no M&A transaction nor public or private equity investment in the sector since October 2024.

Public Auto ABS markets, which provide a key debt funding instrument for lenders in the UK, were active up until the Court of Appeal judgment in October 2024. Since then, they have been shut (except for one UK Auto ABS deal in early September 2025 which was led by an OEM Captive), as lenders and capital providers are unable to price and structure public deals with confidence due to the level of uncertainty in estimating potential redress and the associated financial impact on lenders. Whilst we are unable to comment on the level of deal activity in the private Auto ABS market between October 2024 and the date of this report, as this data is not publicly available, High Street Banks and OEM Captives can rely on their diversified funding lines that can be used to originate new loans. [*Redacted due to market sensitivity*]. Based on our discussions with investors, we note that non-bank lenders (generally with a lack of diversified funding and no strong institutional backing) have, to date, struggled to increase funding capacity and are operating within their existing facilities.

While the focus of our report is on motor finance lenders, we note that some of the redress liabilities may impact indirectly on stakeholders beyond the lenders, such as debt funders. The way in which this arises will depend on structural, legal and commercial considerations.

The market sentiment post Supreme Court judgment was positive, guided by the FCA's estimate that market wide redress is likely to be in the range of £9bn to £18bn, and most likely to be near the middle of that range. This is much lower than the top end of the ranges estimated by the market pre-Supreme Court judgment. However, the market does not have visibility on how the FCA calculated its estimates and, anecdotally, lenders and capital providers are still waiting for the FCA's detailed consultation to be announced in early October 2025 to be able to understand the extent of the redress liabilities. An example of an area that requires more clarity is the definition and conditions that would constitute an unfair relationship. As such, uncertainty remains for both equity investors and debt funders.

Share prices of publicly listed UK lenders who have exposure to motor finance reacted positively to the Supreme Court judgment which makes directional sense as the overall redress estimates are significantly lower than the top end of the range expected following the Court of Appeal judgment. However, as uncertainty still remains, further significant share price movements may occur in early October 2025 when there is more clarity on the redress scheme.

From a deal due diligence perspective, both debt and equity capital providers stated that there has been an increase in the regulatory risk premium applied to financial institutions (at an aggregate level) and that they have observed increases in the level of regulatory due diligence required when making investment decisions.

Prior to the Supreme Court judgment, there were high levels of concerns regarding spillover impacts on adjacent lending products that are brokered, but this has likely reduced post the judgment. The key issues impacting spillover risk would likely include the relative size of commissions against credit advanced and the existence of a fiduciary duty – noting that this is not a legal opinion.

[*Redacted due to market sensitivity*]

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Glossary

Term	Definition
ABS	Asset Backed Security
APR	Annual Percentage Rate
BNPL	Buy Now Pay Later
CoA	Court of Appeal
CET1	Common Equity Tier 1
CMC	Claim Management Company
D2C	Direct to Consumer
DCA	Discretionary Commission Arrangement
EV	Electric Vehicle
FCA	Financial Conduct Authority
FLA	Finance & Leasing Association
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
HP	Hire Purchase
ICE	Internal Combustion Engine
IPO	Initial Public Offering
JV	Joint Venture
M&A	Mergers & Acquisitions
NBNI	Non-Bank Lenders Non-Institutional
OEM	Original Equipment Manufacturer
PCP	Personal Contract Purchase
PCH	Personal Contract Hire
PPI	Payment Protection Insurance
RoE	Return on Equity
RWA	Risk Weighted Assets
SMMT	Society of Motor Manufacturers and Traders
TNAV	Tangible Net Asset Value
ZEV	Zero Emission Vehicle

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Section 1: Market landscape and cohort definition

1.1 Overview of UK motor finance market

There are approximately 36.2m cars currently in operation on UK roads[5], with nearly 80% of households having access to a car.[6] Per the Transport Statistics Great Britain, c. 65% of people used cars to travel to work in England in 2023, with the statistic increasing to 69% in Scotland and 81% in Wales. Given that 80% of new cars and 19% of used cars were purchased on finance in 2024[7], motor financing plays a critical role in enabling car ownership. The relatively high percentages of car financing highlight the motor finance sector's systemic importance to the broader economy.

To understand the current state of the UK's consumer motor finance market, it is important to appreciate the trends in volume for new and used car segments, the penetration of financing within these segments, and the average cost of cars.

It is worth noting that there was a decrease in the registration of new cars during the Covid-19 pandemic and since then, the level of new car registrations has remained relatively flat at 1.6m per annum over the period 2020 to 2022, before increasing in 2023 and 2024 to 1.9m and 2.0m respectively. This figure is forecast to grow slightly in the coming years, at 0.6% in 2025 and 1.4% in 2026.[8] The number of used car transactions followed a similar pattern, decreasing from 7.9m in 2019 to 6.8m in 2020. This figure has recovered to some degree to 7.6m in 2024.[9] The level of transactions is expected to return to pre-covid levels of 7.9m annually by 2027.[10] Since 2018, the average age of a used car in the UK has increased from 8.1 years old to 9.3 years old (based on 2023 reported figures), indicating that consumers are retaining their vehicles for longer periods.[11]

Despite relatively flat growth in new car registrations and used car transactions, and an aging vehicle fleet on UK roads, the motor finance sector has expanded over the past 15 years, driven by deeper market penetration and higher average cost per car, which contributes to higher average loan amounts per car. The average loan amount per car has grown at a compound annual growth rate of 5.6% in the new car segment from 2009 to 2024 and 3.4% in the used car market for the same period.[12] In the same period, the

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[5] May 2025 – https://www.smmt.co.uk/vehicle-data/motorparc-vehicles-in-use-uk/
[6] June 2024 – https://assets.publishing.service.gov.uk/media/6781339100e3d719f19217f1/dft-car-ownership-evidence-review.pdf
[7] Feb 2025 – https://fla.org.uk/news/consumer-car-finance-new-business-volumes-held-steady-in-december-2024/ and https://www.smmt.co.uk/vehicle-data/used-car-sales/
[8] April 2025 – https://www.smmt.co.uk/vehicle-data/uk-new-car-and-van-outlook/
[9] May 2025 – https://www.smmt.co.uk/vehicle-data/used-car-sales/
[10] Dec 2024 – https://www.motorfinanceonline.com/news/uk-used-car-market-to-see-gradual-growth-amid-ongoing-challenges/
[11] June 2024 – https://assets.publishing.service.gov.uk/media/6781339100e3d719f19217f1/dft-car-ownership-evidence-review.pdf
[12] Combination of data from SMMT (number of cars sold) and FLA (GBP amount of loans provided) with a compound annual growth rate between 2009 and 2024 calculated.

cost of a new car has risen at a 5.6% compound average growth rate, in line with the growth rate of loan amounts.[13]

In the new car segment, the growth in motor finance market penetration and average loan values has been led by a shift in product consumption mix, with the use of PCPs (Personal Contract Purchase) rather than HP (Hire Purchase) increasing significantly since the late 2000s.[14] PCPs allow consumers access to relatively more expensive (and newer) cars, allowing them to transact more frequently by requiring them to finance only the depreciation of the car over the term of the loan, rather than the full cost as happens with HP. Depreciation is the gradual loss of value of an asset over time, usually due to wear and tear and general aging. HP remains the preferred method of financing used cars, but PCPs are also available in this market.

In 2009, the proportion of new cars purchased in the UK on finance was estimated to be 46% as per data from the FLA and SMMT. This figure reached 93% in 2020.[15] The increase led to the motor financing sector experiencing significant growth in the total amount financed annually, from a reported £11.2bn in 2009 to £38.0bn in 2019.[16] However, since 2020, the growth in the industry has slowed and the market penetration has decreased to an estimated 80% in 2024.[17] There are several possible contributing factors to this reduction, which include lacklustre macroeconomic conditions, with cost-of-living pressures rising and higher interest rates after a decade of very low rates, as well as changes in product offerings, with EV leasing, subscription-based alternatives and government incentivised salary sacrifice schemes all gaining popularity. Whilst these are financial products, they are not captured by FLA statistics used to calculate market penetration.

In 2024, whilst the total amount of lending in the new and used car segments differed marginally, £17.7bn vs £21.3bn respectively, the total number of cars sold in the used car segment is almost four times more than the new car segment for 2024, (7.6m used cars sold vs. 2.0m new cars sold).[18] This implies that the average loan per used car is approximately a quarter of the amount of the average loan per new car. In the used car segment, the finance penetration has grown gradually since the SMMT started publishing the relevant data, from an estimated rate of 15% in 2015 to 19% in 2024.[19]

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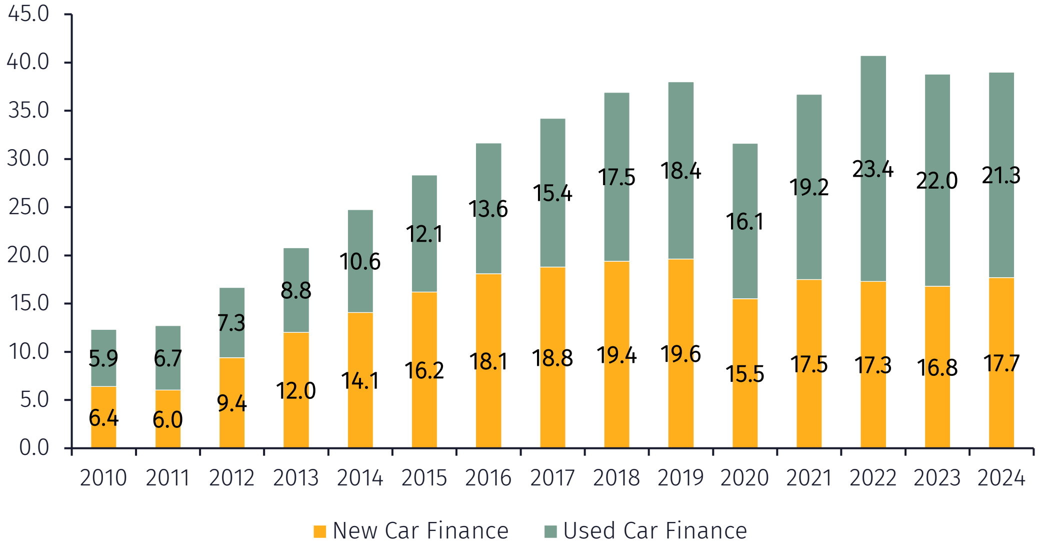
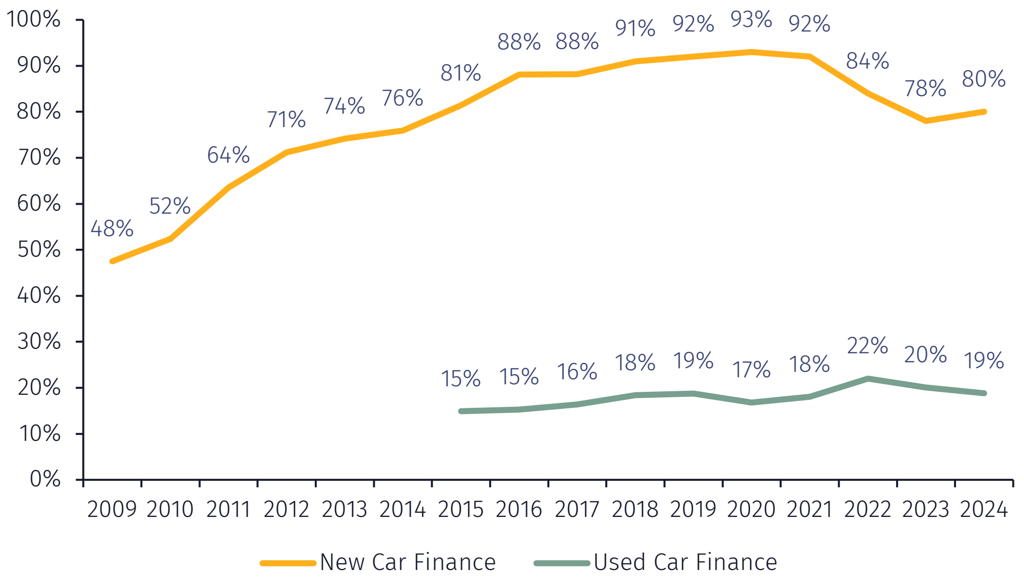
[13] Oct 2024 – https://coxautomotive.h5mag.com/insight_quarterly_q3/new_market
[14] July 2023 – The financialisaton of car consumption, Tom Haines-Doran
[15] Oct 2022 – https://www.thecarexpert.co.uk/endless-growth-in-car-finance-threatens-household-budgets/
[16] Feb 2020 – https://www.motor1.com/news/398620/new-car-finance-19bn-2019/
[17] Feb 2025 – https://fla.org.uk/news/consumer-car-finance-new-business-volumes-held-steady-in-december-2024/
[18] Dec 2024 – https://www.acea.auto/files/Press_release_car_registrations_December_2024.pdf
[19] Oct 2022 – https://www.thecarexpert.co.uk/endless-growth-in-car-finance-threatens-household-budgets/

Figure 1.1 - Annual motor finance lending (£'bn)



Source: Finance & Leasing Association (FLA) – shows total loan amount provided by lenders in the UK for motor financing

Figure 1.2 - Car finance market penetration



Source: Finance & Leasing Association (FLA) & Society of Motor Manufacturers and Traders (SMMT) – shows number of loans provided as a percentage of total cars sold

1.1.1 Types of motor-financing

The most commonly utilised car financing product is a PCP contract.[20] Typically, with PCP contracts, which generally have three-to-four-year terms, the customer is required to finance the cost of depreciation of the car plus interest, allowing lower monthly instalments on higher loan amounts than if the entire amount was financed. At the end of the term, there are multiple options for customers: i) the residual value of the car can be paid as a balloon payment, passing ownership of the car to the customer, ii) the customer can return the car to the dealer with no payment to be made, or iii) the customer can trade it with the dealer for a new car along with a new PCP contract. There can be additional components to a PCP contract, such as mileage limits and service agreements.

