Technical Annex 2: Market Impacts

30 March 2026

Executive Summary

1. This Technical Annex presents an update to the market impact assessment published alongside CP25/27, reflecting the changes to the scheme set out in the Policy Statement (PS26/3), and updates to the analytical framework we use to assess the potential market impacts in response to consultation feedback we received.

2. We have carefully considered the responses to our consultation and the evidence submitted. We have responded to that feedback by updating modelling scenarios, assumptions and illustrative market impacts, whilst taking account of final policy choices and recent market evidence indicating the market's resilience.

3. Overall, our assessment remains that the scheme is unlikely to lead to material or long-lasting impacts on the motor finance market. While the used segment may experience short-term pressures if certain lenders reduce or withdraw supply, we expect these effects to stabilise over time as volumes are replaced by new and existing lenders.

4. While respondents raised concerns about the potential for more severe and persistent impacts, recent market developments including sustained demand, new lender entry, ongoing investor interest, and funding conditions, support our view that the sector remains resilient.

5. As set out in PS26/3 Cost Benefit Analysis (CBA), we estimate the cost to lenders of dealing with complaints would be £6.3bn more in the absence of a redress scheme. In that scenario, impacts on access to motor finance and prices for consumers could be significantly higher with uncertainty continuing for many more years.

6. The remainder of this Technical Annex has the following structure:
   - Chapter 1 summarises the consultation feedback on market impacts and our response.
   - Chapter 2 sets out the recent developments in the UK motor finance market, focusing on the period following of the publication of CP25/27 in October 2025.
   - Chapter 3 presents the key changes to our market impacts methodology and describes our updated modelling scenarios and assumptions.
   - Chapter 4 presents the results from our updated market impacts assessment.
   - The appendix summarises the recommendations from the academic review of the market impacts methodology.

7. We do not restate the evidence base that remains unchanged from CP25/27. For further details, please see Technical Annex 2: State of Competition in the Motor Finance Market, Technical Annex 3: Market Impacts and Technical Annex 4: Market Impacts Methodology published alongside CP25/27.

Feedback received on market impacts

8. In CP25/27 Technical Annex 3: Market Impacts we set out the potential market impacts of the proposed consumer redress scheme in absolute terms, focusing on how the market could change relative to how it operated in the recent past. This considered how lenders may strategically respond to redress and non-redress costs

under the scheme, including potential lender withdrawal, adjustment to lending volumes, and incentives and ability to change prices or commissions to finance liabilities from future motor finance customers or brokers.

9. Consultation feedback broadly supported the lender response mechanisms modelled in our assessment. However, many industry respondents including lenders, brokers, trade bodies, and firms operating in the wider sector, argued that we had significantly underestimated potential liabilities and resulting market impacts, at least in the short-term. They raised concerns about more pronounced effects on financial resilience, lender withdrawal, pricing and funding costs, and access to credit, particularly in non-prime lending.

10. In contrast, claims management companies (CMCs), professional representatives (PRs) and consumer groups argued that industry concerns were overstated and that too much weight had been placed on market impacts relative to consumer harm. They argued that the motor finance market is likely to adapt over time through new entry and innovation driven by strong competition, and that the scheme would generate fewer and less adverse impacts than a non-intervention counterfactual scenario.

Our response to feedback

11. In light of this feedback, we have updated elements of our market impacts assessment and approach. This includes refining modelling assumptions and scenarios and conducting further sensitivity analysis in response to feedback that we underestimated market impacts.

12. We have expanded our assessment to consider both short and long-term potential market impacts from the scheme, reflecting feedback that in the short term there may be restrictions or barriers to firms and consumers responding and adjusting to the scheme, and therefore short and long-term market impacts may differ. For example, if time is needed for existing lenders to scale up capacity or new lenders to enter the market in response to other lenders withdrawing from it.

13. Our updated assessment considers three scenarios:
    - a **rapid recovery** where any short term withdrawal is quickly offset and impacts remain minimal
    - a **gradual recovery** with modest short term pressures but no lasting effects on volumes, access, or prices
    - an **extended disruption** scenario in which more persistent impacts could arise

14. The extended disruption scenario is treated as a sensitivity as long lasting disruption is considered unlikely, given recent market evidence suggesting resilience across the motor finance market.

15. We have also updated our market impacts assessment to reflect revised estimates of redress and non-redress costs following policy changes since CP25/27 and revised data submissions from five firms for DD1, the data we used to provide an estimate of firm liabilities. For a summary of the policy changes to the scheme's design and scope which are most relevant for our assessment (including changes to communication requirements and exceptions to the scope of the scheme) which are likely to impact redress and non-redress costs for firms, please see PS26/3.

Motor finance market updates

16. Recent market evidence since the Supreme Court decision in *Johnson ("Johnson")* in August 2025, through the publication of CP25/27 in October 2025, and up to recent conflict in the Middle East continues to indicate resilience in the motor finance market and supports our assessment that long term market disruption remains unlikely.

17. In particular, consumer demand for both new and used vehicles has remained strong, supported by generally robust consumer finance conditions, early signs of new lender entry, and resilient investment signals and sentiment:

- **Strong vehicle demand**: The Society of Motor Manufacturers and Traders (SMMT) reported a 7.2% year-on-year increase in new car registrations in February 2026[1], and Autotrader data showed stable overall sales volumes for used cars at the start of 2026, reflecting strong consumer demand across both segments[2]. Motor finance also remains central to supporting vehicle sales, with the FLA reporting a record £41bn of motor finance lending in 2025, up 6% on 2024.[3]
- **New and potential market entry:** We have observed signs of potential new entry for both new and used car lending, alongside actual entry from lenders targeting specific consumer groups. For example, in Q4 2025, Marshmallow Credit Services[4] entered the market, offering finance to newcomers to the UK and migrants, and Ayan Capital[5] began providing Shariah-compliant finance.
- **Investment signals and sentiment:** The auto ABS market has become active again, with five public UK auto ABS deals priced since September 2025 and senior tranche credit spreads similar to (and sometimes lower than) spreads observed prior to the Court of Appeal ruling. In parallel, the share prices of affected UK listed lenders increased by around 2.1% to 29.7% in the two weeks following *Johnson,* and generally continued to rise steadily until geopolitical tensions escalated in March 2026.

18. These developments reflect market changes since the publication of CP25/27 in October 2025 and the start of 2026. As such, they do not reflect the more recent increase in volatility and deterioration in risk sentiment in financial markets noted by the Monetary Policy Committee (MPC) in March, following the conflict in the Middle East. While the MPC discussed its approach to considering the risks around a new medium-term outlook, they also noted it was too early to assess the full impact of recent developments in the Middle East on bank lending conditions in the United Kingdom.[6]

Updated market impacts assessment

19. We have updated our market impacts assessment, taking account of changes to our methodology, the recent market evidence set out above, updated redress and non-redress costs based on policy changes since CP25/27 and revised data submissions

[1] Busiest February for new cars since 2004 but EV demand idles - SMMT

[2] Used car market enters into 2026 with surge in buyer engagement, but supply headwinds loom & Autotrader reveal used car price stable as forecourts fire up in fast-paced February

[3] State of the Market 2026 – Finance & Leasing Association

[4] Marshmallow Partners with Evolution for Motor Finance Push | FinTech Magazine

[5] Ayan Capital secures FCA credit license and launches tech-driven Islamic consumer finance

[6] Bank Rate maintained at 3.75% - March 2026 Monetary Policy Summary and Minutes | Bank of England

from 5 firms. The results remain broadly consistent with the conclusions presented in CP25/27.

20. Relative to the costs used to assess the market impacts in CP25/27 the total (redress and non-redress) costs of the proposed scheme have decreased for the majority of lenders. The changes reflect revised DD1 data submissions from 5 firms used to estimate firm liabilities, scheme design changes and updated assumptions on take up rates. Cost estimates are based on the data available and certain assumptions have been made in the modelling to, for example, address data quality issues. While we have taken steps to address identifiable data quality issues in the data provided to us by firms where possible, some data inaccuracies may remain.

21. In CP25/27, we concluded that we expected limited impacts in the new vehicle segment. Our updated assessment also anticipates limited impacts in the new vehicle segment from the scheme in both the short and long term, reflecting policy changes set out in PS26/3 which are expected to reduce redress liabilities for lenders, including exceptions for captive and white-label tied arrangements under certain circumstances, and the treatment of all zero-APR agreements and agreements with de minimis commission as fair.

22. We continue to conclude that, reflecting competitive conditions, the used car segment may experience greater impacts than the new car segment, in both the short and long term. In our rapid and gradual recovery scenarios, there remains potential for modest short-term pressures on motor finance volumes and access for some non-prime consumers if smaller lenders operating in the used segment decide to discontinue or reduce their lending and others do not respond with an equivalent expansion of volumes immediately. However, we do not anticipate material long-term impacts, as lost volumes are expected to be replaced in full by existing or new lenders. As before, there may be a small to modest increase in motor finance prices in both the short and long term.

23. While the sub-prime segment may experience some short-term pressures, we consider the likelihood of lenders withdrawing or materially contracting lending in this segment to be low. This reflects changes to the scheme set out in PS26/3 which address operational burden concerns raised by sub-prime lenders, and result in estimated lower total redress and non-redress costs for these lenders, reducing potential impacts on financial resilience. Any potential impacts are therefore more likely to arise through pass-through of scheme costs or cost of capital increases, rather than through lenders stopping or reducing lending. Therefore, we continue to consider any material, long-term impact on volumes and access as unlikely from the scheme. However, motor finance prices may increase in both the short and long term, potentially reducing the affordability of credit for more vulnerable customers.

24. The potential market impacts may be greater across all segments if conditions emerge that lead to a more significant and longer-lasting disruption to the motor finance market, such as greater uncertainty resulting in sustained or higher increases in the cost of capital, or withdrawal of lenders providing finance to a material share of the market or specific customer types. However, recent market evidence up to early 2026 suggests such a scenario is unlikely.

1 Consultation feedback on market impacts and our response

25. In this chapter we summarise the feedback we received on our assessment of the potential market impacts of the scheme presented in CP25/27: Motor finance consumer redress scheme, as well as our response.

26. We received feedback on the potential market impacts of the scheme from a range of respondents who provided feedback directly or referenced points raised in other respondents' submissions.

27. Respondents included lenders (covering a range of vehicle condition and creditworthiness segments), brokers and dealers, firms operating in the wider sector such as original equipment manufacturers (OEMs) or car component manufacturers, trade bodies, debt purchasers, claims management companies (CMCs) and professional representatives (PRs), and consumer groups and individuals.

28. Overall, respondents broadly agreed with the market impact mechanisms set out in our analysis including effects on financial resilience, replacement of volume lost due to potential lender withdrawal, lending contraction, and pricing impacts through pass-through of redress and non-redress costs and changes in the cost of capital. However, many industry respondents expressed significant concern we had underestimated both the scale of the potential liabilities and the resulting market impacts of the scheme. They suggested that the effects on lenders' financial resilience, likelihood of exit, pricing, lending volumes, investment and funding costs, consumer access to credit, brokers/dealers and the wider financial services market, are likely to be more pronounced than the FCA's modelling had indicated, particularly for non-prime and specialist lending.

29. In contrast, responses from both CMCs and PRs and consumer groups generally argued that industry views overstated the potential market impacts. They suggested that the FCA had placed too much weight on market impacts relative to consumer harm. These respondents argued that the motor finance market is competitive and would adapt over time, including through new entry and innovation. However, they also typically agreed that introducing a scheme would lead to fewer and less adverse market impacts than a non-intervention counterfactual scenario.