Another form of car financing is the HP contract, under which the customer pays relatively higher monthly instalments but owns the car at the end of the contract. Instead of financing the cost of depreciation of the car, the customer finances the total value of the car over the term.

Alternatively, consumers can use leasing, often in the form of PCH (Personal Contract Hire) in the UK. This contract is similar to PCP however, there is no option for ownership / nor exchange at any point under this type of financing, and generally there will be other conditions such as agreed mileage and an expected level of wear and tear.

Another key funding method for consumers purchasing a car is to use own funds. In the used car market, where 19% of purchases are financed[21], it is likely that using own funds i.e., savings, an unsecured personal loan or a credit card are popular methods of financing.

1.1.2 Creditworthiness

A customer's creditworthiness is based on an individual's ability to service debt, considering current income and employment data and existing level of indebtedness (amongst other measures of financial capacity and behavioural data). A higher level of credit worthiness, i.e. prime and near prime, attracts relatively lower interest rates on loans as well as higher loan approval rates. High Street Banks, Challenger Banks and OEM Captive lenders mainly originate loans to customers within the prime and near prime segments. Non-prime consumers typically pay higher interest rates and have relatively lower level of approval rates across lending institutions. There are several non-bank lenders with varying sizes (by loan book) typically offering near prime and non-prime motor financing. Some of these lenders are institutionally backed by private equity, family offices and industrial conglomerates.

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[20] Aug 2023 – https://www.thecarexpert.co.uk/has-the-pcp-car-finance-bubble-burst/
[21] May 2025 – https://www.smmt.co.uk/vehicle-data/used-car-sales/ and https://fla.org.uk/news/consumer-car-finance-new-business-volumes-held-steady-in-december-2024/

In the new car finance market, credit eligibility is typically treated as a pass/fail decision. If approved, consumers receive a standard APR. In the used car market, creditworthiness is assessed on a scale such as poor, fair, good or excellent, and lenders offer different APRs based on this assessment. The non-prime, used car segment is served by specialist lenders who adopt a wider risk-based pricing approach.

1.1.3 Emerging trends

As of April 2025, approximately 4.4% of cars on UK roads were fully electric, up from 1.2% in 2021. The uptake in EVs has been notable in the new car market, with 19.6% of new cars registered in 2024 being electric.[22] This is partly driven by government policy, notably the ZEV (Zero Emission Vehicle) Mandate, which has mandated that car manufacturers must sell a certain percentage of electric vehicles each year, reaching 100% by 2035, with petrol and diesel cars being banned from 2030 (hybrid vehicles can be sold up until 2035).[23] There is growing demand for new, innovative financing products, where companies such as Octopus Electric Vehicles, WeFlex & The Electric Car Scheme have entered the market to offer salary sacrifice (a leasing product) and other leasing options for EVs. There are government policies aimed at influencing the demand side of the motor finance market, with an incentive in place for salary sacrifice car schemes and considerations given to guaranteeing consumer loans for EVs.[24] Consumers are still hesitant to take on the residual value risk on EVs, as there is a higher level of uncertainty in what the residual value will be due to frequently changing technology. This has led to salary sacrifice and other leasing methods as popular methods of accessing an EV, as the residual value risk is on the lessor. These methods contribute to new car registrations, but do not contribute to the car financing figures provided by the FLA. The salary sacrifice scheme—EVs or ICE—are typically focused on new and nearly new cars, implying that such financing methods are available to prime and near prime customers.

1.2 Lender cohorts in the motor finance sector

To be able to draw conclusions about the motor financing sector and the impact of any redress scheme, we have grouped the key market players into five different cohorts, based on their respective business models, risk profile and sources of capital. Each cohort exhibits substantial differences in financial strength and performance. The five cohorts and their characteristics are as follows:

- <u>High Street Banks</u>
  - Diversified and well capitalised banks with a significant lending presence in the UK, including exposure to the retail motor finance sector. Several are

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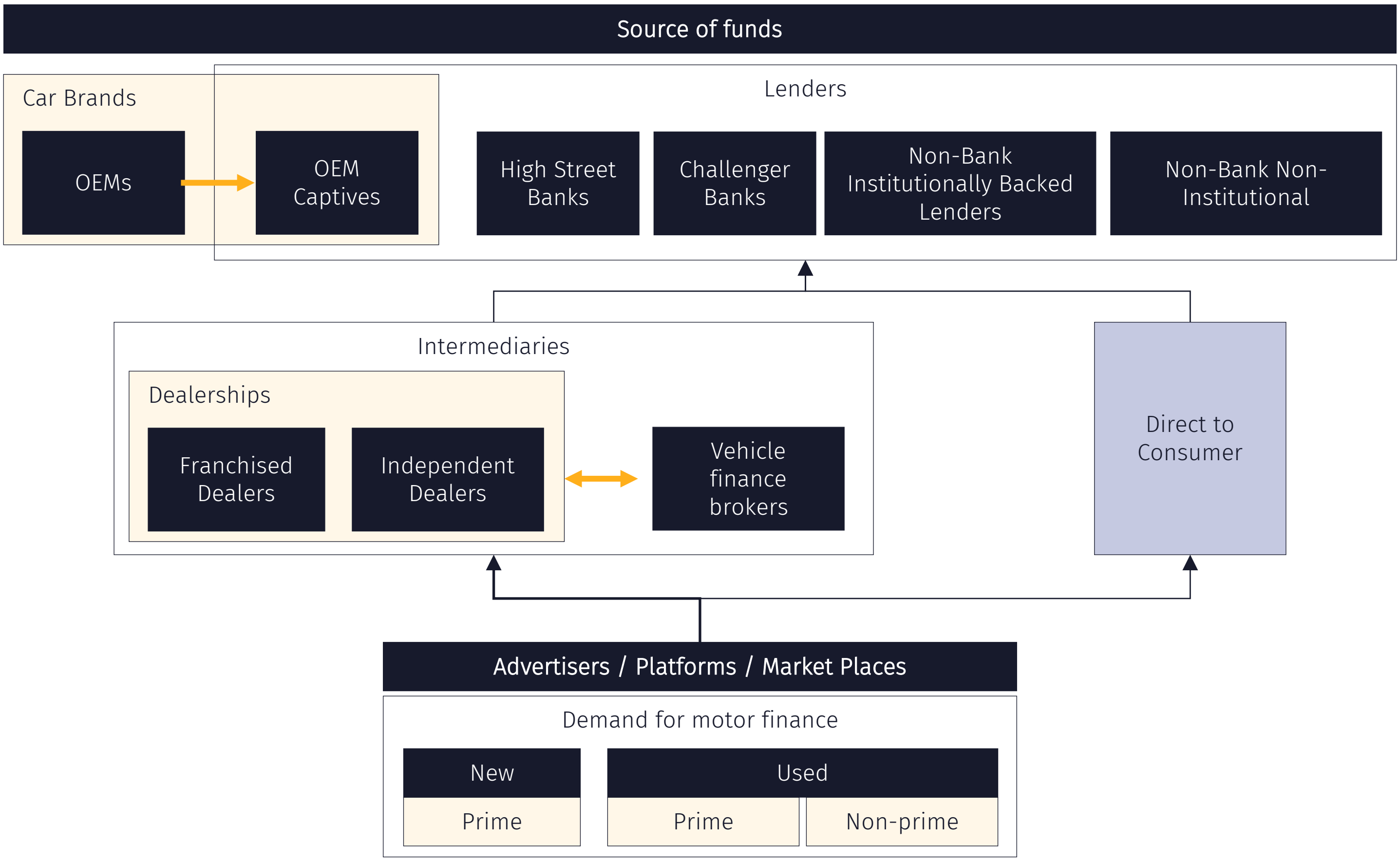
[22] May 2025 – https://www.zap-map.com/ev-stats/ev-market
[23] April 2025 – https://www.gov.uk/government/consultations/phasing-out-sales-of-new-petrol-and-diesel-cars-from-2030-and-supporting-the-zev-transition/outcome/phasing-out-sales-of-new-petrol-and-diesel-cars-from-2030-and-supporting-the-zev-transition-summary-of-responses-and-joint-government-response
[24] Jan 2025 – https://www.theguardian.com/business/2025/jan/29/uk-reportedly-planning-electric-car-loan-subsidies-to-push-sales

considered Systemically Important Financial Institutions (SIFIs) due to their size and significant impact on the UK financial system and economy. High Street Banks have diverse operations, often with divisions in investment banking, private wealth and asset management.
  - Funding model – that of a traditional banking model, whereby retail and commercial deposits are used as a source of core funding to write loans often to prime retail customers. Most High Street Banks are publicly listed and frequently access the public debt markets, specifically Auto ABS (Asset Backed Security), as another key source of funding. An Auto ABS is a financial instrument backed by a pool of motor loans or leases that are structured by lenders to be tradeable securities, allowing them to raise further funding.
  - High Street Banks also have sophisticated treasury operations deploying various funding techniques to manage the banking book.
  - Financial performance – High Street Banks are profitable with diversified revenue streams.
  - Credit profile – typically serve prime borrowers in motor finance.
  - Market segment – strong presence in the used car market whilst also competing on new car financing with OEM Captive lenders. Certain banks have motor finance joint ventures with OEMs that provide funding to prime consumers.
  - Distribution channel – direct to consumer, via dealerships and through brokers.
- <u>Challenger Banks</u>
  - Relatively smaller in size compared to High Street Banks. Generally, less diversified and operate within specialist lending segments. Several Challenger Banks have a significant motor finance focus (thus more reliant on this asset class), with a much higher proportion of motor finance loans to total loans compared to High Street Banks.
  - Funding model – Challenger Banks vary in size and operations and are less diversified than High Street Banks but are funded similarly to traditional banking models. Challenger Banks also utilise public and private Auto ABS programmes, albeit volume sizes are smaller relative to the High Street Banks.
  - Financial performance – profitability varies depending on scale, products, treasury management and their operational efficiency. Along with this variability comes differing levels of access to debt markets.
  - Credit profile – customers served depends on the focus of the banks, generally in the prime and near prime sector, with limited non-prime exposure.
  - Market segment – used car market, as competition in the prime new car market is generally dominated by OEM Captives and High Street Banks.
  - Distribution channel – direct to consumer; via dealerships; and through brokers.

- OEM Captives
    - An OEM Captive lender is a wholly owned financial subsidiary (or a JV) of a car manufacturer that provides financing to consumers to support the sale of vehicles.
    - Funding model – Have significant OEM parental backing (intra company funding) and are often funded by a combination of direct bank facilities, bonds (often publicly rated) and Auto ABS. In certain cases, the OEM Captives have subsidiaries that operate as banks, as authorised deposit takers with banking licences able to accept deposits. In some cases, OEM Captives form a JV with a third-party bank which is responsible for the funding structure.
    - Financial performance – the lenders in this cohort are generally profitable. Profitability, scale and financially strong parents support strong access to debt markets.
    - Credit profile – focused mainly on the prime sector.
    - Market segment – dominate the new car segment. In certain cases, OEM Captives also finance high quality used cars with limited mileage.
    - Distribution channel – Mainly via franchised dealers with some having direct selling channels and, more recently, via agency channels (where dealers have a limited role on pricing and customer management).
- Non-Bank Lenders Institutionally Backed
    - Typically, monoline lenders often competing with other non-bank lenders and Challenger Banks in certain near prime segments.
    - By institutionally backed, we are referring to the owners of lenders, which are typically private equity funds and conglomerates (non-exhaustive).
    - Funding model – funding is typically in the form of term loans or block discounting from banks, warehousing lines (from banks with senior tranches and credit funds/own equity taking junior positions) and private and public securitisations. They also deploy forward flows as a funding tool.
    - Financial performance – performance varies greatly in this cohort, with some lenders making profits and others consistently making losses.
    - Credit profile – typically near prime and non-prime sectors.
    - Market segment – focused on the used car segment.
    - Distribution channel – primarily through dealers and brokers. Some tech led platforms originate direct to consumer. There are also hybrid D2C models where a consumer starts the finance journey online with a broker or an online lender.
- NBNI (“Non-Bank Lenders Non-Institutional”)
    - Non-bank lenders that are monoline with no institutional backing.
    - Funding model – typically funded by block discounting facilities or term loans from banks. Some deploy forward flows, private warehousing lines and private securitisations (where books are large enough to be securitised).

- Financial performance – similarly to the previous cohort, performance varies greatly in this cohort. There are loss-making lenders as well as some profitable lenders.
- Credit profile – mostly non-prime.
- Market segment – used car vehicles.
- Distribution channel – via brokers and dealers (requires market standard tech platform that integrates with dealers).

The diagram summarises lender cohorts, intermediaries and credit segments of consumers.



Source: FCA

To provide a high-level view of the size and number of lenders in the UK motor finance sector in each cohort, we compiled an extensive list of motor finance lenders. We note that a tail of smaller lenders was not included within the cohort analysis, but that the vast majority of the market by loans outstanding (c. 93.5% as cross checked with FCA data) is included. The table below shows the total number of lenders considered and estimated to be within each cohort. We note this is non-exhaustive but offers a representative overview of the sector. Where an entity is a subsidiary of a large UK based lender, we have consolidated at the parent company. [Redacted due to market sensitivity].

Cohort	Count
High Street Banks	6
Challenger Banks	13
OEM Captives	14
Non-Bank Lenders Institutionally Backed	12
Non-Bank Lenders Non-Institutional	12
Total	**57**

Source: Publicly disclosed financial statements, Interpath analysis

As noted above, each of these lender cohorts are differentiated in terms of their overall size, revenue diversity, financial strength, funding model, credit segments they target, and their distribution channels. It is useful to understand the varying size of motor finance stock for each cohort, with the low, median and high measures of total motor finance stock for lenders within each cohort outlined in the table below. High Street Banks and OEM Captives have the largest overall share of the motor finance stock. Some OEM Captives have a UK entity that operates across Europe, and where this is the case and figures are disclosed publicly, we have picked the UK motor loan book figures and included it in the table below. Where disclosure is limited, we have assumed the total loan book represents the motor finance portfolio. Based on publicly disclosed financial information, certain lenders adopt off-balance sheet funding (i.e., forward flows and funding via vehicles that are not consolidated from an accounting perspective), which is not included in the reported figures, as such, potentially understates the overall size.

(£'m) Average 2024 H1[26] Cohort	Motor finance loans in £m [25] 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

To further understand the diversity of asset class (or lack thereof), we look at the ratio of motor finance loan books to the lenders' overall total assets and to net loans. Expectedly, High Street Banks and certain Challenger Banks have relatively low exposure to motor finance, reflecting the diversity of their overall lending books. One High Street

[25] Companies House: publicly disclosed financial statements.

[26] The most recent publicly available information has been collected. For listed entities with more stringent disclosure requirements, the 2024 data is available. For smaller, unlisted lenders, the most recently published data is either from the 2024 financial year or the 2023 financial year. On average, the date of the financial data used is in the first half of 2024.

Bank's exposure to motor finance is de minimis, being less than 0.1% of both their total assets and total lending book. For OEM Captives, we have assessed their UK entities, and as expected, the motor finance book forms the majority of the total assets.

Cohort[27]	UK Motor Finance Loans as % of Total Assets			UK Motor Finance Loans as % of Total Loans		
	Lowest	Median	Highest	Lowest	Median	Highest
High Street Banks	0.0%	0.2%	1.8%	0.0%	0.2%	3.4%
Challenger Banks	0.8%	4.8%	21.8%	1.0%	6.6%	34.1%
OEM Captives	29.2%	68.5%	99.7%	40.0%[28]	100.0%	100.0%
Non-Bank Lenders Institutionally Backed	0.2%	76.8%	96.4%	1.7%	100.0%	100.0%
Non-Bank Lenders Non-Institutional	2.0%	95.8%	99.4%	100.0%	100.0%	100.0%

Source: Publicly disclosed financial statements, Interpath analysis

The respective equity size (as measured by reported book value of equity) of each of the cohorts (and the divide across lenders) is an indicator of solvency and financial ability to absorb potential redress liabilities. High Street Banks and OEM Captives have higher levels of absolute equity (potentially with group/parental support where applicable).

Cohort	Equity (£'m)			
	Sum	Lowest	Median	Highest
High Street Banks	334,414	13,773	51,908	105,965
Challenger Banks	29,876	35	496	10,756
OEM Captives	10,520	9	472	2,964
Non-Bank Lenders Institutionally Backed	2,235	(20)	43	1,370
Non-Bank Lenders Non-Institutional	176	0[29]	12	38

Source: Publicly disclosed financial statements, Interpath analysis

1.3 Introduction to the commissions issue in the motor finance sector

The significant growth in the UK motor finance sector during the 2010s led the FCA to investigate the way in which commissions were being structured between lenders and brokers or dealers, as they were concerned about conflicts of interest and a potential lack of transparency.

The type of commissions being used in the sector can be summarised into three main categories:

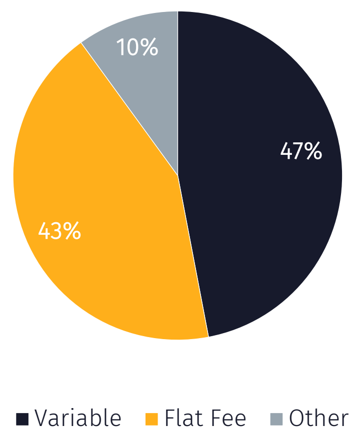
- Flat fees – either a standard flat fee is paid or a fixed percentage of the size of the loan.
- Variable commissions – often referred to as Discretionary Commission Arrangements ("DCAs"). The commission paid is linked to the interest rate charged on the financing, potentially incentivising brokers to arrange finance at higher rates. There are

[27] Where disclosure is limited, we have assumed the total loan book represents the motor finance portfolio.
[28] In certain cases, OEM Captives that operate in the UK also operate in other European jurisdictions. This measure takes UK motor finance loans as a proportion of total loans.
[29] This is rounded to 0. The lowest equity value is £0.2m.

multiple forms of variable commission, including: increasing difference in charges, for example where a minimum interest rate is set by the lender and brokers receive commission linked to the difference between this floor and the rate charged; reducing difference in charge, which is similar to the former but the lender sets a maximum interest rate for the broker; and scaled commission models, in which the broker is paid a fee which varies within parameters according to the interest rate.
- Other – commission models that varied from the flat fee and variable models, including cases where no commission was paid.

After investigating the motor finance sector, the FCA's 'Our work on motor finance – final findings' was published in March 2019, in which it was estimated that the use of DCAs cost the average consumer an additional £1,100 over the life of a typical car loan (£10,000 loan paid off over four years) and cost consumers in the UK over £500m per annum in additional interest. This led to the FCA banning DCA style commissions from January 2021 onwards. The 2019 FCA report found that c.47% of motor finance lending was done with a variable commission in place, predominantly in the near prime credit market segment.

Figure 1.3 - Pre-2021 proportion of commission type on motor finance loans



Source: FCA

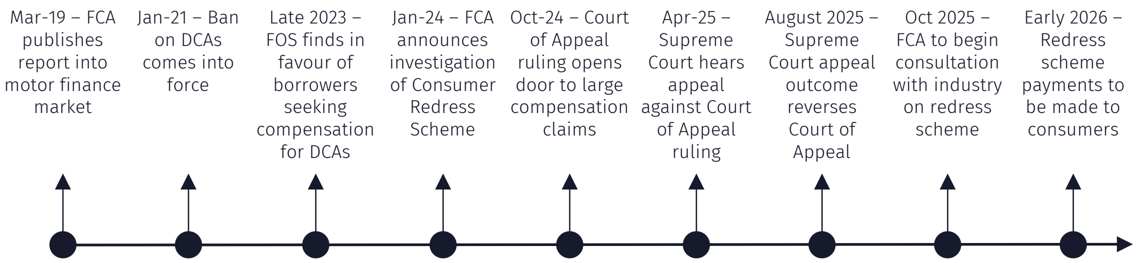
The decision to ban DCAs from 2021 onwards led to a rising volume of complaints to the FOS. In January 2024, the FCA announced that they would investigate the implementation of a Consumer Redress Scheme to compensate impacted consumers on a mass basis after FOS ruled in favour of two claimants who had been impacted by DCA style commissions.

Whilst the FCA was investigating the potential use of redress schemes, three separate court cases were heard at the Court of Appeal, being Johnson v FirstRand Bank Limited, Wrench v FirstRand Bank Limited and Hopcraft v Close Brothers. On 25 October 2024, rulings were handed down in each of these cases, and these rulings brought into question any commission paid by lenders to brokers or dealers that was not openly disclosed. These rulings were appealed, with the Supreme Court hearing arguments in early April 2024 before handing down its judgment on 1 August 2025.

Decisions made by the Court of Appeal were, in summary, largely overturned by the Supreme Court, with claims relating to bribery and fiduciary duty rejected. The judgment outlined three key reasons why an agreement could be considered unfair noting this is a high-level summary and fuller details of the redress scope will be provided in the FCA's consultation paper expected to be published in October 2025:

1. The nature of the commission, whether it was discretionary;
2. The excessive size of the commission relative to the total amount lent (26% in the Johnson v FirstRand case) and to the total cost of credit (55% in the Johnson v FirstRand case), and the amount of commission not being disclosed; and
3. The undisclosed nature of the relationship between the dealer/broker and lender, and whether there was a tied relationship that was not presented as such.

Post this ruling, the FCA announced on 3 August 2025 that they will consult on an industry wide scheme to compensate motor finance customers who were treated unfairly, with the consultation to commence from early October 2025 for six weeks. Compensation to consumers is expected to begin in 2026.



1.4 Overview of UK motor finance debt and equity capital markets

As previously illustrated, £40.0bn of motor finance loans were estimated to have been advanced in 2024, issued by lenders from each of the different cohorts. These lenders are financed via public markets and private markets across debt and equity capital.

Below we provide a breakdown of the types of debt funding and equity investments typically used by motor finance lenders.

i. Debt Funding:

- Deposits
    - For High Street Banks and Challenger Banks, retail and commercial deposits are used as a source of core funding to originate loans.
- Bank funding – in various forms of credit such as:

  - Term loans, block discounting, or senior tranches in warehouse lines secured by a pool of motor loan receivables.
  - Utilised by non-bank lenders and OEM Captives.
- Private credit
  - Provide structured debt in the form of stretched senior debt (hybrid instrument that sits between senior and mezzanine debt in terms of risk, pricing and leverage, typically provided by credit funds and investment banks), mezzanine or subordinated debt often to supplement bank facilities or as junior notes in warehouse lines.
  - Utilised by non-bank lenders.
- Bonds
  - Publicly rated senior and subordinated debt are issued to institutional investors. Issuers are relatively large lenders with stable financial profiles and/or backed by large sponsors or parent companies.
  - Utilised directly by OEM Captives or their parent companies for the purposes of intercompany funding. Additionally, certain banks issue bonds (different types of bonds).
- Securitisation
  - Motor finance lenders typically deploy Auto ABS programmes. Various classes of notes are issued to institutional investors such as asset managers, alternative investment funds, insurers and pension funds. ABS programmes are done so on both public and private markets.
  - Utilised by most High Street Banks, certain Challenger Banks, OEM Captives and certain Institutionally Backed Non-Bank lenders.
  - Auto ABS is a well understood asset class in the UK with predictable cash flows, presence of historical performance data, granular collateral and attractive structural features (i.e. credit enhancements, reserves etc) being key reasons why this form of funding has grown in importance.
  - In ABS transactions, investors primarily focus on the credit quality of the underlying loan pool and the robustness of the transaction structure. However, the creditworthiness of the lender remains important for several reasons — particularly due to servicing risk, as the lender often acts as the servicer, and, the strength and enforceability of the representations and warranties provided by lenders, is a key structural consideration for ABS investors.

ii. Equity Capital:

- Public market equity raises – IPOs and rights issue/offerings.
  - Utilised by banks (listed High Street and Challenger Banks) and OEM Captives (via share issuances by parent companies).
- Private equity – providers of equity capital typically include:
  - PE Funds providing equity to Challenger Banks and Non-Bank Institutionally Backed motor finance lenders.