30. The feedback relevant to the market impacts analysis related to question 89 in CP25/27, with some overlap with the responses received to questions 90-95. Some respondents also submitted externally commissioned reports to support their feedback. We grouped the relevant responses across the following themes:
    - Underestimated market impacts
    - Segmentation of the market
    - Redress levels are inconsistent with a competitive market
    - Impact on brokers/dealers
    - Broader firm behavioural responses
    - Wider market impacts
    - Other feedback

31. Below we outline the feedback received across these themes and our response.

Underestimated market impacts

Our position in CP25/27

32. In the CP25/27 CBA and CP25/27 Technical Annex 3: Market Impacts we set out analysis of the impact of firms' estimated redress liabilities and the costs to firms of dealing with complaints under the proposed scheme on market integrity. As part of our assessment, we considered the potential impact on motor finance volumes, access, prices, investment, brokers and the market for motor vehicles. We concluded that we expected that there would continue to be good product availability and competition among lenders in the finance market for new and used vehicles.

33. While we could not rule out modest impacts on product availability and prices, we estimated the cost to lenders of dealing with complaints would be as much as £6.6bn higher in the absence of a redress scheme. In that scenario, impacts on access to motor finance and prices for consumers could be significantly higher with uncertainty continuing for many more years.

Stakeholder feedback

34. A number of industry respondents (lenders, brokers and firms operating in the wider motor finance sector) suggested the scheme's adverse effect on the market had been underestimated. This included feedback that we had underestimated the scale of potential liabilities and non-redress costs from the proposals set out in CP25/27, and as a result, the potential negative impact on the market.

35. Financial resilience: Lenders, trade bodies and external consultancy reports commissioned by them suggested that the impact of the scheme on lenders' financial resilience had been underestimated. They suggested that potential liabilities and non-redress costs could threaten the solvency of a significant share of lenders, particularly smaller and non-prime institutions without strong parental support. There was also concern that redress liabilities could depress returns on equity below the cost of capital. Two lenders and a consultancy report argued that the analysis lacked granularity and recommended lender-level modelling and consideration of diverse funding structures.

36. Supply of motor finance: Industry respondents (lenders, brokers, trade bodies, firms operating in the wider sector and external consultancy reports commissioned by lenders and trade bodies) argued that the likelihood of lender withdrawal (from the market as a whole, or specific segments or products) and contraction in lending volumes (as lenders re-evaluate their lending capacity and risk appetite), especially in the non-prime and used car segments, had been underestimated with smaller and specialist lenders most at risk. They also suggested the ability of remaining lenders to replace lost lending volumes is limited outside the prime segment.

37. Investment: Lenders, brokers and firms operating in the wider sector suggested the scheme would increase regulatory uncertainty and costs, reducing incentives for new entrants and potentially constraining existing lenders' capacity to lend, at least in the short term. These respondents along with external consultancy reports commissioned by lenders also highlighted that the scheme could raise the cost of capital and make UK motor finance less attractive to investors, particularly impacting smaller and higher-risk lenders. In particular, industry respondents across both the

new and used segments expressed views that we had underestimated the impact of the scheme on the cost of capital.

38. Pricing: Many industry respondents (lenders, brokers, trade bodies, law firms, firms operating in the wider sector and external consultancy reports commissioned by lenders and trade bodies) felt that the scheme's effect on pricing and access to credit had been understated, with anticipated increases in the cost of capital leading to higher prices for consumers. Captive lenders highlighted that their ability to offer competitive and subsidised finance deals would be reduced. However, the largest impacts would be in the sub-prime and used segments, where customers are less able to absorb price rises. One response from an external consultancy commissioned by lenders and trade bodies, argued that our assessment did not account for increases in expected future redress costs due to regulatory uncertainty around potential further retrospective action. They suggested that if lenders expect future redress costs to be proportionate to ongoing volumes, that this would be equivalent to an increase in marginal costs, which would likely be passed on to new customers through higher prices.

39. Access: Lenders, brokers, trade bodies, external consultancy reports commissioned by lenders and trade bodies, and firms operating in the wider sector also argued that fewer affordable credit options would be available, especially for vulnerable groups or in some geographic areas, and that market choice would diminish as certain products were withdrawn or altered (see discussion below on broader firm behavioural responses). One lender also noted the potential for broader social consequences, such as exacerbating transport poverty and reducing social mobility, and one trade body called for ongoing monitoring of access to motor finance following the scheme's implementation.

40. However, responses from CMCs and PRs, and consumer groups generally argued that industry views overstated the potential market impacts. One law firm involved in acting for consumers against lenders felt there was insufficient evidence to suggest lenders would withdraw from the market as a result of the scheme. A number of respondents referenced a report by the All-Party Parliamentary Group (APPG) on Fair Banking, and suggested that CP25/27 and the design of the scheme focused excessively on lender profit margins.

Our response

41. Since the publication of CP25/27, we have expanded our evidence base and completed the sixth round of our motor finance commissioning survey, which gathered information on firms' own estimates of potential liabilities and the costs of implementing the scheme.

42. As set out in PS26/3, we have also made a number of policy revisions in response to the feedback we received on the proposals set out in CP25/27. These include removing recorded delivery requirements, removing prescriptive content requirements for administrative communications, and removing the requirement to contact customers who have not complained and do not have relevant arrangements. Together, these changes address concerns that the operational costs of a consumer redress scheme (CRS) could be disproportionately burdensome for smaller firms with a low number of scheme cases with relevant arrangements and modest redress liabilities.

43. We have also decided to introduce de minimis commission thresholds, which reduce the number of agreements captured by the scheme with very low levels of commission that in our view are unlikely to give rise to unfairness. Further, we have used our regulatory judgement to set the threshold for a high commission arrangement at 39% of the total cost of credit and 10% of the amount financed. These policy revisions address concerns around disproportionate impacts for non-prime lenders who tend to offer agreements with shorter terms and lower-value loans. Several non-prime lenders reported that many of their cases involve fixed and low levels of commission, where commission appears high only because of the structure of the loan.

44. We have also made changes to the redress scheme in response to feedback from captive lenders and other market participants. This includes excepting captive and white-label lending from being a tied relevant arrangement where there is evidence there were visible links between the lender, manufacturer and the broker. Additionally, in response to feedback, agreements with relevant arrangements with zero APRs are no longer being treated as unfair under the scheme. Together, these changes are expected to affect a significant number of cases and reduce redress liabilities for captive and white-label lenders.

45. In PS26/3 CBA, we set out that the cost to lenders of dealing with complaints without a scheme would be as much as £6.3bn higher. In that scenario, impacts on access to motor finance and prices for consumers are likely to be significantly higher with uncertainty continuing for many more years.

46. As set out below, since the publication of CP25/27, we are encouraged that lenders have secured investment, lending volumes are consistent with trends and there are new firms looking to enter and innovate in the market. We remain confident that the scheme will address historic liabilities in a timely, consistent and efficient manner whilst ensuring a healthy, well-functioning and competitive motor finance market in the future.

47. However, to reflect feedback that the impact on the market could be larger than assessed in CP25/27, we have adjusted our assessment to distinguish between short and long-term impacts on the market, to reflect the potential for greater short-term impacts if the market takes time to adjust to changes. We also consider a broader range of scenarios to reflect uncertainty over the speed at which market adjustments could take place.

48. We have also considered the broader pricing mechanisms highlighted by respondents. We consider that higher expected future redress costs operate through the same channel as increases in the cost of capital, reflecting heightened perceived risk and regulatory uncertainty. Our modelling captures this effect by explicitly incorporating increases in the cost of capital (and thus marginal costs) and assessing how these may be passed through to prices. We therefore do not consider that marginal costs have been underestimated on this basis.

49. We note feedback that CP25/27 and the design of the scheme focused excessively on lender profit margins. Under the broad economic framework we use to consider market impacts, lender profitability is an important driver of potential changes in the market, for lenders, brokers, and consumers, as well as an indicator of lenders' ability to pay redress. As a result, it is reflected in several different parts of our analysis. However, this does not mean it overly influenced the design of the scheme.

Segmentation of the market

Our position in CP25/27

50. In Technical Annex 2: State of Competition in the Motor Finance Market we concluded that the competitive dynamics were not homogeneous across the market for motor finance and identified three distinct segments: new vehicles; used vehicles; and the sub-prime subset of the used vehicle segment.

51. In relation to lending based on customer creditworthiness, we considered that near-prime lending did not form a distinct segment of the market or part of a broader non-prime segment for several reasons:

- Overall, there were more lenders offering motor finance to near-prime customers than to sub-prime customers, including those that offer motor finance for prime and near-prime customers, but not sub-prime.
- We also understood that it was easier for prime lenders to enter near-prime lending than sub-prime. For example, lenders noted that sub-prime lending generally required different technology, funding and credit strategies given the increased risk of default which meant that underwriting needed to be tailored to consumers with lower creditworthiness.
- Finally, a few prime lenders referenced the potential to extend existing scorecards and policies to near-prime lending, which would not be possible or appropriate for sub-prime.

52. Therefore, in CP25/27 Technical Annex 3: Market Impacts we considered the market impact of the proposed scheme for each of these segments separately.

Stakeholder feedback

53. Lenders expressed differing opinions on how the motor finance market should be segmented, with some disagreeing with the current assessment of competition in the near-prime segment and arguing for clearer distinctions between prime, near-prime, and sub-prime lending. Several suggested that near-prime lending possesses unique characteristics needing separate analysis, while others felt near-prime and sub-prime should be grouped as a wider non-prime segment due to their similarities.

54. Respondents also proposed more granular segmentation based on creditworthiness, vehicle condition, and lender type, as well as suggestions to better consider the diverse competitive dynamics within various parts of the market, including business asset finance providers.

55. Some respondents also expressed the view that the design and implementation of the CRS should more directly reflect different market segments, particularly independent, non-prime lenders. They argued that the approach not to consider near-prime (or non-prime) as a distinct segment resulted in the application of approaches to unfairness, loss and redress which did not reflect the experience of customers or lenders in this segment.

Our response

56. There is no industry agreed standardised categorisation of the motor finance market. Many market participants segment the market in different ways reflecting differences in business models, target markets and approach to credit referencing.

57. Our assessment of the state of competition considered the competitive dynamics across different parts of the market to inform our understanding of how the potential impact of the CRS could vary. As part of this, we considered whether near-prime lending may form its own distinct segment or form part of a broader non-prime segment.

58. In our lender survey sample, 40% of lenders (based on creditworthiness data for 2023 new lending business) who operate in the used segment, lend exclusively to prime customers, 20% also participate in near-prime lending, while 17% operate across all three creditworthiness segments. As set out in CP25/27, our engagement with lenders suggested that barriers to entry were greater from moving into sub-prime including the requirement of specific underwriting, funding and credit strategies due to higher credit risk. For example, a few prime lenders referenced the potential to extend existing scorecards and policies to apply to near-prime lending, which would not be possible or appropriate for sub-prime.

59. While respondents highlighted differences in near-prime lending, and therefore the different effects the scheme could have on lenders operating in those segments, we believe the potential impact of the scheme can be assessed within the context of the broader used vehicle segment. Within our assessment we also consider the implications for different lenders operating within segments, including near-prime lenders.

60. Our separate assessment of the sub-prime sector reflects a number of factors. We identified greater concentration in the sub-prime sector and barriers to entry are likely to be lower for expansion from prime into near-prime lending than expansion into sub-prime lending. Sub-prime customers typically exhibit different credit profiles, face higher barriers to accessing finance, and may be more vulnerable. These characteristics influence both the competitive dynamics of this segment and the potential impacts of the scheme on access. Maintaining sub-prime as its own segment allows us to consider these differences.

61. Further as noted above, in PS26/3 we set out a number of policy revisions in response to the feedback we received on the proposals set out in CP25/27, including revisions which expressly tackle concerns raised by smaller, near-prime lenders.

Redress levels are inconsistent with a competitive market

Our position in CP25/27

62. In CP25/27 we stated that, if 85% of eligible consumers took part in the proposed scheme, lenders would owe £8.2bn in redress. We also estimated that the cost to firms of implementing the scheme to be around £2.8bn, taking the total cost to approximately £11bn.[7]

63. In Technical Annex 2: State of Competition in the Motor Finance Market we set out our understanding of how competition in the motor finance market works. Our analysis pointed to three distinct segments[8]:

New vehicles: Where competition between motor finance lenders on new vehicles appears to be working well, driven by strong competition between OEMs to secure vehicle sales.

[7] CP25/27: Motor finance consumer redress scheme p.9.

[8] Technical Annex 2: State of Competition in the Motor Finance Market p.11-12.

Used vehicles: which is less concentrated with a diverse pool of lenders driving effective competition. Lenders compete on price and commission to win business through brokers, while dealers compete on the overall vehicle sale bundle including finance.

Sub-prime (a subset of the used vehicle segment that provides finance for consumers with sub-prime creditworthiness): which is characterised by a high concentration of lenders. Widespread use of specialist finance brokers and soft search applications provide a degree of price competition as brokers submit applications to multiple lenders simultaneously providing some visibility of prices, although sub-prime customers typically have more difficulty accessing credit and fewer options available to them.

Stakeholder feedback

64. Several lenders supported a report commissioned by a trade body which expressed the view that a competitive motor finance market indicated the proposed scheme's broad coverage may lead to excessive redress, treating too many loans as eligible and poorly targeting actual consumer loss. They argued that the aggregate cost of redress, compared to lenders' historical profitability and operating costs, constituted a substantial financial burden for industry, effectively transferring a significant proportion of past profits from lenders to consumers and imposing administrative challenges.

65. The report (supported by several lenders) questioned the assumption of widespread and material consumer harm, noting that higher prices—if present—should have resulted in increased profits for brokers and lenders. However, in a competitive market, price increases are constrained by customer choice and switching, making it implausible that lenders or dealers could sustainably raise prices above competitive levels. The respondent cited evidence from CP25/27 and their own market engagement, asserting that the motor finance market was competitive with the potential exception of sub-prime areas, and presented profitability analysis showing no consistent high profits among lenders or dealerships.

66. Based on this evidence, the respondent concluded that there is no clear indication of significant profitability within the motor finance supply chain, nor a demonstrable transfer of value from customers to industry. Therefore, they argued that implied customer losses were inconsistent with market conditions. The respondent suggested that increased APRs may be offset by reductions elsewhere in the transaction bundle, meaning overall customer losses may not have occurred and industry profits remained normal when considering the vehicle purchase and associated motor finance jointly.

Our response

67. As set out in Chapter 2 of the Policy Statement, we have identified consumer harm over the period 2007-2024 as a result of unfair relationships. The scale of redress under the scheme reflects the FCA's view that there were widespread and regular failures to comply with requirements and that consumers have suffered (or may suffer) loss or damage. When there is a discretionary commission arrangement (DCA), high commission, or a tied arrangement, the failure to adequately disclose those features is likely to have created an unfair relationship under section 140A of the Consumer Credit Act 1974 (CCA). There is strong evidence that there was widespread or regular failure to adequately disclose commission arrangements and

tied arrangements in motor finance agreements. As a result of this unfair relationship, there is evidence consumers have suffered (or may suffer) the loss of the opportunity to negotiate lower borrowing costs or seek alternatives. Where a court determines that an agreement is unfair, it has the power to provide remedy under section 140B CCA. Further, we maintain the view that a scheme is the most appropriate way to deliver comprehensiveness, fairness, timeliness, certainty, simplicity, cost-effectiveness, transparency and market integrity. On this basis, we consider that the conditions in the statutory test in section 404 FSMA to establish a consumer redress scheme are met.

68. It is also not the case that consumer harm on the scale implied by the redress scheme could not manifest in a competitive market, or could only do so in the presence of high profitability at some point in the supply chain. Competition is often not sufficient to protect all consumers from harm. Aggregate profits across the industry may reflect high profits earned on some consumer sales and lower profits on other consumers.

69. Finally, as way of clarification. To inform their conclusions, the respondent assumed the same competitive conditions were prevalent across the period 2007-24. In practice, our assessment of competition presented in CP25/27 looked at market conditions in 2022 and 2023, post the ban on DCAs. It did not assess the state of competition historically, and we have not needed to do so to determine the scale of redress. The assessment of competition was also undertaken at a high level to inform our understanding and modelling of potential aggregate changes under the proposed scheme.

Impact on broker/dealers

Our position in CP25/27

70. In CP25/27 we stated that our analysis assumed that redress liabilities would accrue to lenders rather than to brokers such as motor dealerships.[9] Contractual arrangements between lenders and brokers may provide for lenders to subsequently obtain contributions to their redress costs from brokers through indemnity agreements. However, we assumed it will often not be in lenders' commercial interests to pursue dealers.

71. In CP25/27 Technical Annex 3: Market Impacts, we outlined that we did not expect a material impact on the lending panels of brokers/dealers or a significant reduction in commissions. In our analysis we also qualitatively assessed how brokers may respond to any changes in commission, including their ability to recover lost (commission) revenue from other elements of the vehicle and motor finance sale where they have discretion. We noted that the scope for recouping lost commission income through other aspects of the sale may be limited as brokers in the used segment compete on the bundled cost of a sale. We also acknowledged the potential for more significant impacts on smaller brokers/dealers in the used segment (for example where those relying on a single or few lenders may be more significantly impacted if their main lender(s) stops lending), which may lead to broker/dealer withdrawal.

Stakeholder feedback

[9] CP25/27: Motor finance consumer redress scheme p.174.

72. Lenders, law firms (representing consumers and lenders) and one trade body stated that we had not sufficiently assessed the implications of cost pass-through to brokers/dealers. They expressed concerns that the scheme's costs may be passed on to brokers and dealers, resulting in higher prices, reduced demand, and constrained lending or vehicle availability.

73. Industry respondents suggested that lenders might seek to recover liabilities by lowering commission payments or invoking contractual rights, placing extra financial burdens on brokers and dealers, particularly smaller firms. They also suggested that brokers/dealers may face additional non-redress costs where lenders seek support in operating the scheme.

74. These pressures could lead to business failures and reduced numbers of brokers or dealers in the market, ultimately diminishing consumer access to motor finance.

Our response

75. Our quantitative modelling work does consider scenarios where lenders may pass through costs to brokers by reducing commission payments.

76. We do not explicitly model redress cost recovery through contractual or legal mechanisms within lender-broker relationships. As in CP25/27, we assume it will often not be in lenders' commercial interests to pursue dealers for contributions towards redress costs. Respondents, including lenders, highlighted concerns that attempts to recover redress costs directly from brokers/dealers could significantly disrupt distribution channels and market stability.

77. However, acknowledging feedback that if redress and non-redress costs are recovered from brokers, this may significantly impact their financial resilience and lead to some brokers exiting the market, especially smaller brokers, in our updated analysis we have expanded our qualitative assessment of the potential impacts on brokers operating in different segments. We also continue to consider qualitatively the potential for brokers to offset lower commission payments or costs by increasing vehicle prices, lowering part-exchange values or increasing the cost of additional services they offer.

Broader firm behavioural responses

Our position in CP25/27

78. In CP25/27, we set out that a relationship would be deemed unfair under the scheme where there was inadequate disclosure of a high commission arrangement, defined as commission equal to or exceeding 35% of the total cost of credit and 10% of the loan amount. We also set out our decision to not propose a de minimis threshold.

Stakeholder feedback

79. Industry respondents (lenders and a trade body) raised concerns about unintended consequences of this high commission threshold. One lender argued that to mitigate regulatory risk on future agreements arising from the high commission threshold, lenders may adjust agreement features by lengthening minimum terms or increasing minimum loan amounts, which could indirectly raise the total cost of credit. Sub-prime hire purchase loans and motorbike loans which are typically shorter-term and

lower value, were highlighted as the types of agreements which were most likely to change.

80. Feedback from lenders also suggested that the high commission threshold and the absence of a de minimis threshold may undermine the commercial viability of product markets which offer lower value loans, where commission income tends to be fixed at low levels. If lenders withdrew low value products or adjusted agreement features to indirectly raise the total cost of credit this could reduce access for customers seeking lower-value financing.

81. Lenders also noted that lenders may reduce commissions payments due to increased caution around acceptable commission levels.

Our response

82. As set out in PS26/3, the scheme is a mechanism to distribute redress for poor compliance with our disclosure rules and the CCA, and does not intend to incentivise changes to pricing, product design, and commission structures.

83. In addition, our proposals do not seek to establish benchmarks or imply what constitutes an 'unfair' level of commission, nor are we making any judgement about the appropriate remuneration for brokers. The 2 limb high commission threshold is solely intended to identify the point at which non-disclosure of the existence and amount of commission would give rise to unfairness.

84. We have also decided to introduce de minimis commission thresholds, which reduce the number of agreements captured by the scheme with very low levels of commission that in our view are unlikely to give rise to unfairness. This helps to address concerns around potential risks to the ongoing viability of certain products, such as lower-value loans, in the absence of such a threshold.

85. We have used our judgement to set the threshold for a high commission arrangement at 39% of the total cost of credit and 10% of the amount financed. We consider that the 2 limb design of the high commission threshold, combined with the de minimis thresholds, mitigates the risk of agreements being inadvertently captured where commission appears high only because of the structure of the loan. This is particularly relevant for agreements with short terms or lower value loans, where commissions may seem disproportionately large relative to the total cost of credit or the loan value.

Wider market impacts

Our position in CP25/27

86. In CP25/27 we stated that the lack of certainty if we do not intervene could impact lender profit margins and may incentivise some lenders to consider passing on greater costs to consumers, restricting lending or, in extreme cases, exiting the market. This could have significant impacts on the vehicle sales market where 80% of new vehicle sales use motor finance. The wider credit market could also be impacted. Lenders with exposure to motor finance may make business prioritisation decisions which impact the cost and availability of finance in other markets.

87. We also stated that across the wider economy, the overall demand for vehicles could fall due to price increases in motor finance. There may be spillover impacts in other

consumer credit markets where motor finance lenders with redress liabilities also operate, which, in turn, could spill over into the wider credit market. This could contribute to reductions in wider investment.

88. This was supported by research we commissioned which involved interviews with investors in the motor finance sector. Multiple investors noted that a significant sector wide cost shock could lead to spillover impacts to the broader UK economy, with the potential for firms to slow lending into other credit markets in which they operate to be able to rebuild capital buffers. Without a redress scheme, costs to firms are anticipated to be higher in the counterfactual and we would therefore expect spillover impacts to be more severe.

89. The lack of clarity in the counterfactual could additionally negatively impact investment decisions in the wider market. The increased market uncertainty could lead to reduced trust in the UK’s regulatory framework and ambiguity around how the regulator would react to any future widespread liabilities.