- Financial Institutions such as asset managers and some insurers provide equity capital to Non-Bank Institutionally Backed motor finance lenders.
- Private investors, family offices and high net worth individuals providing equity capital to non-bank motor finance lenders.
- Venture Capital Funds providing equity to Non-Bank Institutionally Backed motor finance lenders.

1.4.1 UK motor finance debt funding and capital sources

Bank funding and structured debt

There is limited publicly available information on the volume and cost of bank facilities and private debt funding to motor finance lenders. Isolating the motor commissions issue, historically and based on our experience of arranging financing for motor lenders coupled with our interactions with funders and motor lenders, funding from banks and credit funds has kept pace with the growth of the overall motor lending asset class in the UK. In fact, the number of private credit funds and available capital to deploy has increased substantially in line with the growth of private credit markets globally driving appetite for investing in asset backed funding including motor finance.

Auto ABS transactions

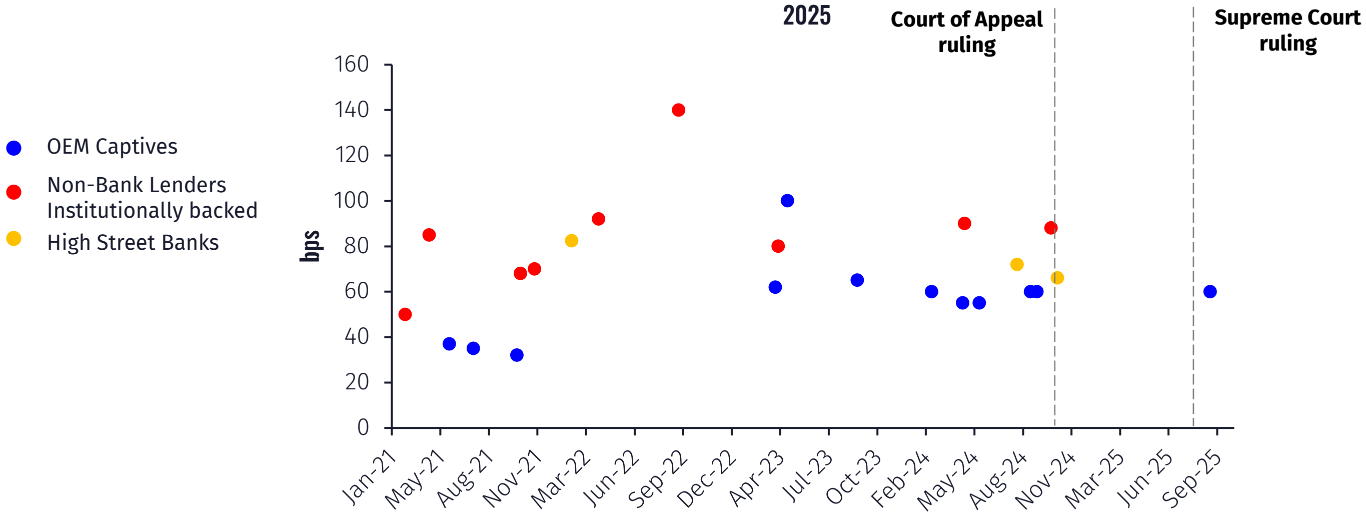
Certain lenders, such as High Street Banks and OEM Captives, which represent the largest absolute providers of motor financing in the UK, commonly use public and private Auto ABS transactions to support growth and scale of lending. Additionally, some Institutionally Backed Non-Bank lenders also use public and private Auto ABS transactions as their main funding source. The Auto ABS market is considered a highly efficient form of capital, with respect to competitive funding costs, capital efficiency, off-balance sheet treatment and scale.

The underlying collateral of the motor finance ABS market comprises UK motor finance loan receivables originated by lenders. The receivables arise under PCP, HP and PCH agreements.

Information on public motor finance ABS transactions is often available and provides a useful historical guide for the motor finance lending sector on both the amount and the cost of funding (i.e., credit spreads/margins).

When assessing cost of funding for European Auto ABS transactions, we observed that initial pricing (in the form of spreads) on UK AAA rated senior notes are on average generally higher for non-bank lenders relative to equivalent AAA rated senior notes for OEM Captives and Banks over the period January 2021 to June 2025, as seen in the chart below. Based on the below data, we note that there was no observable directional trend after the Court of Appeal ruling in October 2024 as we understand from market participant discussions that there were no UK public Auto ABS transactions executed due to the legal and regulatory uncertainty and the potential significant redress liabilities for motor finance lenders. However, since the Supreme Court judgment in August 2025, there has been one public UK Auto ABS deal sponsored by a large OEM Captive wherein 100% of the receivables pool was originated after 1st February 2021 (when discretionary commission arrangements were banned). On the other hand, new deals have continued to be originated in the European public Auto ABS markets.

Figure 1.4 - UK auto ABS primary senior pricing spreads over the period 2020 to ytd 2025

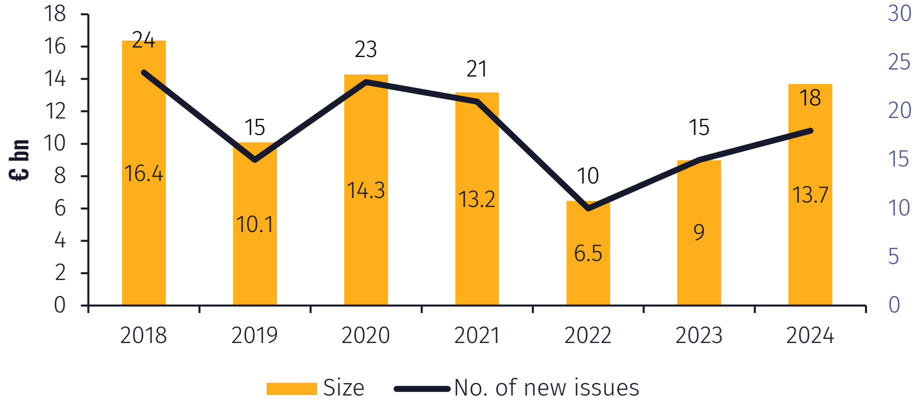


Source: S&P European Auto ABS Index Q4 2024 and Citi Syndicate Weekly Update - 12th September 2025

When analysing the volume of Auto ABS market over 2018 to 2024, according to S&P European Auto ABS Index[30], which covers S&P rated Auto ABS issuances, new issues within the European and UK Auto ABS market have declined, from 24 new issues with a value of €16.4bn in 2018 to 18 new issues with a value of €13.7bn in 2024. This decline can be attributed to the impact of the Covid-19 pandemic with respect to the global shutdown, which was proceeded by a significant slowdown in new car sales, a sudden rise in inflation and thereafter a rise in policy interest rates to curb inflation, leading to a cost of living crisis and having a notable impact on the motor finance lending market and, by extension, the ABS market. However, there has been a recovery in volume and new issues from the low of ten new issuances in 2022 to 18 new issues in 2024.

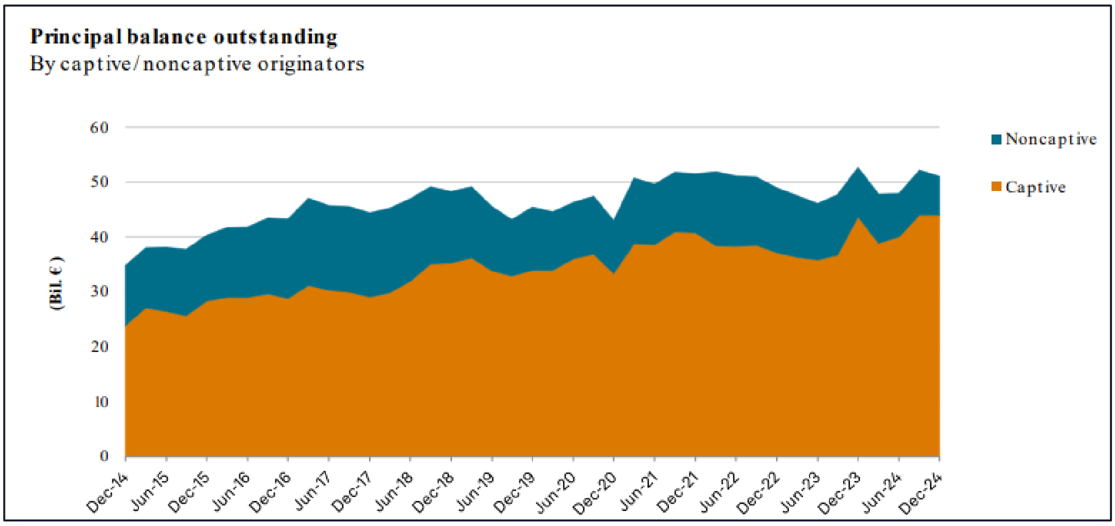
[30] S&P European Auto ABS Index Q4 2024 and Citi Syndicate Weekly Update - 12th September 2025.

Figure 1.5 - New European auto ABS Issuances between 2018 and 2024[18]



Source: S&P European Auto ABS Index Q4 2024

Of the motor finance lenders covered in this report; it is estimated that the OEM Captives hold approximately 60.1% of the total stock of the motor finance lending market. According to the S&P European Auto ABS Index, it is estimated that Germany (50.0%), the U.K. (30.6%), Italy (8.9%), and France (3.8%), account for 93.2% of the total index and per the chart below, the growth in market volume of the OEM Captives from 2014 to 2024 can be seen to near double in size.[23] This chart below also shows that the OEM Captives are highly active in the Auto ABS market across Europe, as their share of this market is much higher than their share in the UK motor finance market.



Source: S&P European Auto ABS Index Q4 2024

To provide more context on the Auto ABS market, we present a list of the most recent UK Auto ABS transactions issued by the UK motor finance lenders. Based on the below reported transactions, we note that over £5.0bn of public UK Auto ABS transactions were issued in 2024, whilst noting these transactions were issued prior to the Court of Appeal ruling in October 2024. Comparatively, for the year 2025, there have been significantly fewer transactions with one public UK Auto ABS deal sponsored by an OEM Captive in early September 2025, after the Supreme Court ruling.

Summary of recent UK ABS transactions[31]

Transaction	Issuer	Cohort	Total Size (£m)	Date	Highest Credit Rating	Initial Pricing	Asset type
Driver UK Master S.A. Compartment 10	Volkswagen Financial Services	OEM Captives	843.0	Sept 2025	AAA	Sonia + 0.60%	HP, PCP and Lease agreements
Driver UK Master S.A. Compartment 8	Volkswagen Financial Services		625.0	Feb 2024	AAA	Sonia + 0.60%	HP, PCP and Lease agreements
Silver Arrow UK 2024-1	Mercedes Benz Bank		530.0	Apr 2024	AAA	Sonia + 0.55%	HP and PCP agreements
Bavarian Sky UK 6 plc	BMW Financial Services		550.0	May 2024	AAA	Sonia + 0.55%	HP and PCP agreements
Koromo UK 1 Plc	Toyota Financial Services		657.9	Sep 2024	AAA	Sonia + 0.60%	PCP & HP agreements
Cardiff Auto Receivables Securitisation 2024-1 PLC	Black Horse Limited	High Street Banks	1,250.0	Aug 2024	AAA	Sonia + 0.72%	PCP & HP agreements
Pulse UK 2024 plc	BNPP - Arval UK		402.3	Oct 2024	AAA	Sonia + 0.66%	Lease agreements
Motor Securities 2024-1 DAC	Santander Consumer (UK) Plc		769.2	Oct 2024	NA	NA	Prime secured, PCP secured and unsecured
Dowson plc 2024-1	Oodle Financial Services	Non-Bank Lenders Institutionally Backed	350.0	Oct 2024	AAA	Sonia + 0.88%	HP agreements

[31] Public prospectuses, ratings report documents and research articles.