90. Reflecting this, in CP25/27 CBA we stated that we anticipated our intervention would contribute to supporting the UK’s competitiveness and medium to long-term growth (our secondary objective) compared to a counterfactual situation in which we do not intervene.

Stakeholder feedback

91. Industry respondents (lenders, brokers, firms operating in the wider motor finance sector, a trade body, and external consultancy reports commissioned by lenders and trade bodies) expressed significant concerns regarding the broader market and economic implications of the scheme. Many highlighted that regulatory uncertainty may deter investment in the wider financial services sector and undermine the UK's international competitiveness, including potential consequences for the FCA’s secondary international competitiveness and growth objective (SIGCO). Additionally, firms reported that the resources diverted to implement the scheme could stifle innovation and limit investment in strategic initiatives, effects they said are already beginning to materialise.

92. Lenders and one law firm commissioned by captives expressed concern about potential negative impacts on OEMs and the automotive supply chain, with suggestions that OEMs might scale back operations, reduce investment, or exit the UK market. Such actions could narrow product availability, raise vehicle prices, and adversely affect the car component industry. Respondents also argued that the scheme may hinder the transition to electric vehicles (EVs) by limiting lending capacity, reducing the range of available cars, and constraining special financing programmes, potentially slowing progress towards government environmental targets.

93. One response representing views of compliance consultancy firms argued that there is likely to be a significant increase in Professional Indemnity Insurance (PII) premiums, which may impact all FCA regulated firms, and, in particular, restrict the ability of smaller firms to access and afford PII.

94. Macroeconomic repercussions were also cited, with fears that reduced investment and lending could lead to job losses, decreased productivity, and diminished activity in local manufacturing economies. One lender referenced OBR projections forecasting a £2bn drop in financial sector profits and tax receipts between 2025 and 2027.

However, another respondent (a professional representative) noted that consumer redress payments may stimulate spending and contribute positively to GDP, as observed during the PPI redress scheme.

95. The scheme was also thought to pose contagion risks, potentially encouraging complaints and professional representative activity in other markets and prompting firms to withdraw certain products, thus reducing consumer choice.

96. Additional concerns included uncertainty for debt purchasers regarding liability, diminished consumer trust in the motor finance market, and increased pressure on the Financial Ombudsman Service due to a rise in complaints from ineligible customers.

Our response

97. As set out below, motor finance data and information since the Supreme Court ruling in *Johnson* in August 2025 and publication of CP25/27 in October 2025, have indicated strong consumer demand for both new and used vehicles, along with generally robust consumer finance conditions and resilient investment signals including in terms of funding, share prices and auto ABS transactions.

98. Motor finance continues to play a key role in supporting both new and used vehicle sales, with the FLA reporting a record £41bn lent on motor finance in 2025, 6% up on 2024.[10] Since the Supreme Court judgment, we have also observed signs of potential new entry for both new and used car lending, as well as actual entry from firms targeting niche, specialist areas of the market.

99. Our updated CBA indicates that costs and uncertainty to industry from not intervening are likely to be higher than under the scheme. As PS26/3 CBA sets out, in line with our duty to consider our secondary objective of international competitiveness and growth, we have considered the extent to which the proposed scheme supports market certainty, confidence and the effective functioning of UK financial markets, while maintaining robust standards of consumer protection. By reinforcing trust and engagement in the UK's financial services market, the scheme may support medium to long term growth, consistent with the objectives of the SICGO.

100. We acknowledge concerns raised about the potential impact of the scheme on PII premiums. Past redress schemes have in some cases, been associated with higher policy excesses or insurers introducing exclusions at renewal once a widespread issue becomes apparent. Our modelling approach reflects the potential for lenders' costs to increase, although an impact on PII premiums is also likely to occur without intervention.

101. Further, in PS26/3 we also set out a number of policy revisions in response to the feedback we received on the proposals set out in CP25/27, including revisions which expressly tackle concerns around wider market impacts raised by captive lenders. Policy changes that except captive and white-label lending from being a tied relevant arrangement where there is evidence there were visible links between the lender, manufacturer and the broker, along with the generally applicable exceptions of all zero APR agreements and de minimis commission, are expected to reduce redress liabilities for captive and white-label lenders. These changes may help address concerns about potential impacts on OEMs and the EV transition.

[10] State of the Market 2026 – Finance & Leasing Association

102. We are also introducing rules which intend to provide greater certainty over how the schemes should be administered and how any redress should be paid in scenarios where the loan has been sold, which help to address potential adverse impacts on debt purchasers. We recognise that debt purchasers can become liable as creditors of unfair relationships. This will be the case, for example, where there has been a legal assignment of rights in accordance with section 136 of the Law of Property Act 1925, with notice being given to the consumer. The same is not true for an equitable assignment. Under the revised approach, the originating lender, if still in existence and solvent, will be required to administer the scheme and be responsible for the redress for the pre-purchase period, with the debt purchasers being liable for redress for the period where they held the loan. Where the originating lender is insolvent or has ceased to exist, a debt purchaser will be required to administer the scheme and pay redress for the whole period or, if there was another onward sale, up until the period where another debt purchaser held the loan. In all cases, there will be a single point of contact for the consumer and a single redress payment.

Summary of other feedback

103. A small number of industry respondents (lenders, brokers, firms operating in the wider motor finance sector, law firms and trade bodies) raised additional and high-level points that did not fall within the themes discussed above, including:

- Some respondents challenged the evidence base of the analysis, suggesting there was insufficient detail about surveyed firms and their responses, the representativeness of data, access to data, and a reliance on self-reported survey results.
- The market impact model is a simplified representation of market behaviour, with weak behavioural assumptions, and is therefore subject to limitations.
- The CBA and market impact model should be independently validated, and that key modelling inputs should be consulted on more extensively.
- The CBA and market impact model should include additional sensitivity testing, particularly against alternative redress scenarios.
- The market impacts should be monitored following implementation of the scheme to identify firms/segments that may require additional support.

Our response

104. We did not publish the names of individual lenders or brokers that participated in our survey due to confidentiality considerations. However, CP25/27 Technical Annex 1: Consumer Redress Scheme for Motor Finance - Data, Analysis of Loss and Liability and Cost Methodologies set out details on the data we collected for our analysis and the nature of the sample. Our lender survey covered the majority of the market based on total lending volumes and values in 2023 and reflected a wide range of business models, including non-prime lending. We complemented and validated survey data against a range of other evidence sources.

105. We are aware of several limitations in our approach. We set these out previously in CP25/27 Technical Annex 4: Market Impacts Methodology. However, to mitigate these limitations we have refined our market impacts modelling scenarios and assumptions and conducted further sensitivity analysis.

106. Since CP25/27 we have commissioned an independent academic to conduct a review of our methodology. The findings and recommendations from this review are set out in Appendix 1 below. In addition, in response to the feedback we received from the academic review and CP25/27 we have made a number of changes to our approach to assessing potential market impacts. These are set out in Chapter 3.

107. Further, we agree that monitoring the market impacts of the scheme will remain important, and we will continue to monitor market developments through our supervisory engagement with firms and our regular data collections.

2 Motor finance market updates

108. In this chapter we summarise the recent developments in the UK motor finance market, focusing on the period following of the publication of CP25/27 in October 2025. For our broader evidence base on the motor finance market, please see CP25/27 Technical Annex 2: State of Competition in the Motor Finance Market and CP25/27 Technical Annex 3: Market Impacts.

109. Many of the developments set out in this chapter reflect market changes since the publication of CP25/27 in October 2025 and the start of 2026. As such, they do not reflect the more recent increase in volatility and deterioration in risk sentiment in financial markets noted by the Monetary Policy Committee (MPC) in March, following the conflict in the Middle East. While the MPC discussed its approach to considering the risks around a new medium-term outlook, they also noted it was too early to assess the full impact of recent developments in the Middle East on bank lending conditions in the United Kingdom.[11]

Vehicle and motor finance transactions

Vehicle transactions

110. Demand for new vehicles remains strong, with continued growth in new car registrations in early 2026 following a 3.5% year-on-year growth in 2025.[12] The Society of Motor Manufacturers and Traders (SMMT) reported a 3.4%[13] and 7.2%[14] year-on-year increase in new car registrations in January and February 2026. Electric vehicle (EV) sales by Chinese manufacturers grew rapidly in February 2026[15], indicating continued strong competition from new entrants in the EV space.

111. The used car market remains similarly resilient. Latest retail sales data from Autotrader indicate stable overall sales volumes at the start of 2026[16] as well as a significant rebound in buyer engagement, with visits to the site up by 24.7% compared to December 2025. Autotrader's research also indicates that over eight in ten car buyers are at least as confident in being able to afford their next car as they were last year, further supporting a robust outlook for the used car segment.[17]

Motor finance transactions

112. Recent industry data from the Finance and Leasing Association (FLA) highlights the growth and importance of motor finance in supporting vehicle purchases. In 2025, a record £41bn was lent on motor finance, 6% up on 2024. Sales by value were up 7% in the 3 months following our proposals to introduce a redress scheme, compared with the same period the year before.

[11] Bank Rate maintained at 3.75% - March 2026 Monetary Policy Summary and Minutes | Bank of England

[12] UK new car market breaches two million as almost one in four buyers go electric - SMMT

[13] New car market starts year with growth but EV share falls - SMMT

[14] Busiest February for new cars since 2004 but EV demand idles - SMMT

[15] Data from Automotive suggests a 40% increase in BYD sales while SMMT figures indicate even greater growth at 83%. Source: Tesla's UK Sales Slump as Chinese EVs Gain Ground

[16] autotrader-monthly-market-intelligence-february-2026.pdf

[17] Used car market enters into 2026 with surge in buyer engagement, but supply headwinds loom

113. Finance plays a particularly important role in supporting new car sales, with 86.9% of private new car registrations financed by FLA members in 2025, up from 83.8% in 2024.[18] In 2025 new motor finance business volume and value[19] were 8% and 9% higher for new cars, respectively.[20] Most recently, in the three months to December 2025 new cars bought on finance also grew both in volume and value[21] (14% and 11%, respectively), compared to the same period in 2024.

114. Motor finance for used cars remained stable throughout 2025 with a slight decrease in volume (1%) and increase in value (3%) compared to 2024.[22] Most recently, in the three months to December 2025 used cars bought on finance remained stable (no change in volume and 4% increase in value) compared to the same period in 2024.[23]

115. Industry data is supported by our Credit Agreement Product Sales Data in Q4 2025, where we see a stable market with slight increases, when compared to aggregate data collected on Q4 2024 as part of our cost of living consumer credit data collection.

116. The FLA also forecast that the lower inflation and interest rate environment is expected to support continued growth, although regulatory uncertainty and weak consumer confidence have contributed to a more cautious outlook for the motor finance market. Despite this, in Q4 2025 over half of motor finance providers[24] still reported anticipating some increase in new business over the next year.[25]

Wider credit markets

117. More widely, latest data from the Bank of England also suggests consumer credit growth remains stable (with an annual growth rate of 6.5% for other forms of consumer credit including motor finance in January 2026), indicating credit availability to consumers covering both motor finance and other credit products.[26]

New entry into the motor finance market

118. Since the *Johnson* judgment, we have observed signs of potential new entry for both new and used car lending, as well as actual entry from lenders targeting niche, specialist areas of the market.

119. In Q3 2025, Finclusion Limited[27] entered the market with a dealer-first proposition, and in Q4 2025, Marshmallow Credit Services Limited[28] and Ayan Capital[29] entered the motor finance market, with Marshmallow offering finance to newcomers to the UK and migrants, and Ayan Capital providing Shariah-compliant finance. In Q1 2026,

[18] State of the Market 2026 – Finance & Leasing Association

[19] Value of advances.

[20] Latest Motor Finance Statistics – Finance & Leasing Association

[21] Value of advances.

[22] Latest Motor Finance Statistics – Finance & Leasing Association

[23] Latest Motor Finance Statistics – Finance & Leasing Association

[24] FLA research indicates that the proportion of motor finance providers anticipating some increase in new business over the next year fell from 72% to 57% between Q3 and Q4 2025. Source: Latest Motor Finance Statistics – Finance & Leasing Association

[25] Consumer car finance new business volumes held steady in November 2025 – Finance & Leasing Association

[26] Money and Credit - January 2026 | Bank of England

[27] Finclusion partners with Sikoia on car finance decision-making

[28] Marshmallow Partners with Evolution for Motor Finance Push | FinTech Magazine

[29] Ayan Capital secures FCA credit license and launches tech-driven Islamic consumer finance

Alltruysm LTD[30] entered the motor finance market, offering finance secured against existing asset ownership. These developments suggest that new entrants may be likely to emerge in the medium-term.

120. Further, we are aware that other potential new lenders are looking to enter the motor finance market, reflecting the perceived commercial opportunity it presents.

Impact on funding, investment and cost of capital

121. Market sentiment following the publication of CP25/27 in October 2025 has shown generally resilient investment signals including in terms of funding, share prices and auto ABS transactions.

Impact on funding and investment

122. Recent funding activity in the motor finance market indicates ongoing investor interest. For example, Billing Finance, a specialist lender operating in the motor finance market, secured a £250m funding package in December 2025 supporting its growth plan and strategic investment in its technology capabilities.[31]

Impact on share prices

123. As set out in CP25/27, the share prices of affected UK listed high street banks, challenger banks, and one non-bank lender increased by around 2.1% to 29.7% in the two weeks post the *Johnson* judgment in August 2025. Share prices have generally continued to rise steadily since then, up until the recent conflict in the Middle East. Since CP25/27, equity analyst commentary has focused on lenders' provisioning and potential expectations of long-term sustainable returns once a source of uncertainty is removed.

Impact on UK asset-backed securities (ABS) transactions

124. Following the *Johnson* judgment in August 2025, major credit rating agencies did not expect the redress scheme to have any ratings impact on UK asset-backed securities (ABS) transactions. S&P Global Ratings has indicated that the redress scheme was not expected to affect the delinquency or default performance of the auto ABS transactions it rates, which therefore would not lead to a change in ratings.[32] Fitch Ratings similarly noted that ABS credit risk views did not change following court judgments, as rated UK auto ABS deals are generally supported by credit enhancement and structural features that limit potential exposure to redress-related liabilities.[33] Since the publication of CP25/27, Fitch Ratings has reaffirmed this position, maintaining the view that its rated ABS transactions will not be affected.[34]

125. In the UK auto ABS market, there was a pause in public market issuance after the Court of Appeal ruling in the *Johnson* case (in October 2024) due to legal and regulatory uncertainty regarding payment of commissions to brokers arranging motor finance. However, following the *Johnson* judgment (in August 2025) the public primary market has become active again.

[30] Supporting Alltruysm in securing FCA authorisation for innovative motor finance model - Gateley

[31] Billing Finance secures £250m funding from Quilam Capital to drive technology enabled growth. - Quilam Capital

[32] U.K. Auto ABS Likely To Cruise On Following Car F | S&P Global Ratings

[33] Fitch Ratings' Auto ABS Risk Views Not Changed by UK Motor Commission Judgment

[34] Stable Arrears Protect European Auto ABS Against Near-Term Risk

126. Since September 2025 five public UK auto ABS deals were priced, four from captive lenders and one from a non-bank specialist lender. In some of these new transactions (summarised in Table 1 below), certain features were introduced to limit securitisation investors' potential exposure to the risk of loans in the pool being impacted by the redress scheme. In some transactions, loans which are in the scope of the redress scheme or loans originated before November 2024 were excluded and one transaction included a buy-back provision to cover instances where loans were likely to be in scope of the redress scheme. In future transactions, the impact of the redress scheme on the loan pools should be diminishing because loans originated before November 2024 are gradually being repaid and replaced by newly originated loans which are out of scope.

127. Pricing of these recent transactions (see Table 1 below) has resulted in senior tranche credit spreads similar to (and sometimes lower than) those observed on transactions issued before the Court of Appeal ruling in *Johnson*.

128. The spreads on securitisation notes tend to be driven by the nature of the lender, investors' perception of the impact of redress on the lender's creditworthiness and by the type of borrowers and vehicles targeted by the lender. As such, typically captive lenders tend to achieve the tighter spreads, followed by banks and then non-bank specialist lenders.

129. While there has been one new issuance from a non-bank specialist lender which priced close to the lender's previous issuance a year earlier, a more widespread and stable return to the securitisation market by such lenders depends on the final impact of the redress scheme on their financial resources.

Table 1: Public UK Auto ABS priced since September 2025

Date	Total size (£m)	Issuer	Lender	Lender Cohort	Senior tranche pricing
Feb 2026	500	Driver UK 11	Volkswagen Financial Services	Captives	SONIA + 0.58%
Jan 2026	646	Koromo UK 2	Toyota Financial Services	Captives	SONIA + 0.57%
Nov 2025	400	Dowson 2025-1	Oodle Financial Services	Non-banks	SONIA + 0.90%
Oct 2025	400	Bavarian Sky UK 7	BMW Financial Services	Captives	SONIA + 0.62%
Sep 2025	750	Driver UK 10	Volkswagen Financial Services	Captives	SONIA + 0.60%

Source: Public prospectuses, ratings report documents and research articles.

130. In the public secondary market, spreads on the senior tranches of UK Auto ABS whose loans were originated by captive lenders had been trading at the tighter end of a two year range in January and February of this year, but have widened somewhat in March, as have spreads on other structured credit investments, since the onset of conflict in the Middle East.

131. In addition, notifications of private securitisations to the FCA show that private transactions continued to be executed throughout late 2024 and the full year of 2025. These private transactions were originated by a mixture of captives, banks and non-bank specialist lenders.

132. Based on limited data points, we estimate that the number of private auto loan securitisations closed in 2024 and 2025 was not too dissimilar to 2019 and 2020, but much lower than in 2021 to 2023. We note however that due to incomplete reporting, it is likely that the actual number of private securitisations was higher across all years.

3 Methodology and counterfactual

133. In this chapter we briefly summarise our approach to assessing the market impacts of the redress scheme and describe the changes we have made in response to feedback we received from respondents to CP25/27 as well as an independent academic review of our methodology.

Counterfactual

134. In PS26/3 CBA, we assess the costs and benefits of the CRS against a counterfactual scenario which describes what we would expect to happen in the market in the absence of our intervention. That is, we compare a 'future' under the policy, with an alternative 'future' without our intervention.

135. To fully consider the potential market integrity impacts of the CRS, in the remainder of this Technical Annex we consider the impacts of the intervention on the motor finance market in absolute terms. This means we assess how the market could change relative to how it operated in the recent past, rather than relative to the counterfactual. In doing so, we note that firms are likely to face higher costs in the non-intervention counterfactual scenario.

Policy changes influencing the market impact assessment

136. Our market impact assessment reflects revisions to the CRS since CP25/27, which are set out in detail in PS26/3. The revisions most material to the market impacts assessment are:

- The exception of captive and white-label tied arrangements with franchised dealerships being a relevant arrangement where there is evidence there were visible links between the lender, manufacturer and broker, and the exception of all zero APR agreements.
- The removal of the requirement for communication to be sent by recorded delivery mail, the removal of prescriptive requirements for the content of administrative communications, and the removal of a requirement to contact customers who have not complained where they do not have any relevant arrangements.
- The adjustment of the high commission threshold proposed in CP25/27 to 39% of the total cost of credit and 10% of the loan, and the introduction of de minimis commission thresholds.

137. PS26/3 also sets out the separation of the CRS proposed in CP25/27 into two schemes. Scheme 1, which covers agreements entered into between 6 April 2007 - 31 March 2014, and Scheme 2, which covers agreements entered into between 1 April 2014 – 1 November 2024. Our updated market impact assessment is based on the total combined costs to firms of both Schemes 1 and 2, reflecting our expectation that firms' decision making is likely to be influenced by the total costs they expect to incur.

Data updates

138. Our quantitative and qualitative evidence is informed by several data sources. Further details of these sources are provided in the CP25/27 Technical Annex 1: Consumer Redress Scheme for Motor Finance - Data, Analysis of Loss and Liability and Cost Methodologies and PS26/3 Technical Annex 1: Updated data, analysis of loss, and liability and cost methodologies.

139. We have continued to collect data from the larger lenders on a quarterly basis to monitor financial resources. We continue to see lenders updating provisioning levels and, in some cases, seeking additional support from parents or external funders.

140. Following the publication of CP25/27, we have expanded our evidence sources with analysis of firm-level financial resilience of smaller lenders in the market. We obtained data from 39 lenders operating across different segments of the motor finance market, which were not included in our assessment presented in CP25/27. Our assessment of financial resilience of these lenders finds that potential market impacts may be disproportionately concentrated among smaller non-prime lenders, however, the majority of smaller lenders in this sample appear broadly resilient.

Market impacts methodology

141. To assess the potential market impacts of the CRS, we developed an analytical framework which considers how lenders could strategically respond to redress and non-redress costs, and the impacts this could have on the price and availability of motor finance. Our methodology was set out in CP25/27 Technical Annex 4: Market Impacts Methodology.

142. Since our market impacts assessment published along with CP25/27: Motor finance consumer redress scheme in October 2025 we have made a number of changes to our assessment. These changes reflect the feedback received to the consultation on market impacts (see Chapter 1) and the latest developments in the motor finance market (see Chapter 2).

143. Changes to our approach also reflect recommendations following an academic review of our methodology. We commissioned an independent academic to conduct a comprehensive review of our market impacts methodology. Dr Matthew Olczak (Reader in Economics, Aston Business School, Aston University) completed a review of our analytical documents published alongside CP 25/27 (Technical Annex 2: State of Competition in the Motor Finance Market, Technical Annex 3: Market Impacts and Technical Annex 4: Market Impacts Methodology).

144. Dr Olczak concluded that the approach taken to separately analyse the key impacts of the redress scheme was appropriate. Under plausible assumptions and sensitivity testing, he believes this would provide insight into the range of potential effects the redress scheme could have. Overall, therefore, he deemed that the methodology adopted provides robust evidence that achieves the broad objective of the analysis. However, Dr Olczak provided constructive recommendations to ensure the robustness of the analysis and conclusions, given our research questions and available evidence. These are set out in Appendix 1: Academic review.

145. We have also considered changes to our approach in response to recent academic research. For example, Tracey & Sowerbutts (2025) *How do banks respond to*

misconduct costs?[35] examine the impact of provisions for misconduct costs on the behaviour of UK banks. They found that, while provisioning shocks mechanically offset banks' earnings and profits, resulting in a reduction in capital and therefore capital ratios, banks tended not to reduce risk weighted assets to rebuild capital cushions. Provisioning shocks did impact banks' subsequent lending decisions though. After a provisioning shock and reduction in capital ratios, to restore capital cushions banks shifted their business models to focus on maximising profitability, relative to risk weighting, by decreasing non-lending activities but increasing lending. Lending growth was driven by shifting towards profitable higher loan-to-value mortgages, which typically incur a lower capital risk-weighting compared to non-lending activities. However, the research also found there were differences in lenders' responses. Lenders with smaller initial capital cushions also reduced lending alongside adjusting their business models, while lenders with market power made smaller adjustments to their balance sheet.