According to DBRS Morningstar dated February 2024, the volume of loans affected in UK Auto ABS (DBRS rated transactions) could be limited due to the discretionary commissions being banned with effect from January 2021 and the relatively short duration of motor finance loans, typically not exceeding four years as they continue to amortise as transactions are deleveraging.

DBRS Morningstar anticipated two potential sources of risk relating to commission related redress liabilities arising that may adversely affect existing Auto ABS transactions:

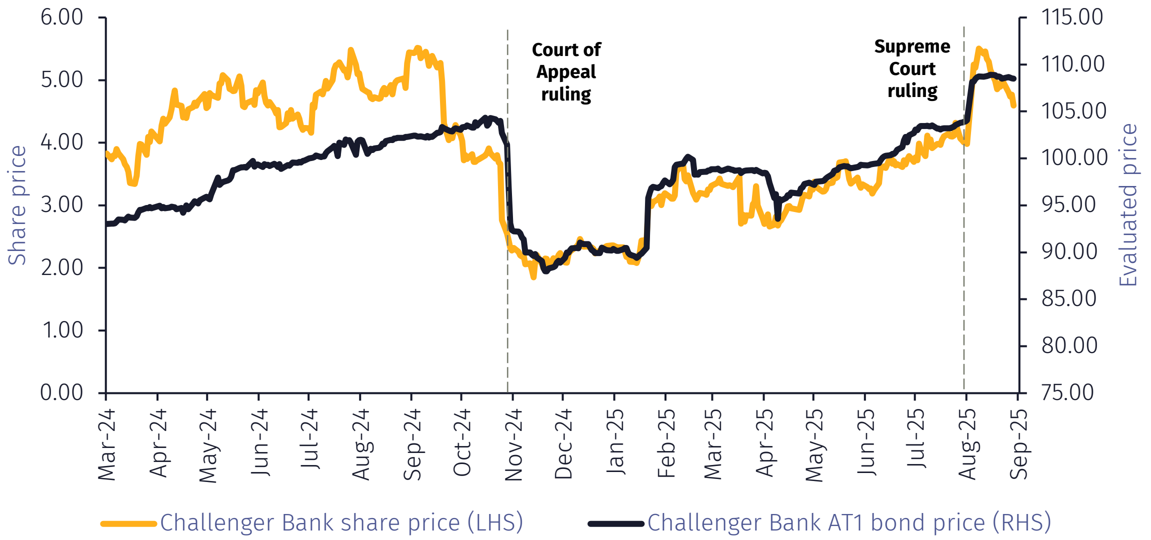
(i) Set-off risk, which applies to borrowers whose loan has been securitised. Set-off risk refers to the risk that a borrower may legally offset redress amounts owed to them by the lender against their motor finance loan repayments in respect of which the beneficial interest has been securitised and sold to investors; and

(ii) A risk of loan cancellations and/or variations.

Bonds / Corporate Debt Notes

We note there are limited motor finance bond / corporate debt issuances in the public markets due to the general use of corporate bonds by the parent companies of OEMs. Similarly, within the UK, bank bonds are used to provide funding for general banking purposes. There is one Challenger Bank with a large motor finance loan book, and the chart below shows how its bond price reacted to the CoA (Court of Appeal) judgment, when it fell sharply trading below par but has recovered since and reacted positively post Supreme Court judgment. The below table illustrates the change in the price from 1 March 2024 to 1 September 2025.

Figure 1.6 - Challenger Bank Share and AT1 Pricing Last 18 Months



Source: S&P Capital IQ and Interpath analysis of share and bond price data as of 01/09/2025

1.4.1 UK motor finance equity funding and capital sources

Listed Equity

As previously mentioned, High Street Banks, certain Challenger Banks and the parent companies of the OEM Captives are publicly listed. Below we summarise notable equity capital market transactions – IPOs from UK lender issuers. We have noted that no pure play motor finance businesses in the UK have publicly listed in the last decade.

IPOs

Summary of most recent UK lender IPOs:

IPO Issuer	Year	Details	Amount raised in IPO	Valuation
LendInvest	2021	Property finance. Do not offer motor finance products.	£40m	£256m
Funding Circle	2018	SME finance. Do not offer motor finance products.	£441m	£1,504m
Metro Bank	2016	Metro Bank has a small exposure to motor finance lending via Rate Setter.	£400m	£1,605m
Shawbrook	2015	Shawbrook was subsequently taken private in 2017. In October 2023, they announced a funding partnership with a non-bank motor finance lender.	£218m	£725m

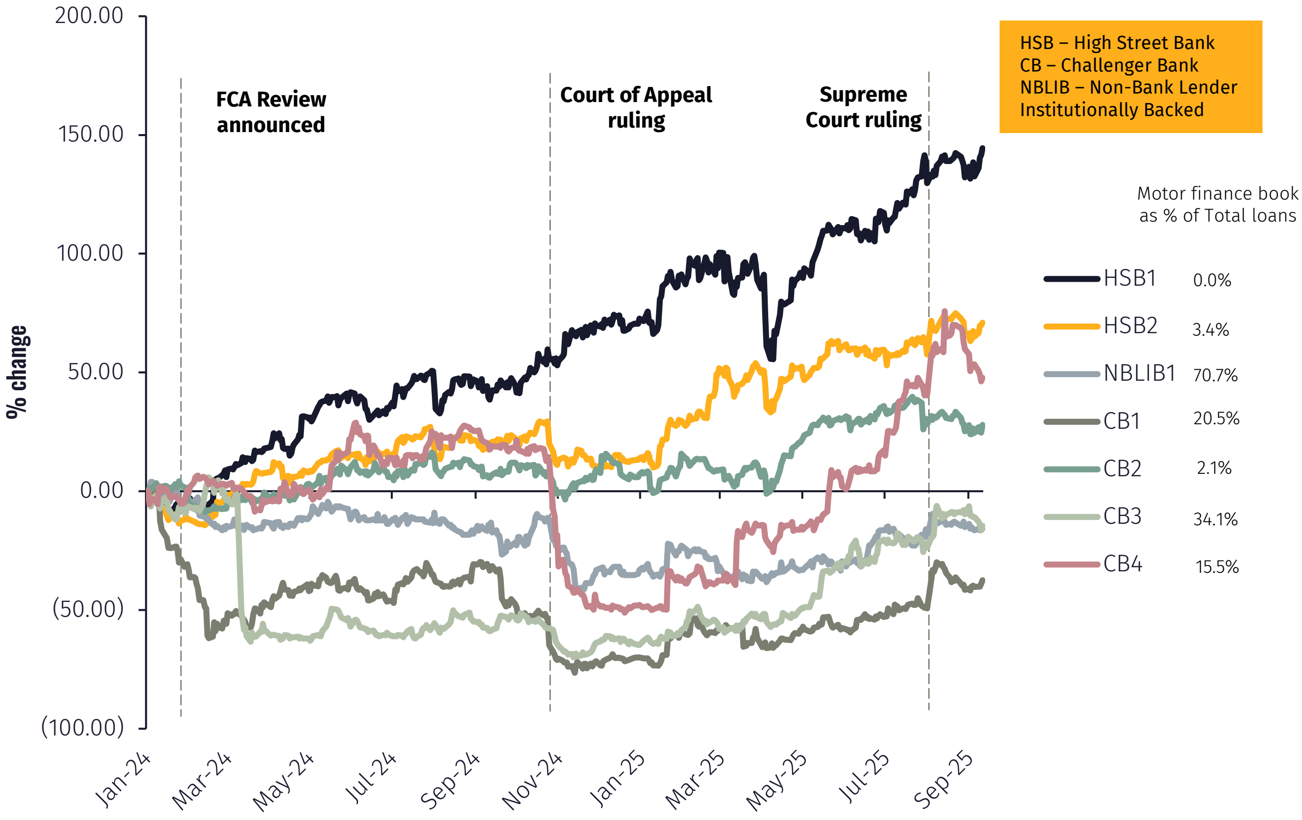
Aldermore Bank	2015	Aldermore, which has a motor finance lending division, was taken private in 2018.	£226m	£651m
One Savings Bank	2014	Property finance. Do not offer motor finance products.	£135m	£413m
Virgin Money	2014	Raised c. £312 million in its IPO on the London stock exchange; were acquired by Nationwide in October 2024.	£312m	£1,250m

<u>Share price performance of listed lenders with motor finance lending exposures</u>

We note that there are no pureplay listed motor finance lenders in the UK with the exception of one listed lender with c. 70% of their total loan book attributed to motor financing. Motor finance contributes to a small proportion of total loans for High Street Banks, ranging from de minimis levels (less than 0.1%) to 3.4% as of 2024. In comparison, certain publicly listed Challenger Banks that offer motor finance products have a wider range of between c. 2.1% to c. 34.1% of total motor finance lending to total lending.

From the start of 2024 to year-to-date 2025, UK-listed financial services firms exposed to motor finance saw volatile share price performance, driven by regulatory scrutiny and legal uncertainty around motor finance commissions, and other UK and global macroeconomic factors. Post Supreme Court judgment (1 August 2025) and FCA press release (3 August 2025) the share prices of select (impacted) High Street Banks and Challenger Banks moved up. In the two weeks post judgment, the share price increases ranged from 2.1% to 29.7%, additionally the share price movement for a non-bank listed lender increased by c. 6.3% over the same period; this overall indicates improving equity market sentiment. For context and for relative perspective, the broader UK equity market was slightly up in the same period: the FTSE 100 was up 0.8% and the FTSE 250 was up 0.3%.

Figure 1.7 - UK banks price change since Jan 2024



Source: S&P Capital IQ and Interpath analysis of share price data as of 11/09/2025

Private Equity and M&A

Below we provide an overview of some notable UK private equity motor finance deals, which is not an exhaustive list, however, based on the observable data, we can establish that deal activity in the motor finance sector has been limited. The below transactions are focused on the tech driven, direct to consumer loan origination businesses. Furthermore, some details of transactions are not disclosed in the public domain and as such we provide a brief overview:[32]

Transaction	Buyer	Target	Deal Size	Date
Growth Equity	Ontario Teachers' Pension Plan	Lendable[32]	£275m	2022
Growth Equity	Multiple Funding rounds Venture to Series A	Carmoola	£2m to £103.5m[33]	2021-2023

[32] Public data from company websites and various financial platforms. We note that Lendable is not a pure motor finance lender but provides other consumer lending products.
[33] Based on S&P Capital IQ database, the £103.5m also includes venture debt.

Acquisition	KKR	Oodle	£60m	2017
Acquisition[34]	Cabot Square Capital	Blue Motor Finance	£30-40m	2014

In addition, we have observed a limited number of banking deals in the sector with a handful of bank driven, strategic transactions over the last 15 years:

Transaction[35]	**Buyer**	**Target**	**Deal Size**	**Date**
Acquisition	Shawbrook Group	JBR Capital	£22.0m	2024
Acquisition	Close Brothers	Bluestone's Irish car lending business	€17.2m	2023
Acquisition	Lloyds Banking Group	Tusker	£300m	2023
Acquisition	Aldermore	MotoNovo	£1.1bn	2018
Acquisition	Bank of Ireland	Marshal Leasing	£42.5m	2017
Acquisition	BNP Paribas	Arval UK	c.£2.0bn	2014
Acquisition	Provident	Moneybarn	£120m	2014
Acquisition	Santander	GE Motor Finance	€1.0bn	2008

As observed, we note that there have not been significant equity capital issuances, private equity or bank led transactions in the motor finance sector in recent years.

Conclusion

As highlighted within this section, we have noted the various forms of debt and equity capital instruments deployed by lenders of different cohorts and sizes, along with the demand from market participants in recent times and the overall pricing and availability of capital to the sector.

Evidently, the most active capital market continues to be Auto ABS relative to other sources of funding, given the large size of lending issued by the OEM Captives and High Street Banks. Whilst data is not publicly available, various forms of bank funding and forward flows are also active debt financing instruments deployed typically by non-bank

[34] Cabot Square Capital also injected primary equity into Blue Motor Finance.
[35] PitchBook.

lenders. It is also clear that there has been limited deployment of equity and M&A transactions in the UK motor finance sector, particularly in the non-bank lender cohort.