146. In light of this feedback, we have updated elements of our market impacts assessment and approach. This includes refining modelling assumptions and scenarios and conducting further sensitivity analysis in response to feedback that we underestimated market impacts.

147. We have expanded our assessment to consider both short and long-term potential market impacts from the scheme, reflecting feedback that in the short term there may be restrictions or barriers to firms and consumers responding and adjusting to the scheme and therefore short and long-term market impacts may differ. For example, if time is needed for existing lenders to scale up capacity or new lenders to enter the market in response to other lenders withdrawing from it.[36]

148. Our updated assessment considers three scenarios:

- a **rapid recovery** where any short term withdrawal is quickly offset and impacts remain minimal
- a **gradual recovery** with modest short term pressures but no lasting effects on volumes, access or prices
- an **extended disruption** scenario in which more persistent impacts could arise

149. The extended disruption scenario is treated as a sensitivity as long-lasting disruption is considered unlikely, given recent market evidence suggesting resilience across the motor finance market.

150. We have also updated our market impacts assessment to reflect revised estimates of redress and non-redress costs following policy changes since CP25/27. For a summary of the policy changes to the scheme's design and scope which are most relevant for our assessment – including changes to communication requirements and exceptions to the scope of the scheme, which are likely to impact redress and non-redress costs for firms, please see PS26/3.

151. In line with our approach in CP25/27 Technical Annex 3: Market Impacts, we consider the potential market impacts of the scheme on three distinct segments of the market for motor finance: new vehicles, used vehicles and the sub-prime subset of the used vehicle segment.

[35] B. Tracey & R. Sowerbutts (2025) How do banks respond to misconduct costs?, Journal of Banking & Finance, Volume 178, September 2025

[36] We note that the timelines for short- and long-term impacts will depend on, among other factors, lenders' response and the speed of adjustment to the scheme which are uncertain. Therefore, in our assessment we have not sought to specify these timelines.

Modelling assumptions and scenarios

152. The redress scheme will provide a mechanism through which motor finance lenders address liabilities they have to customers eligible for redress.[37] Under the scheme, we estimate that total costs (redress and non-redress costs) amount to £9.1bn which informs our market impacts analysis. This includes redress liabilities costs of £7.5bn (including interest), and non-redress costs of £1.6bn.[38]

153. As set out in PS26/3 Technical Annex 1: Updated data, analysis of loss, and liability and cost methodologies, our redress liability modelling is designed to estimate market-wide redress using the data available to us. It is not designed to give precise redress values for individual agreements or to set out a prescriptive approach for firms to calculate their redress liabilities. Firms may have access to more information relating to their in-scope agreements and will need to calculate redress for individual agreements based on the policy described in PS26/3 and the associated rules. As with the analysis underpinning the estimates presented in CP25/27, there are several limitations to this analysis.

154. Our estimates are necessarily indicative and subject to uncertainty. They are based on the data available and certain assumptions have been made in the modelling to, for example, address data quality issues. While we have taken steps to address identifiable data quality issues in the data provided to us by firms where possible, some data inaccuracies may remain.

155. Relative to the costs used to assess the market impacts in CP25/27 the total (redress and non-redress) costs of the proposed scheme have decreased for the majority of lenders. The changes reflect revised and additional data, policy changes and updated assumptions on take up rates.

156. While most lenders within our sample are expected to incur some liabilities arising from the redress scheme, there are significant differences in the estimates suggesting a relatively asymmetric impact across lenders. Redress and non-redress costs are not distributed evenly across lender types: we estimate banks account for around 57% of total costs, captive lenders around 42%, and independent lenders less than 2%.

157. In line with our previous assessment, lenders face a strategic decision about how to finance the redress and non-redress costs, as well as broader decisions about whether to continue in the market, lending volumes and pricing strategies. In practice, these decisions are complex processes informed by a range of factors and subject to considerable uncertainty. For further details on lender decisions, see CP25/27 Technical Annex 3: Market Impacts.

158. Our updated market impacts assessment considers the following three scenarios.

- **Rapid recovery**: in this scenario we assume the scheme does not have a material impact on the motor finance market, with lending volumes and prices remaining similar to those in the recent past. While some lenders may decide to withdraw from the market or temporarily restrict lending volumes, we assume any lost volumes are promptly replaced by remaining lenders – including in the short term – reflecting expectations for motor finance to remain profitable. As

[37] The number of customers eligible for redress and the size of redress payments will determine lenders' redress liabilities. In addition to redress liabilities, firms are also likely to face additional administrative and operational costs associated with the redress scheme.

[38] The redress liability estimate assumes that across the two schemes 75% of consumers with an agreement that has at least one feature we propose could give rise to an unfair relationship seek and receive redress through the scheme.

redress liabilities may increase the perceived financial risk of lenders, the cost of capital may increase. Depending on whether firms are able to pass on these costs, motor finance prices may increase slightly.[39]

- **Gradual recovery:** in this scenario, we assume there is potential for some reduction in motor finance volumes and a small increase in prices in the short term as the market adjusts following the implementation of the scheme. In the long term, we assume there are no material impacts on motor finance volumes, access or prices, reflecting lending capacity returning to historic levels (including via expansion and new entry) and effective competition in all segments.
- **Extended disruption:** in this scenario, we consider the possibility of significant and extended disruption in the market, in particular through more material withdrawal of lenders from the market that may affect volumes, access and prices. Following a more pronounced disruption in the short term (compared to the scenarios above), we assume the market partially recovers in the longer term, although with reduced lending capacity and less effective competition leading to more lasting impacts on volumes, access and prices.

159. The 'rapid recovery' and 'gradual recovery' scenarios are closely aligned with the assumptions and modelling scenarios presented in CP25/27 Technical Annex 3: Market Impacts. In light of our evidence base on current market resilience and changes to the scheme's design in response to consultation feedback, we consider that these scenarios continue to reflect the most plausible range of market impacts.

160. In response to the feedback received, we also consider a further scenario ('extended disruption') reflecting the potential for more significant impacts on motor finance volumes, access and prices both in the short and long term. However, in light of recent market evidence and our broader evidence base we consider a more material and longer-lasting disruption to the motor finance market to be unlikely. The results presented for this scenario should, therefore, be treated as a sensitivity analysis.

161. As before, it is important to note that these are modelling scenarios to illustrate the potential direction and scale of market impacts of the scheme and are not forecasts or predictions of market impacts.

162. The key assumptions for our updated modelling scenarios are summarised in the table below.

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

Table 2: Key assumptions for updated modelling scenarios

	Rapid recovery	**Gradual recovery**	**Extended disruption** (sensitivity)
Decision whether to continue lending or withdraw from the market and replacement of any lost volumes	Lenders continue to operate in the market, both in the short and long term across all segments.	Most lenders continue to operate in the market, some small lenders decide to withdraw from the market in the short term. In the long term, lost volumes are fully replaced by existing and new firms.	Most lenders continue to operate in the market, some firms decide to withdraw from the market in the short term, affecting potentially greater volumes compared to the 'gradual recovery' scenario. In the long term, most but not all lost volumes are replaced by existing and new firms (with fewer potential new entrants compared to the 'gradual recovery' scenario).
Decision whether to contract lending	Lenders continuing to operate in the market: • do not contract prime and near-prime lending volumes in the short or long term, • reduce sub-prime lending volumes slightly in the short term, • sub-prime lending volumes recover in the long term.	Lenders continuing to operate in the market: • do not contract prime lending volumes in the short or long term, • reduce near- and sub-prime lending volumes slightly in the short term, • near- and sub-prime lending volumes recover in the long term.	Lenders continuing to operate in the market: • do not contract prime lending volumes in the short or long term, • reduce near- and sub-prime lending volumes slightly in both the short and long term.
Pricing decision – changes in cost of capital	Any changes in the cost of capital are passed through to consumers in the form of higher APRs to the extent these materialise (short and long term).	Any changes in the cost of capital are passed through to consumers in the form of higher APRs to the extent these materialise (short and long term).	Any changes in the cost of capital are passed through to consumers in the form of higher APRs to the extent these materialise (short and long term).
Pricing decision – financing redress and non-redress liabilities	Lenders do not attempt to adjust prices in light of liabilities in the new and used segments. Lenders attempt to adjust prices in light of liabilities in the short term in the sub-prime segment.	Lenders attempt to adjust prices in light of liabilities in the short term across all segments.	Lenders attempt to adjust prices in light of liabilities in both the short and long term across all segments, with greater potential adjustments in the short term.

4 Impacts on the motor finance market

163. This chapter presents the results from our updated market impacts assessment. It focuses on the changes made to the market impacts modelling assumptions and scenarios since consultation and our assessment of the scheme's potential impact on volumes, prices and access to motor finance across the three segments considered. It does not restate the detailed rationale and evidence base underlying our key assumptions and methodology from CP25/27 where these remain unchanged. For further details on these, please see Technical Annex 3: Market Impacts and Technical Annex 4: Market Impacts Methodology.

Motor finance for new vehicles

164. Consistent with our previous assessment, we anticipate limited impacts in the new segment both in the short and long term. This is driven by a low likelihood of lender withdrawal and continued appetite to lend given the strategic importance of motor finance in supporting new vehicle sales, and strong manufacturer-level competition between brands, as well as the majority of consumers having access to alternative finance products at competitive rates.

165. The table below summarises the illustrative market impacts for the new segment under the updated modelling scenarios.

Table 3: Summary of illustrative market impacts of the scheme for the new segment in absolute terms (these are not forecasts or predictions)

	Rapid recovery	Gradual recovery	Extended disruption (sensitivity)
Lender response	Lenders continue to operate in the market	Most lenders continue to operate in the market, some smaller firms may stop lending in the short term	Most lenders continue to operate in the market, some firms may stop lending in the short term, with most but not all volume replaced in the long term
Volumes and access to motor finance	No material change in volumes or access in the short or long term	No material change in volumes or access in the short or long term	No material change in volumes or access in the long term, potential small reduction in volumes in the short term
Price	Potential small increase in weighted average APR (up to 0.14pp* in the short and long term)	Potential small increase in weighted average APR (around 0.19pp* in the long term), with a slightly larger increase in the short term	Potential small increase in weighted average APR (around 0.34pp* in the long term), with a slightly larger increase in the short term
Illustrative impact on monthly payments (long term)	Average monthly payments may increase by up to £2 (<1%), equating to £77 per agreement	Average monthly payments may increase by up to £2 (<1%) in the long term, equating to £106 per agreement	Average monthly payments may increase by up to £4 (<1%) in the long term, equating to £188 per agreement

* From baseline weighted average APR of 6.0%, based on 2022/23 data.

166. Below we provide further details of our assessment.

Lenders' response to liabilities

167. Our assessment of lender strategic response to liabilities in the new segment remains unchanged. We consider the likelihood of lenders deciding to withdraw from the new segment following the implementation of the CRS to be low, including in the short term, reflecting the strategic importance of motor finance in supporting new vehicle sales. This conclusion is further supported by policy changes which narrow the scope of the scheme and are expected to significantly reduce the number of impacted agreements for captive lenders in relation to tied arrangements, who dominate lending in the new segment. This also includes the clarification that agreements that have a zero APR (i.e. no credit cost) are not considered unfair for the purposes of the scheme.

168. Our updated modelling scenarios continue to reflect the possibility that a limited number of smaller banking and independent lenders withdraw from the market, both in the short and long term. These strategic decisions are unlikely to affect a significant share of volumes, given the more limited role of these lenders in the new segment.

Impact on competition

169. As before, we expect effective competition in the new segment to continue, driven by strong competition between vehicle brands. Any lenders that may withdraw have a

relatively low share of agreements in the new segment, indicating minimal impact on the nature of intensity of competition and market concentration.

Impact on volume and access to motor finance

170. Consistent with our previous assessment, in response to any smaller lenders withdrawing from the market, in the long-term remaining lenders are likely to have the capacity and incentive to replace lost volumes in full. We also expect there to be continued appetite to lend on current terms and criteria among lenders remaining in the market.

171. In the 'gradual recovery' scenario we also consider the possibility of lenders replacing most but not all volumes lost in the short term. Our assessment indicates that should a limited number of banking or independent lenders decide to stop lending, we consider a material impact on volumes in the new segment to be unlikely even in the short term (where it is possible that remaining lenders replace most but not all volumes), due to the limited role these lenders have in the new segment.

172. In the unlikely case of more material lenders withdrawing from the market (considered in our 'extended disruption' scenario), there may be a small impact on motor finance volumes in the new segment in the short term while the market adjusts (for example, new firms may enter the market or OEMs may form new partnerships) following the implementation of the redress scheme.

173. As before, we do not consider a material impact on access to motor finance for new vehicles to be likely in either the short or long term, given continued lending appetite in this segment and most consumers having access to alternative finance products at competitive rates.

Impact on motor finance prices

174. In line with our previous analysis, we consider a significant increase in motor finance prices for new vehicles to be unlikely. Competition between captives, consumer price sensitivity and the availability of alternative finance options are likely to limit the ability for lenders to adjust consumer prices to improve future profit margins without a fall in demand. In addition, in line with recent market evidence, changes in costs of capital may have less impact on captive lenders.

175. In the long term, the weighted average APR may increase by up to 0.19 percentage points in our 'gradual recovery' scenario reflecting a potential small increase in the cost of capital. Illustratively, for a four-year Hire Purchase agreement[40] this would suggest an increase in monthly payments of around £2 or around £106 over the course of the agreement. In the very unlikely event of a more significant and longer-lasting disruption (reflected in our 'extended disruption' scenario), the weighted average APR may increase by up to 0.34 percentage points. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £4 or around £188 over the course of the agreement.

176. In the short term, in addition to any increases in the cost of capital, we consider that lenders may also attempt to adjust prices to improve future margins to finance a portion of their liabilities, leading to a slightly larger increase in APRs. In the 'gradual recovery' scenario, the weighted average APR may increase by up to 0.43 percentage points in the short term, reflecting both the higher cost of capital lenders

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

may face in light of the liabilities and the possibility of firms seeking to finance some of their liabilities from future consumers. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £5 or around £237 over the course of the agreement.

177. Overall, the illustrative price impacts are similar or lower compared to those presented in CP25/27 Technical Annex 3: Market Impacts.[41]

Impact on brokers and commission

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

179. We do not consider a reduction in commissions to be likely. Franchised motor dealers have a central role brokering motor finance to support new vehicle sales. This creates a close interdependent relationship between franchised dealers, OEMs and their captive lenders. This is likely to limit the extent to which captive lenders can reduce commission without risk of damaging relationships with dealers. As commissions in the new segment are typically lower compared to the used segment, there may be limited scope for lenders to cover increased costs by squeezing commission.

Associated impact on vehicle sales and prices

180. We do not anticipate material impacts on the volume of vehicle sales or vehicle prices. Competition between OEMs to secure vehicle sales is likely to constrain the potential for price rises on new vehicles, in the same way as it would for motor finance on new vehicles.

Motor finance for used vehicles

181. Consistent with our previous assessment, there is the potential for more significant impacts in the used segment both in the short and long term. This reflects greater risk of lender withdrawal, relative to new car finance providers, and the potential for some of this volume not to be replaced by remaining lenders, at least in the short-term. As such there is the potential for modest short-term pressures on motor finance volumes and access for some non-prime consumers. However, we do not anticipate material long-term impacts, as lost volumes are expected to be replaced in full by existing or new lenders.

182. The table below summarises the illustrative market impacts for the used segment[42] under the updated modelling scenarios.

[41] We note that the price impacts presented in this annex are not directly comparable to those in CP25/27 Technical Annex 3: Market Impacts given the changes to the modelling scenarios and assumptions.

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

Table 4: Summary of illustrative market impacts of the scheme for the used segment in absolute terms (these are not forecasts or predictions)

	Rapid recovery	Gradual recovery	Extended disruption (sensitivity)
Lender response	Lenders continue to operate in the market	Most lenders continue to operate in the market, some smaller firms may stop lending and/or restrict volumes in the short term	Most lenders continue to operate in the market, some firms may stop lending and/or restrict volumes in the short term, with most but not all volume replaced in the long term
Volumes and access to motor finance	No material change in volumes or access in the long term, potential small reduction in volumes in the short term	No material change in volumes or access in the long term, potential small reduction in volumes in the short term	Potential small reduction in volumes even in the long term, with more significant impacts in the short term
Price	Potential small increase in weighted average APR (up to 0.24pp* in the long term)	Potential small increase in weighted average APR (around 0.28pp* with a larger increase in the short term)	Potential small increase in weighted average APR (around 0.76pp* with a larger increase in the short term)
Illustrative impact on monthly payments (long term)	Average monthly payments may increase by up to £2 (<1%), equating to £77 per agreement	Average monthly payments may increase by up to £2 (<1%) in the long term, equating to £91 per agreement	Average monthly payments may increase by up to £6 (1.6%) in the long term, equating to £306 per agreement

* From baseline weighted average APR of 13.2%, based on 2022/23 data.

183. Below we provide further details of our assessment.

Lenders' response to liabilities

184. Consistent with our previous assessment, in our rapid recovery scenario we assume all lenders will continue operating in the market once the scheme is implemented.

185. As before, in our gradual recovery scenario we also consider the implications of a limited number of lenders withdrawing from the motor finance market, in particular banking and independents, as a strategic response to the scheme or its wider impacts on the market. While we consider it unlikely, we also consider the possibility of more material lenders withdrawing from the market in the 'extended disruption' scenario.

186. Similarly, we consider a tightening of lending criteria to be unlikely as we anticipate motor finance to remain profitable. However, within the broader used segment, it is plausible that firms in the near and sub-prime segments restrict their lending in the short term, reflecting lower capital availability and reduced lending appetite. While unlikely, in the 'extended disruption' scenario we have considered the possibility of such a lending contraction to be permanent in these segments.

Impact on competition

187. In most of our updated scenarios we do not consider the scheme to affect the nature or intensity of competition in the used segment. However, in the 'extended

disruption' scenario, market concentration may increase in the short term, reflecting more firms deciding not to continue lending while the market adjusts and new firms enter the market.

Impact on volume and access to motor finance

188. In line with our previous assessment, in the rapid and gradual recovery we consider that remaining active lenders have the capacity and capability to replace lost volumes in full in the long term, indicating no material change in the volume of agreements or access to motor finance in the used segment.

189. In the short term, consistent with some of our previous scenarios, we consider the possibility of lenders replacing most but not all volumes lost following the decision of some firms to stop lending. Our updated assessment indicates that in the 'rapid recovery' and 'gradual recovery' scenarios, decisions by some lenders not to continue lending along with less than full replacement of volumes and/or a lending contraction could have a small impact on motor finance volumes and may reduce access for a small subset of consumers in the short term. In the 'extended disruption' scenario, our illustrative modelling indicates these impacts to be greater in the short term, with the potential for some consumers to be affected in the long term. As noted above, we consider this scenario to be unlikely.

190. If access to motor finance was reduced, we consider that most consumers in the used segment would have access to alternative forms of credit. However, we also acknowledge that consumers in the near-prime and especially sub-prime segments may have fewer alternative options available to them and therefore their ability to access credit may be affected in the short term. We consider the implications in further detail in the motor finance for sub-prime consumers section below.

Impact on motor finance prices

191. In line with our previous analysis, we consider that there is potential for more material impact on prices in the used segment, depending on the extent to which lenders may attempt to adjust their future margins to improve profits in the face of redress and non-redress costs as well as any potential increases in their cost of funds.

192. In the long term, our updated assessment indicates that the weighted average APR may increase by up to 0.28 percentage points in our 'gradual recovery' scenario reflecting a potential small increase in the cost of capital. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £2 or around £91 over the course of the agreement. In the very unlikely event of a more significant and longer-lasting disruption (reflected in our 'extended disruption' scenario), the weighted average APR may increase by up to 0.76 percentage points. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £6 or around £306 over the course of the agreement.

193. In the short term, in addition to any increases in the cost of capital, we consider that lenders may also attempt to adjust prices to improve future margins to finance a portion of their liabilities, leading to a slightly larger increase in APRs. This is because our evidence indicates that, despite generally effective competition in the used segment, a potential small to moderate increase in prices may be tolerated by

consumers given discretion for brokers to adjust certain elements of the motor finance deal to keep monthly payments within consumer budgets.

194. For example, in the 'gradual recovery' scenario, the weighted average APR may increase by up to 1.02 percentage points in the short term, reflecting both the higher cost of capital lenders may face and the possibility of firms seeking to finance some of their liabilities from future consumers. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £8 or around £387 over the course of the agreement.

195. As before, we consider that any demand response from consumers, following a potential small to moderate increase in APRs, is unlikely to significantly affect motor finance volumes.

196. Overall, the illustrative price impacts are similar or lower compared to those presented in CP25/27 Technical Annex 3: Market Impacts.[43]

Impact on brokers and commission

197. Most motor finance sales on used vehicles in the prime segment are arranged through motor dealers. Dealerships have more pricing flexibility over used vehicle sales. Dealers compete with other used vehicle sellers including other local dealerships and online platforms on the bundled cost of a sale (including vehicle price, finance, part-exchange value). Competitively priced financing is viewed as a key driver of vehicle sales given customers' focus on monthly affordability.

198. In line with our previous assessment, we assess that the scheme is unlikely to have a significant impact on broker panel arrangements. Responses to our motor finance broker survey indicate that brokers typically operate a panel of lenders enabling them to work with a wide range of lenders to meet diverse consumer needs and characteristics within the segment.

199. Given the diversity of panels in terms of lender types and the consumer profiles served, we do not expect a material impact on broker panel arrangements if a few smaller lenders decide to stop lending. Most brokers noted that they would expect the impact of their main motor finance lender withdrawing from the market to be low as they would approach other lenders on their panel to maintain a broad range of competitively priced offers. At the same time, smaller brokers relying on a single or a few lenders may be more significantly impacted if their main lender(s) withdraws from the market.

200. As before, we assess that there is limited scope for lenders to squeeze commissions in the used segment. Lenders operating mostly in the used segment pay higher average commission rates compared to those active in the new segment which may provide some additional scope for lenders to finance redress and non-redress liabilities through lower commissions paid to brokers. However, the risk of brokers withdrawing from the market as a result of a significant change in commission arrangements, or adjusting the bundled price, and use of finance, in used vehicle transactions, will inform lenders' commission levels.

201. Overall, in line with our previous analysis, we continue to consider a potential small decrease in broker commissions as a sensitivity as part of our assessment of price impacts.