The financial risks from the potential redress payouts could impact not only lenders themselves, but also potentially both debt and equity capital providers. These risks are discussed and highlighted in sections 3 and 4 of this report.

Section 2: Impact of motor finance redress on cohorts and respective lenders

The financial impact analysis was performed at lender level (for the 32 lenders for which the FCA provided redress estimates) and then aggregated up at the respective cohort level to draw conclusions for each of the five cohorts.

As this section contains information that could be regarded as market-sensitive, and is not based on the FCA's current redress estimates and methodology, the contents of this section have been intentionally redacted.

Section 3: Impact on debt market dynamics

3.1 Source of debt funding per cohort

The key debt funding sources that each of the cohorts access are outlined in the table below.

Cohort	Key debt funding sources
High Street Banks	- retail and commercial deposits - securitisations - wholesale debt funding - bonds - subordinated debt (tier 1 and tier 2 capital)
Challenger Banks	- retail and commercial deposits - securitisations - wholesale debt funding - bonds - subordinated debt (tier 1 and tier 2 capital)
Non-bank Lenders Institutionally Backed	- term loans from banks - block discounting facilities from banks - warehouse facilities - securitisation - forward flows
Non-bank Lenders Non-Institutional	- term loans from banks - block discounting facilities from banks - warehouse facilities - forward flows
OEM Captives	- OEM parental funding - bank facilities - bonds - warehouse facilities - securitisations

3.2 Overview of impact on debt capital with market participants

In this section, we discuss the potential impact of the motor finance commissions redress on the availability of debt funding, through interviews with key decision makers at debt capital providers who actively assess opportunities in the motor finance market in the UK. The interviewees were chosen due to their experience in the credit market and knowledge gained through historic provision of debt capital to the UK motor finance market.

As part of this workstream, we have interviewed nine debt funders in categories as follows:

- four private credit funds
- two bank funders
- three Auto ABS investors, including one that is also an arranger

Of those interviewed, six of them have live funding lines in the motor finance sector. The underlying credit segments of consumers served by these debt funders vary and the underlying collateral is across both new and used car markets.

It is important to note that these interviews were undertaken in the months leading up to the Supreme Court judgment, with the insights (sources were kept anonymous) provided to the FCA throughout the process to inform their analysis. The language in sub-sections 3.2.1 to 3.2.6 has been retained in its original present tense form, as it was provided to the FCA prior to the Supreme Court judgment.

It was not in the scope of this report to interview funders again post Supreme Court judgment. In this regard, we note that views of debt capital markets have evolved since the judgment, which we briefly cover in the conclusion of this section (which is based on our observations and anecdotal evidence).

3.2.1 Market sentiment and views in the context of motor finance commissions redress issue

Most of the interviewees had similar overarching views on the current state of the motor finance debt market and how this has informed their thinking on the sector. These common views are outlined below.

- The level of market confidence has already been impacted for debt funders, who are currently in a 'wait and see' mode on new deals, including refinancings, and will not consider deploying funds in the motor finance sector until the Supreme Court rules on the Court of Appeal verdict in August 2025. The impact of the redress is somewhat secondary to the volatility and uncertainty due to court decisions overturning regulatory rules.
- There is no utility for debt funders to perform detailed redress scenarios, as the range of possible outcomes is so large it creates a high level of uncertainty. As such this exercise would be without merit. Debt funders are categorising this as a cliff edge event, meaning that if the Court of Appeal judgment is upheld there could be significant negative long-term consequences for the motor finance industry.
- All the interviewees stated that the uncertainty in the motor finance sector has made it currently uninvestable. For future deployments to be made, absolute clarity is required on the redress, both in terms of quantification of liabilities (based on how the FCA intends that lenders should calculate redress) and timing of the administration of the redress payments. To restore a degree of confidence, the timing needs to be contained to a relatively short period, as a longer period could allow greater opportunity for CMCs to continue to be actively involved on

lodging claims, which could be highly damaging, leading to protracted operational burden on lenders and their financial positions.
- Debt capital providers have expressed concern by the inconsistency of regulations across different regulators (i.e., FCA), government bodies (i.e., FOS) and lack of alignment with the UK courts. Clarity of rules going forward could support and encourage the deployment of capital back into the motor finance market. The example provided related to FOS ruling in favour of consumers in DCA-related cases that pre-date the banning of DCAs. Funders noted that the FCA's statements regarding balancing market and consumer outcomes were received positively.

In addition to the views above, two out of nine funders mentioned there is concern about the potential risk for recission of the motor finance contracts whereby loans are legally cancelled or voided and the borrower could cancel the contract whilst delivering cars back to lenders/servicers creating large operational and financial burden on lenders. It was suggested that this could have a severe impact on the lenders' ability to manage such a situation and on capital providers, who could pull out from future funding. For recission to occur, the loan contract would need to be current and deemed to be illegal, i.e. with a hidden commission in the scenario that the CoA ruling is upheld.

3.2.2 Potential financial impact on lenders

When asked about the financial impact of redress on lenders and prompted regarding which specific risks were most acute out of repayment risk, refinance risk, liquidity, solvency risk, servicing risk and operational risk, the debt funders interviewed had similar responses, outlined below.

- The core concern regarding the financial impact is the uncertainty in the size and amount of redress, along with the fact that the action is being taken on a retrospective basis.
- All debt funders said that there is a high risk of financial covenants (e.g. minimum TNAV ratios, interest coverage ratio, minimum cash requirement etc) being breached and severe liquidity issues arising. This could lead to solvency risk, especially for non-bank lenders that are monoline and have relatively limited financial capacity to satisfy customer redress.
- Almost all debt providers said that non-bank lenders would start, or had already started, cutting costs, including headcount reductions, and could look to reduce originations to stabilise their businesses and focus on building capital reserves. It is public knowledge that one of the challenger banks, which is highly exposed to motor finance commissions, has been disposing of divisions to generate capital to be able to deal with potential redress.
- The ability for monoline non-bank lenders to access debt capital resources is limited relative to the more diverse non-bank lenders as well as the banks. These monoline non-bank lenders are more likely to suffer and are less resilient to financial shocks.

- Most debt funders said that lenders could start increasing APRs (together with lower originations to maintain capital) charged to consumers to remain profitable and to make unit economics work, as operational costs would rise to manage the high volume of claims. Non-bank lenders are often thinly capitalised with high asset encumbrance meaning limited financial capacity to further lever up to maintain or grow front book originations.
- Debt funders raised concerns that the increase in cost of finance, alongside the decrease in supply of motor finance, would reduce choice for consumers and could raise the cost of financing for them.

In addition to the above, it was raised that the role claims management companies have in the process could end up turning this into a credit deterioration event. If claims management companies are overly aggressive, some consumers could infer that they are no longer required to make their regular payments, which could turn this regulatory event into a credit event. There have not been any changes in credit metrics yet. One funder expressed concern that the financial impact could potentially lead to heightened risk of independent dealers becoming insolvent as well impacting franchised dealerships, with OEMs offsetting losses caused by redress by seeking recoveries from dealerships, but also due to other international headwinds (e.g. tariffs), through closures of dealerships, which could further impact consumer choice and competition. They also said that there is risk that it could threaten the public policy objective to increase take up of EVs in the UK.

3.2.3 Availability and pricing of debt capital

As part of the interviews, debt funders were asked for their views on the availability of capital as well as the cost. The key takeaways from this are summarised below.

- All lenders stated that the UK public Auto ABS market has been on hold since the Court of Appeal ruling in October 2024. The underlying issue is not just in the difficulties that could exist in pricing, but also, given the huge uncertainty in the potential redress outcomes, lenders are unable to provide for structural protections for funders in the form of reserves held for redress, and the level of legal protections in the form of representations, indemnities and warranties could be prohibitive.
- As well as seeing no new public Auto ABS transactions, debt funders are not seeing refinancing or upsizing of warehouse lines. Given the very high level of uncertainty on redress, new funding deals have not closed since October 2024. Funders are unable to quantify multiple risks, leading to this 'wait and see' approach.
- Debt funders also discussed set-off risk for live funding transactions, which is the risk that customers set-off the redress amount from the amount owed. If this were to take place, and if the originator (or servicer) could not make whole (because of lack of financial ability), the receivables balance could reduce which could severely impact the underlying collateral and could lead to losses for the debt

funders; first for junior debt providers and then potentially even senior funders, depending on the size of redress. The impact this could have on debt funders would depend on structures, reps and warranties that are in place and importantly, lenders' financial position; in the case where certain lenders are unable to bear the financial burden, there would be no value in legal protections. It could also have second order impacts and cause a further loss in investor confidence. It is considered a worst-case scenario by some funders.

- Two debt funders had looked at opportunities earlier this year. One was a sizeable motor finance portfolio and the second was a forward flow in the non-prime segment. Both were aborted due to the extremely high uncertainty related to redress.
- Funders have very limited (to no) appetite to provide capital for satisfying redress liabilities. For this to occur, a business would require a viable business plan and sufficient level of unencumbered assets. Most non-bank motor finance lenders have limited unencumbered assets. Any funding that could be provided to satisfy redress is more likely to come in the form of preferred notes or structured equity, if available and this could be highly expensive.
- Motor finance lenders, particularly non-bank monoline lenders, could become highly levered with significant redress liabilities. This could potentially drive up the cost of capital, first at the equity and junior capital levels, and could even impact senior pricing, as higher reserves and higher structural protections will drive up the cost of funding. No funders could provide a quantitative view on the impact on cost of capital other than it being directional higher – this is highly specific to each situation and to structuring of capital.
- Funders noted that there is no requirement for current funders to continue to provide capital to the UK motor finance sector, and especially those funders who operate globally, and that there is a likelihood that global funders could look to other jurisdictions for investment if the size and scope of redress is large and/or if regulatory and legal clarity is not forthcoming.

One funder had a different view, stating that the redress matter did not mean that an Auto ABS could not be placed in theory, but pricing would be much higher. There was no indication as to the quantity of any change in pricing. The higher pricing could be due to the structural protections that would be required by the funder.

3.2.4 Scenarios & expectations

Another set of questions put to the debt funders was about what scenarios they had considered and what their expectations were regarding potential outcomes. The key takeaways from this are outlined below.

- Almost all the funders said that in the scenario in which the Court of Appeal ruling is upheld, the impact would be extreme. Not only would it decimate the motor finance sector, especially non-bank lenders, but could also impact other lending

markets that rely on broker distribution, such as asset finance, commercial finance and insurance premium funding to name a few.
- The funders also mentioned that other consumer finance products which have been intermediated (by brokers), such as credits cards and unsecured personal loans could also be impacted.
- Most funders mentioned that a scenario where the role of claims management companies is not clearly outlined could lead to them continuing to attack from all angles, and if this happens over a protracted period, it could be hugely damaging to the industry. Some even went as far as saying that there was conflict of interest for FOS, as they receive case fees according to the volume of claims they handle and not the quality/relevance of claims.
- Several funders shared the view that the market is currently pricing in a DCA only scenario and that lenders are not prepared for a CoA or a DCA plus scenario. Even if the redress is limited to DCA, this could still make certain non-bank monoline motor finance lenders insolvent.
- Most funders are hoping that redress is limited to DCAs and contained to the motor finance sector only. Some said that redress with a significant look-back period, i.e., going back to 2007, would be quite damaging, especially to non-bank lenders given the volume of loans could increase exponentially and the size of redress, including statutory interest.
- Many funders said that the market needs absolute regulatory clarity, such that rules cannot be retroactively applied, as this creates significant regulatory risk. This is incredibly important for market confidence in the context of future deployment of capital. And that a CoA type event never happens again.
- All funders said that the bar for investing in regulated sectors has increased substantially. Some funders said that they are looking to diversify by allocating more funds to unregulated sectors.

Some funders provided slightly differing views, including one funder that thought that if redress is narrowed to a limited DCA scenario, there would be some platforms that could go under/fail, but this could provide opportunity for others who are less or not impacted at all, to increase their market share. Another funder said that the market is fairly relaxed for existing debt deals (Auto ABS) because the speed at which motor finance loans amortise reduces the risk of set-off arising. Regarding regulatory risk, one funder noted that it always exists in any financing sector, and that whilst regulatory clarity is needed, this is rarely the case in the UK financial services market.

3.2.5 Potential spillover impacts into other markets

One of the key discussion points with funders was regarding spillover impacts into adjacent markets. The key takeaways from this are outlined below.