[43] We note that the price impacts presented in this annex are not directly comparable to those in CP25/27: Technical Annex 3: Market Impacts given the changes to the modelling scenarios and assumptions.

Associated impact on vehicle sales

202. We do not anticipate a significant impact on vehicle sales in the used segment as a result of changes in access to finance or any potential increase in motor finance prices as a result of the scheme.

Motor finance for sub-prime consumers

203. Consistent with our previous assessment, and reflecting the competitive conditions and consumer types in the segment, there is the potential for more significant price impacts in the sub-prime segment, relative to the new and used segment. However, we anticipate limited impacts on access to finance, both in the short and long-term, due to policy changes which are likely to reduce the direct impact of the scheme on some sub-prime lenders.

204. The table below summarises the illustrative market impacts for the sub-prime segment under the updated modelling scenarios.

Table 5: Summary of illustrative market impacts of the scheme for the sub-prime segment in absolute terms (these are not forecasts or predictions)

	Rapid recovery	**Gradual recovery**	**Extended disruption** (sensitivity)
Lender response	Lenders continue to operate in the market	Lenders continue to operate in the market, some firms may restrict volumes in the short term	Lenders continue to operate in the market, some firms may restrict volumes in the short term, with the majority of volume replaced in the long term
Volumes and access to motor finance	No material change in volumes or access in the long term, potential small reduction in volumes in the short term	No material change in volumes or access in the long term, potential small reduction in volumes in the short term	Potential reduction in volumes both in the short and long term
Price	Potential small increase in weighted average APR (up to 0.34pp* in the long term)	Potential small increase in weighted average APR (around 0.42pp* with a larger increase in the short term)	Potential small increase in weighted average APR (around 0.80pp* with a larger increase in the short term)
Illustrative impact on monthly payments (long term)	Average monthly payments may increase by up to £1 (<1%), equating to £64 per agreement	Average monthly payments may increase by up to £2 (<1%) in the long term, equating to £78 per agreement	Average monthly payments may increase by up to £3 (1.0%) in the long term, equating to £150 per agreement

* From baseline weighted average APR of 33.1%, based on 2022/23 data.

205. Below we provide further details of our assessment.

Lenders' response to liabilities

206. As in our previous analysis, we assess the likelihood of lender strategic decisions to stop lending in the sub-prime segment (forming a subset of lending on used vehicles) to be relatively low. Reflecting changes to the scheme which reduce non-redress costs for these lenders, we now consider the likelihood of lender withdrawal to be lower than previously assessed. In particular, the removal of specific customer communication requirements reduces potential pressures on financial resilience and therefore, the risk of lender withdrawal and/or contraction in this segment.

207. However, in line with some of our previous scenarios, we consider it plausible that some firms in the near and sub-prime segments restrict their lending in the event of lower capital availability or a higher cost of capital, and reduced lending appetite.

Impact on competition

208. As before, we do not anticipate a material change in competitive dynamics. Under our assumptions, lenders who may withdraw from the segment have a relatively low share of agreements in the sub-prime segment, and therefore we would not expect a significant impact on market concentration or the nature and intensity of competition.

Impact on volume and access to motor finance

209. We consider that should a few smaller lenders withdraw from the market, a material change in the volume of agreements or access to motor finance for sub-prime consumers is unlikely, due to the limited participation of these lenders in the sub-prime segment. Our 'extended disruption' scenario considers more material market withdrawal, however, this withdrawal does not impact the sub-prime segment.

210. In the short term, consistent with some of our CP25/27 scenarios, we considered the possibility of a lending contraction. Our updated assessment assumes that in the 'gradual recovery' and (unlikely) 'extended disruption' scenarios, decisions by some lenders to restrict their lending could have a greater impact on motor finance volumes and may reduce access for some consumers in the short term.

211. If access to motor finance was reduced, we acknowledge that sub-prime consumers may have fewer alternative options available to them and therefore their ability to access credit may be affected in the short, and in some rare cases, even in the long term.

Impact on prices

212. Consistent with our previous analysis, we consider that there is potential for more significant impacts on prices for sub-prime consumers, in comparison to other segments.

213. Given we consider the likelihood of lenders withdrawing or materially contracting lending in this segment to be lower than previously assessed, due to policy changes to the scheme, any potential impacts on the segment are more likely to arise through pass-through of scheme costs or cost of capital increases. The cost of capital in the sub-prime segment is particularly sensitive to cost shocks due to a higher baseline credit risk and greater reliance of lenders on capital markets.

214. This also reflects greater ability of firms operating in the sub-prime segment to adjust prices, arising from relatively higher market concentration and the lack of alternative credit available to consumers.

215. In the long term, our updated assessment indicates that the weighted average APR may increase by up to 0.42 percentage points in our ‘gradual recovery’ scenario reflecting a potential increase in the cost of capital. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £2 or around £78 over the course of the agreement. In the very unlikely event of a more significant and longer-lasting disruption (reflected in our ‘extended disruption’ scenario), the weighted average APR may increase by up to 0.80 percentage points. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £3 or around £150 over the course of the agreement.

216. In the short term, in addition to any increases in the cost of capital, we continue to assume that lenders may be more likely to be able to adjust prices in light of their liabilities (compared to the new and broader used segment), as there is relatively high market concentration and fewer options for motor finance available to sub-prime consumers.

217. In practice, this may lead to small to modest increases in prices even in the ‘rapid recovery’ scenario where our indicative modelling suggests that the weighted average APR may increase by up to 0.54 percentage points in the short term, reflecting both the higher cost of capital and the possibility of lenders seeking to finance some of their liabilities from future consumers. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £2 or around £101 over the course of the agreement.

218. Our modelling also indicates the potential for slightly larger increases in prices in the short term in the other scenarios considered. For example, in the ‘gradual recovery’ scenario, the weighted average APR may increase by up to 0.89 percentage points in the short term. Illustratively, for a four-year Hire Purchase agreement this would suggest an increase in monthly payments of around £3 or around £166 over the course of the agreement.

219. Overall, the illustrative price impacts are similar or lower compared to those presented in CP25/27 Technical Annex 3: Market Impacts.[44]

Impact on brokers and commission

220. The sub-prime segment is highly intermediated reflecting the increased difficulty for sub-prime customers in accessing credit. Most finance brokers operating in the sub-prime segment in our sample are specialist motor finance brokers where motor finance is their sole or primary business.

221. As before, we assess that the proposed redress scheme is unlikely to have a significant impact on broker panel arrangements as most specialist motor finance brokers operate a panel of lenders to support the sale of vehicles to sub-prime consumers.

222. In response to our motor finance broker survey, most finance brokers indicated that one or two lenders withdrawing from the market are not likely to affect panels materially. While decisions by multiple (key) lenders to stop lending may impact brokers’ ability to meet consumer needs we consider such a scenario to be unlikely given the generally lower likelihood of lender withdrawal in this segment than previously assessed.

[44] We note that the price impacts presented in this annex are not directly comparable to those in CP25/27: Technical Annex 3: Market Impacts given the changes to the modelling scenarios and assumptions.

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

Associated impact on vehicle sales

224. In response to the scheme, if there is no change in access to finance for sub-prime customers, we do not anticipate a significant impact on vehicle sales, unless the cost of finance becomes prohibitive for customers with fewer alternative purchase options.

Appendix 1: Academic review

225. We commissioned an independent academic to conduct a comprehensive review of our market impacts methodology (see Table 6 below). Dr Matthew Olczak (Reader in Economics, Aston Business School, Aston University) completed a review of our analytical documents published alongside CP 25/27 (Technical Annex 2: State of Competition in the Motor Finance Market, Technical Annex 3: Market Impacts and Technical Annex 4: Market Impacts Methodology).

226. Dr Olczak concluded that the approach taken to separately analyse the key impacts of the redress scheme was appropriate. Under plausible assumptions and sensitivity testing, he believes this would provide insight into the range of potential effects the redress scheme could have. Overall, therefore, he deemed that the methodology adopted provides robust evidence that achieves the broad objective of the analysis. However, Dr Olczak suggested constructive recommendations to ensure the robustness of the analysis and conclusions, given our research questions and available evidence.

227. The suggestions have been implemented where possible, as shown below.

Table 6: Summary of recommendations from academic review

Analysis	Suggestion	Necessary for robustness?	FCA response
Segmentation	Provide data on overlap of lenders operating in prime vs. near-prime and evidence of entry by prime lenders into near-prime.	Helpful for adequate robustness, but low priority	In Chapter 1 above, we set out our response to stakeholder feedback on the segmentation of the market, including near-prime lending, drawing on a range of data and information sources (including overlap of lenders across different creditworthiness segments as well as historical and recent evidence of entry to the market).
Methodology, assumptions and outputs	More clearly outline the distinction between assessing market impacts against the counterfactual and in absolute terms.	Helpful for adequate robustness, but low priority	The updated assessment presented in this Technical Annex focuses on market integrity in absolute terms. The updated CBA focuses on market impacts relative to the non-intervention counterfactual.

	Clearly specify assumptions and assumed input ranges, plus the evidence supporting these. Including: • New entry • Replacement rate • Exit assumptions • Cost of capital and pass through • Maintained current agreement levels in APR increase analysis	Necessary for adequate robustness	We set out our updated modelling assumptions in Chapter 3 above which include firm decisions about continuing or withdrawing from the market, volume replacement and lending contraction, as well as pricing decisions. The updated scenarios/ assumptions take account of the further evidence that has become available since the publication of CP25/27, for example on firm entry and the impact on funding, investment and cost of capital. While for brevity we do not restate the evidence base that remains unchanged from CP25/27, the information presented along with our previous assessment continues to underpin our analysis.
	More clearly present mechanisms through which changes take place, including, outlining: • How the magnitude of the replacement effect is linked to the exit analysis and new entry assumptions • what could drive the remaining firms in the market to contract their lending	Necessary for adequate robustness	We discuss the implications of our updated modelling assumptions as part of our updated market impacts assessment in Chapter 3 above.

	• how cost increases could lead to supply contraction • the relationship between replacement rate and competition effects.		
	Present available evidence on the likely magnitude of lost demand due to consumers' switching to alternative finance.	Helpful for adequate robustness, but low priority	As set out in Chapter 4, our updated assessment notes that, in line with our earlier conclusions, any demand response from consumers is unlikely to affect motor finance volumes. As we explain in Chapter 4, we do not restate the detailed rationale and evidence base underlying our key assumptions and conclusions which remain unchanged. This includes the Motor Vehicle Finance Consumer Research published alongside CP25/27.
Scenario & Sensitivity testing	Assumptions and scenarios are not always clearly framed as covering plausible ranges. Clarify that scenarios capture the plausible range of impacts, or expand scenarios if they do not.	Necessary for adequate robustness	As part of our updated modelling scenarios described in Chapter 3 above, we clearly set out where we consider that the scenarios and assumptions cover plausible ranges and where assumptions and results should be treated as a sensitivity analysis.
	Scenarios combine multiple assumption changes, limiting ability to identify marginal effects. Reframe scenario design (or add explanation) to permit clearer identification of	Helpful for adequate robustness, but low priority	In line with the recommendations above, our updated scenarios test plausible ranges for the input assumptions. In practice this means that these do not directly seek to test

	which assumptions drive change and when combined clarify the cumulative nature of the effects.		the marginal impact of changes in specific assumption(s). Nevertheless, in Chapter 4 above, we discuss the implications of our updated modelling assumptions on the illustrative market impacts, including the key drivers of changes.