- Whilst funders are not seeing spillover effects yet, there are concerns that there could be impacts on asset finance, commercial lending originated via intermediaries, and insurance premium financing.
- Some funders are concerned that without consistency on the application of regulations, there is still going to be a perspective that complying with live regulation does not necessarily protect a lender from retroactive application of new regulations or rules.
- All funders said that the bar for investing in regulated markets in the UK has increased substantially.

One investor made the point that consumer finance ABS deals are still being placed in the same way as they always have, suggesting there have not been spillover impacts yet.

The key callout to note regarding spillover impacts is that the market is hoping it is contained to motor finance sector.

3.2.6 New entrants and funding to new lenders or participating in new ABS deals

Funders were asked whether they would provide funding to new entrants in the motor finance market. Key points from these discussions are outlined below.

- Most funders said that there are two challenges for new entrants: one is that they could have limited trading and credit history to rely on, and the other is that, even if they were satisfied from a regulatory due diligence perspective, there would be no certainty that regulatory rules could not be retroactively applied.
- Funders stated that the environment could become less conducive to lend to new entrants into directly affected markets and to the UK Financial Services sector more generally, given the higher hurdle the investor base charges for such uncertainty, should that continue to be a theme in the UK financial markets.
- It is likely that new entrants could attract higher funding costs, and this would feed into higher APRs for consumers. Though with track record, funding costs could normalise.
- Some private credit funders said that they are looking at new funding opportunities but are currently in a 'wait and see' mode, and the only proposition that could currently work is where lenders have not been lending for too long (implying limited redress liabilities / legacy issues).
- ABS funders said that they would deploy funds into new ABS post the Supreme Court decision and clarification regarding the FCA redress rules, but it will depend on structural protections and financial strength of originators and servicers. There will need to be financially healthy back up servicers, sufficient reserves for redress/regulatory liabilities and a relatively expansive set of representations and warranties. Funders also expressed concern that the volume of issuances available for them to participate in could continue to be reduced at least in the short to medium term.

- The motor finance market will be impacted for the foreseeable future but demand for consumer motor finance is relatively inelastic, and capital providers said that they were not likely to retreat entirely from the sector.

3.3 Conclusion on observations

This conclusion is based on: (i) the interviews conducted pre-Supreme Court judgment; (ii) we spoke to three capital providers (across debt and equity) for high level views post Supreme Court judgment; (iii) our own views and (iv) anecdotal evidence.

Market confidence, from debt funders' perspective, had been significantly impacted by the Court of Appeal decision in October 2024 and several funders were concerned about a Supreme Court ruling whereby the CoA ruling would have been partially or fully upheld. Post Supreme Court ruling some level of market confidence in the sector has been restored however, concern remains on the clarity of redress mechanics, the scope of redress and financial impacts on lenders. It was clearly helpful for the motor finance market that the Supreme Court concluded that dealers and brokers did not have a fiduciary duty which could mean that undisclosed commissions do not in themselves, render a transaction invalid, but we are not lawyers and are not providing a legal opinion. The FCA stating that it would consult on a statutory interest at 1% over BoE's base rate was also helpful (compared to the FOS' typical rate of 8%) and mid-summer FOS announced changes to compensation interest levels, confirming this new rate. Whilst we cannot comment on the legal aspects of set-off risk, the risk diminishes over time as UK motor finance products typically have short lifespans.

The debt funders in the motor finance sector are still in a 'wait and see' mode. Based on public information, there was only one UK public auto ABS deal (in early September 2025 led by an OEM Captive) since the Court of Appeal ruling in October 2024. Debt funders are waiting for clarity which would come through following the FCA's detailed consultation starting in early October 2025.

Debt funders recognise that redress will likely impact the solvency of certain non-bank lenders, particularly those that are monoline with minimal profits and thinly capitalised balance sheets.

Pre Supreme Court judgment, there were high levels of concern regarding spillover impacts on asset classes such as asset finance, commercial lending originated via intermediaries, and insurance premium financing, but this has likely significantly reduced post Supreme Court judgment. The key issues when considering spillover risk are likely to include the relative size of commissions against credit advanced and whether a fiduciary duty is owed to a borrower – but we are not lawyers and are not providing a legal opinion on spillover risk.

Through our engagement with funders, we note that the scope of regulatory due diligence generally on funding deals (even non-motor finance related) has increased. For motor financing deals in the future, funders expect more rigorous structural protections in the form of reserves and representations and warranties from the lender or servicer. Funders will demand financially strong back-up servicers to ensure continuity of the deals.

At the end of Section 4, we provide our views on what a well-functioning motor finance market looks like and where it is today—this view is informed by discussions with capital providers as well as our own thoughts.

Section 4: Impact on equity investment

4.1 Source of equity funding per cohort

The key equity funding sources that each of the cohorts access are outlined in the table below.

Cohort	Key equity funding sources
High Street Banks	- Current shareholders - Potentially new shareholders - Tier 1 and Tier 2 capital (equity and debt features)
Challenger Banks	- Current shareholders - Potentially new shareholders - Tier 1 and Tier 2 capital (equity and debt features)
Non-bank Lenders Institutionally Backed	- Private equity - Conglomerates - Private investors - Management
Non-bank Lenders Non-Institutional	- Private investors - Family offices - Management
OEM Captives	- Parent companies - High Street Banks via financing JVs

4.2 Overview of impact on equity capital markets

Within this section, we discuss the impact of the motor finance commissions issue on the current investor sentiment in the equity capital market and comment on investors' views on pricing and availability of equity today and in the future. This is addressed through interviews with equity capital providers who are active in the motor finance market. The equity providers interviewed are professionals who are key decision makers for significant global and UK investors.

As part of this exercise, we have interviewed nine equity providers with categories as follows:

- seven private equity funds
- two listed equity investors

Of those interviewed, five of them have live investments in the motor finance sector. **It is important to note that these interviews were undertaken in the months leading up to the Supreme Court judgment, with the insights (sources kept anonymous) provided by us to the FCA throughout the process to inform their analysis. The language in sub-**

sections 4.2.1 to 4.2.6 has been retained in its original present tense form, as it was provided to the FCA prior to the Supreme Court judgment.

It was not in our scope to interview equity investors again post Supreme Court judgment. In this regard, we note that views of equity investors have evolved since the judgment, which we briefly cover in the conclusion of this section (this is based on our observations and anecdotal evidence).

4.2.1 Market sentiment & views in the context of motor finance commissions redress issue

The equity investors interviewed had broadly similar views on market sentiment, which are summarised below.

- Equity investors are taking a 'wait and see' approach regarding investments, both private and public, opting to wait for further clarity on the Supreme Court judgment outcome and subsequent FCA redress scheme details prior to making any investment decisions. The issue of motor finance commissions is consistently raised in investment committees and papers, with recurring questions around whether commissions are being properly disclosed.
- Public equity investors consider there to be a degree of pricing reflected in the share prices of a DCA only scenario currently and expect further downside if the Court of Appeal judgment is upheld. There is a wide range of outcomes, and therefore pricing in further downside is very difficult. Their view is that public markets very rarely price in a worst-case scenario, as is the case here. It was noted that banks in the UK generally trade at discounts to banks in the US and even Europe, suggesting that this is in part due to additional regulatory risk premium (from an overall regulatory risk not just motor commissions redress) is currently priced into the market. We note that this is one of several reasons why there is variance in pricing between the UK and other regions.
- Private equity investors who were considering deals prior to October 2024 ruling have since pulled out due to the ruling and the uncertainty created by it. This is because valuations with such high levels of uncertainty are too difficult to align.
- These concerns are even more pronounced from an equity perspective than from a debt standpoint, given the heightened sensitivity to regulatory and reputational risks.

Whilst all investors agreed that clarity on outcomes is required, some investors stated that absolute clarity is what is needed, whereas others stated that you can never expect absolute clarity. One investor provided the example of the benefit of regulatory certainty by citing the shift by Ofcom towards longer term regulation in the telecom industry, allowing investors to have confidence and make long term commitments.

4.2.2 Potential financial impact on lenders

Investors were asked about the financial impact of redress on motor finance lenders. Equity investors had the following points on this matter.

- Similarly to debt funders, equity investors noted that the impacts are already being felt, with motor finance lenders reducing costs (i.e. less headcount) in an attempt to improve profitability and capital to address redress liabilities.
- Equity investors were very concerned about the impact on liquidity from redress as well as the impact on business operations, due to the higher operational and legal costs of dealing with claims.
- As well as higher operational costs due to increased claims, the lack of refinancing of credit facilities with potentially reduced originations could decrease profitability and therefore reduce the return on equity.
- Equity investors raised concerns about the impact of CMCs going forward on the redress implementation, with a view that a protracted period where CMCs were allowed to attack lenders from different angles could cause substantial harm to the lenders.
- One equity investor mentioned that lenders are likely to look to deploy capital in lending markets which have better returns, such as shifting from the motor finance sector to other asset classes such as second charge mortgages, to improve their return on deployed capital. This would impact supply of motor finance in near prime segments.

4.2.3 Availability and pricing of equity

Equity investors were asked about their thoughts on the availability and pricing of equity. Views have been aggregated and summarised below.

- Investors stated that they expect there to be an increase in the regulatory risk premium applied to the sector and an increase in the level of regulatory due diligence required when taking large equity positions in a motor finance lender.
- Private equity investors stated that there are no exit prospects for private investments in lenders, with no bid prices to even consider.
- Public equity investors noted that Challenger Banks with large exposure to motor finance have seen a 40-50% drop in share prices.
- Public equity investors also note that they assess investment opportunities globally and if regulatory uncertainty increases in the UK, investors could look to deploy capital in other jurisdictions. Once the scale of redress is known, much of the uncertainty will be reduced, enabling capital deployment with greater confidence around regulatory risk related to commissions.
- Investors noted that generalist and marginal investors have been driven away due to the relatively high regulatory risk in the UK Financial Services sector. This trend has been exacerbated due to the motor commissions redress issue.
- Investors are of the view that the regulatory due diligence required for investments in the financial services sector including motor finance, has increased significantly. Investors have either started or are thinking of allocating a higher proportion of capital to the UK's unregulated financial services sectors.

- Specialist finance investors still find the sector investable in the long term, but they need clarity to understand full impacts of current unknowns prior to making any commitments.
- Investors noted that significant redress could reduce equity and increase gearing, leading to higher risk, lower financial strength, and potentially elevated funding costs across both debt and equity.
- Uncertainty around future losses could directly increase the cost of equity for UK lenders, potentially triggering a re-rating of stock prices within the UK financial services sector.

Some varying/additional points of view were offered, including one investor who stated that the required return on equity would be 30% to 35% for rescue type financing, if viable. Another noted that for an investment in the motor finance sector that was recently exited, there was less overseas interest, particularly from the US. It was implied that this was due to increased UK regulatory risk. One investor noted that there has been a general trend in the reduction in equity capital being put into lending businesses over the last ten years. Another investor mentioned that whilst the redress would have negative impacts on the financial performance of the sector, the concern was broader than that, with the unpredictability of regulation the key point to note. Capital could be less readily available in an environment where investors are considering that the products provided during forecast periods may have costs incurred against them if regulation was retroactively applied.

4.2.4 Scenarios & expectations

Views of equity investors regarding their expectations and possible scenarios are aggregated below:

- There was broad concern regarding the possibility of the Court of Appeal judgment being upheld. The equity investors were in agreement that this would be very difficult for the motor finance sector as a whole, and there would be many lenders impacted to the point of insolvency, with equity positions reduced to nil.
- If the CoA judgment is upheld, the level of uncertainty could remain elevated, with concern about how far reaching the impact could be not just for motor finance but for other lending markets that rely on broker-led distribution models. The level of caution equity investors take would generally be higher for a long period of time in this scenario.
- If the scope of redress is narrowed back to DCAs only, there are still expectations that some non-bank lenders would be insolvent. However, there could also be lenders who can withstand this downside impact, and there may be an opportunity for these lenders to grow.

One investor stated that there was broad agreement in the market that the practice of DCAs was wrong, and that this type of practice should not continue. The real shock was the hidden commissions point in the CoA ruling and the significant scope that this could extend to. There was a view that the FCA could consider clarifying that this was the last example of retroactively applying regulatory changes within the motor finance sector.

4.2.5 Potential spillover impacts into other markets

Investors were asked whether they had noted any spillover impacts into other markets, or if they considered any were likely to occur. Key takeaways are noted below:

- Investors noted concern about the structure of the car purchasing distribution model, with questions about what would happen to dealers in the situation where commissions are banned, as their business model relies on this.
- One investor described the likelihood that there will be an impact to any sector that has any adjacency to the UK motor finance sector, including anything regulated. The bar for investment will be much higher.
- An investor noted, the environment is extremely challenging; there has been no recent equity investment activity, and appetite is low across lending sectors—including asset finance and other broker-distributed products.
- There was general agreement that anything that was brokered and where commissions are paid could see spillover impacts.
- One investor noted that they originally had concerns regarding spillover impacts, but these concerns have dissipated slightly.
- Multiple investors had concerns that the spillover impact could be onto the broader UK economy, with the potential for lenders to slow lending to be able to rebuild capital buffers, which would reduce productivity across the economy in a similar way that the PPI redress contributed to a UK wide slowdown where banks were operationally and financially burdened for over a decade. They noted that the observed cost of equity for UK banks, at 12-13%, is already higher than overseas counterparts, and that this would only worsen the relative position.
- One investor gave an example of the non-prime lending market in the UK which in their view has shrunk almost to the point of non-existence driven by regulatory actions - as a result of which consumers in this segment have limited options.

4.2.6 New entrants and investment in new lenders

Equity investors were asked about how they would consider new entrants to the motor finance market, and whether they would provide investment into the sector. Responses are aggregated below.

- Multiple investors stated that, depending on their investment style and risk appetite, they could consider new entrants to the motor finance sector or supporting lenders that survive, but only if they had robust business plans with a clear path to profitability. Additionally, another investor noted that motor finance is a significant asset class that investors would be interested in entering once market conditions improve.

- One investor noted that the only viable proposition currently is lenders who haven't been active in the market for very long, due to the significant redress risk facing longer-standing motor finance lenders.
- Another investor noted that a healthy banking sector, in the form of trading multiples above tangible book value, allows banks to invest their excess capital into the lending markets, whereas when they trade at discounts to book value, they are much more likely to use any excess capital for share buybacks rather than invest it into businesses, which drives the overall economy.
- An investor stated that the UK financial services sector operates in a competitive global capital market, with uncertainty and regulatory risk driving investors elsewhere, as they are not necessarily a captive audience.

When asked if they consider this an opportunity for new entrants, one investor stated that this is an oversimplification of the issue, and that the cost of capital will be higher for any new entrants, even if they had no legacy redress issues.

4.3 Conclusion on observations

Similarly to section 3, we have concluded this section based on: (i) the interviews conducted pre-Supreme Court judgment; (ii) we reached out to three capital providers (across debt and equity) for high level views post Supreme Court judgment; (iii) our own views; and (iv) anecdotal evidence.

Market confidence, from an equity investors' perspective, was significantly impacted by the Court of Appeal decision in October 2024. Based on the volatile share price performance of relevant lenders at the time that there was significant regulatory scrutiny and legal uncertainty. As investors discussed with us, there were concerns that the market was not prepared for a scenario in which there was partial or full upholding of the CoA ruling.

Post Supreme Court judgment, overall, the equity market sentiment is more positive (guided by the FCA's estimate at the start of August 2025 that the cost of any redress scheme, including administrative costs, is likely to be in the range of £9bn - £18bn, and most likely to be near the middle of that range) in that the size of the potential redress is expected to be much lower than the top end of the ranges estimated by the market pre-Supreme Court judgment. This is one of the drivers for increases in the share prices of listed UK banks post Supreme Court judgment: the share prices of select (impacted) High Street Banks and Challenger Banks moved up post Supreme Court judgment (1 August 2025) and FCA press release (3 August 2025). In the two weeks post judgment, the share price increases ranged from 2.1% to 29.7%, additionally the share price movement for a non-bank listed lender increased by c. 6.3% over the same period. For context and for relative perspective, the broader UK equity market was slightly up in the same period: the FTSE 100 was up 0.8% and the FTSE 250 was up 0.3%.

There has been some M&A activity in the broader specialty finance sector (excluding motor finance). However, it is worth noting that this has been in the unregulated sub-sectors.

Equity investors continue to emphasise that transparency and greater visibility on redress mechanics and scope remain critical requirements for them to make decisions on deploying equity capital in the motor finance market.

Lastly, spillover impacts could have been widespread if the CoA judgment had been upheld, not just to adjacent lending products that are brokered, but even to the wider UK economy. As mentioned in the conclusion of section 3, this risk appears to have reduced significantly.

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4.4 Conclusion on market conditions in debt & equity capital markets

Irrespective of the motor finance redress matter, the overall motor finance market has not started this period from a position of strength. As discussed previously, several non-bank lenders are loss making and operate with a relatively small equity base, meaning they have limited capacity to absorb redress. Recently, there have been reports in the financial press on some lenders preparing for potential transactions, but no evidence of deals being brought to market, meaning it is too soon to tell if M&A or equity transactions will return.

Based on our discussions with motor finance investors (both debt and equity) and our understanding of the sector, we summarise below seven key components and their current RAG (Red, Amber or Green) rating for their impact on the likelihood of a well-functioning motor finance market in the UK in the future. The FCA has significant influence on or control over the first two components but is unlikely to be able to more directly influence the remaining components. Note that these components are related to each other and cannot be assessed in isolation. All components impact debt, equity capital and M&A activity but at varying levels.

Key components	Description	Current RAG rating
Clarity on the scope and nature of the redress scheme, the size of liabilities and the role of CMCs	There should be no ambiguity in the mechanics and implementation of the redress scheme. The role of CMCs, where relevant, should be minimised and the scheme's scope should be as clear as possible. For example, how an unfair relationship would be defined should be clear.	
Forward looking regulatory certainty	As the market sees it, capital providers require confidence on a go forward basis that retroactive application of regulations and law cannot happen again.	
Motor finance debt markets in the UK	A well-functioning debt market with tight spreads and high levels of liquidity provides businesses the capability to grow.	
Credit conditions in the UK motor finance asset class	Strong credit conditions allow specialty finance businesses to manage credit related losses and increase lending.	
Portfolio growth in motor finance	Underlying macroeconomic factors influence the performance of businesses, flowing through growth into the specialty finance sector.	
Valuations in specialty finance	Valuations require a combination of factors such as profitability, investor flows, and economic conditions with an overlay of market confidence.	
Confidence in exit for specialty finance	Exits come in the form of active PE investing and M&A markets, as well as IPO activity.	

Clarity on the nature of the scheme, the size and the role of CMCs

- Whilst a range of £9 billion to £18 billion in total redress has been provided by the FCA, the market is not able to make lender level estimates without further clarity.
- To support an amber or green rating, (i) greater clarity is required on multiple variables (an example being what constitutes an unfair relationship); and (ii) the implementation period would need to be short.

Forward looking regulatory certainty

- Whilst there is recognition from capital providers that DCAs were unfair to consumers, they believe that the regulations were unclear on these arrangements, with certain lenders resorting to their use to distribute and compensate intermediaries.
- To encourage capital providers investing into the motor finance market, the regulators would need to provide clarity that what they consider to be a retroactive application of rules is a near zero risk event.

Motor finance debt markets in the UK

- Whilst spreads on private and public debt have narrowed across the aggregate asset backed lending, the Auto ABS markets in the UK were shut from October 2024 to August 2025 when the Supreme Court judgment released.
- Since the Supreme Court judgment, there has been one public UK Auto ABS deal sponsored by a large OEM Captive.
- For the rating to turn from amber/red to amber or green, lenders would need to be financially healthy (post redress) to be able to stand behind the representations and warranties provided to debt funds and be able to originate new loans and service the back book and the front book.

Credit conditions in the UK motor finance asset class

- At an aggregate index level, credit performance in Q2 2025 marginally deteriorated year-on-year according to S&P's European Auto ABS Report Q2 2025, with the UK accounting for 30.6% of the index.
- The 90+ day delinquency rate in the UK increased by 0.08% over the last 24 months to 0.30%, according to the ABS report, with a slight upturn in the last 12 months. We consider this benign at this point in time.

Portfolio growth in motor finance

- As previously mentioned, the volume of origination of both new and used car financing has been relatively flat in the last three years.

- General macroeconomic conditions are also not conducive to motor finance portfolio growth, with low economic growth, relatively high inflation and global uncertainty contributing to the amber rating.

Valuations in specialty finance and confidence in exit for specialty finance

- Low M&A transaction volume across specialty finance (let alone motor finance) in the past 15 years with limited to no pricing data has distorted perceptions of bid/offer spreads. Price comparisons have also leaned heavily on public equity markets, where limited liquidity, and weak investor understanding have contributed to poor valuation signals.
- However there has been recent improvement in P/BV multiples for profitable listed banks and non-bank lenders generating positive momentum, albeit from a low base.
- There has been an uptick in the number of deals being explored in the broader specialty finance sector and recent M&A activity, which is encouraging.

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Section 5: Research Summary and Risk Assessment

To put into context the importance of automobiles for the UK economy, according to the Transport Statistics Great Britain, c. 65% of people used cars to travel to work in England in 2023. This statistic increases to 69% in Scotland and 81% in Wales. The motor finance market is critical for people to access vehicles; with 80% of new cars and c. 19% of used cars purchased in 2024 using motor finance.

The CoA judgment in October 2024 impacted the cost and availability of equity and debt for motor finance lenders, effectively pausing deployment until further clarity was provided by the Supreme Court ruling in August 2025. From an equity perspective, there were visible signs that the cost of equity had been impacted. For example, the share prices of certain publicly listed lenders with sizeable exposures to motor finance decreased significantly in the period post CoA judgment, implying a substantial rise in the cost of equity. As far as we are aware, there has been no M&A transaction nor public or private equity investment in the sector since October 2024. From a debt perspective, there was only one public UK Auto ABS deal in early September 2025 in an otherwise active public ABS asset class in the UK.

The market sentiment post Supreme Court judgment was more positive (guided by the FCA's estimate at the start of August 2025, that the cost of any redress scheme, including administrative costs, is likely to be in the range of £9bn to £18bn, and most likely to be near the middle of that range) in that the size of the potential redress is expected to be much lower than the top end of the ranges estimated by the market pre-Supreme Court judgment. However, the market does not have visibility on how the FCA calculated its estimates and, anecdotally, lenders are waiting for the FCA's detailed consultation to be announced in early October 2025 to be able to understand the extent of their redress liabilities. As such, uncertainty remains for both equity investors and debt funders.

From a deal due diligence perspective, our discussions with debt funders and equity investors indicate that regulatory due diligence has intensified across financial services, even beyond motor finance. Going forward, funders also expect stronger structural protections—such as reserves, representations and warranties—and financially robust back-up servicers to ensure deal continuity.

If we take stock of the financial health of the five lender cohorts prior to any redress, we can establish with a degree of confidence that High Street Banks and OEM Captives (assuming parental financial support) have the financial strength to bear redress and would likely continue to deploy capital in the sector. Both cohorts have incentives to continue to lend, given their significant market shares in the UK, at c. 26.0% and c. 49.9% at cohort level (per FCA data), respectively. High Street Banks and OEM Captives are well positioned to maintain or even expand their market share in prime lending, but their business models and funding constraints limit appetite to serve higher-risk segments. The outcome for some Challengers Banks is not as clear, given the variability in size, revenue diversity and exposure to motor finance lending, which is a large proportion of their balance sheets in some cases.

The non-bank lenders have the weakest starting financial position of all cohorts. Seven out of the 24 non-bank lenders were loss making, with the remaining lenders exhibiting varying profitability levels. [Redacted due to market sensitivity].

Prior to the Supreme Court judgment, there were high levels of concerns regarding spillover impacts on adjacent lending products that are brokered, but this has likely reduced post the judgment. The key issues impacting spillover risk would likely include the relative size of commissions against credit advanced and the existence of fiduciary duties – noting that this is not a legal opinion.

[Redacted due to market sensitivity]. In recent news, Secure Trust Bank, a bank with a c. £550m motor finance book (prime and near prime), will stop new lending in the sector, as this was their lowest-return business line, and will redeploy capital into higher-returning business lines.

Looking ahead, new entry and increased competition could be constrained by higher regulatory burden and compliance barriers, especially for non-prime lending. While technology-led or direct-to-consumer platforms may incrementally expand in the prime and /near prime segments, unlocking material competitive pressure or innovation in the non-prime market is likely to require a significant shift in risk appetite, availability of capital and sustained profitability. The timing and extent of any market rebalancing will depend on both policy clarity and the willingness of capital providers to re-engage at elevated risk-adjusted returns. Until then, consumers at the margins could face a permanently smaller and potentially more expensive motor finance market.