

## The complaint

Miss M is unhappy that Santander Consumer (UK) Plc, who I'll call Santander, have failed to explain how the Annual Percentage Rate (APR) charged on her finance agreement could be so much higher than the interest rate, and that they've not explained what she thinks were excessive exit charges.

## What happened

I issued my provisional decision on this complaint in December 2023. An extract from that provisional decision is set out below.

*I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.*

*I don't think Santander have been reasonable here and I'm expecting to tell them to put things right for Miss M. I'll explain why.*

*Where the information I've got is incomplete, unclear, or contradictory, as some of it is here I have to base my decision on the balance of probabilities.*

*I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point it's not because I've failed to take it on board and think about it but because I don't think I need to comment on it in order to reach what I think is the right outcome.*

*Miss M acquired her car under a regulated consumer credit agreement and as a result our service is able to look into complaints about it.*

## The APR

*Miss M's finance agreement explained that the interest rate was 6.72% per annum and that the APR was 12.9%.*

*The APR advertised for lending takes into account not just the interest on the credit but also other charges the borrower has to pay, for example, any arrangement fee. Customers can use it to compare different credit and loan offers. All lenders have to tell customers what the APR is before they sign a credit agreement. It will vary from lender to lender and the APR advertised may not be the interest rate the borrower is charged.*

*Miss M has explained that she's a mathematician and she can't understand why the APR is so much more than the interest rate. She says she's not been told about any charges she may need to pay that would be taken into account in the APR calculation.*

*The APR calculation is a complicated one, it's set out in the Financial Conduct Authority's (FCA) Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) at MCOB 10.3.1A. Our Service wouldn't usually calculate or check APR's: we'd expect the business's auditors to do that, and we understand that the calculation is automated. But I'd expect the business to be able to justify the calculation to its customers if challenged.*

*That may simply be to check that the rate that should have been applied has been applied, but here I think Miss M needed more than that. She provided calculations herself and she asked what the "hidden charges" were that the business had used when calculating the APR. In the absence of an explanation, I can understand her frustration.*

*I think, in those circumstances, Santander should have detailed the calculations that had been applied in order to justify the charges it was making. They should do so now, and if the calculations show Miss M has been over charged they should refund any overpayment with 8% interest from the date of payment to the date of settlement.*

### **Settlement charges**

*Miss M says that the charges she was asked to pay when she withdrew from the agreement were excessive and amounted to 36%.*

*The Consumer Credit Act covers several areas of consumer credit including the content and form of credit agreements and the procedures relating to default, termination, and early settlement. In relation to early settlement the Consumer Credit Act says that settlement figures should be calculated using the rules set out in the Consumer Credit (Early Settlement) Regulations 2004. It says that the settlement date becomes 28 days after receipt of the settlement request and it goes on to allow the creditor, if the loan is for more than one year, to defer the settlement date by 30 days. That may explain the settlement charges for Miss M.*

*These terms aren't explicitly referred to in the credit agreement but there's a balance to be struck between defining and explaining each and every term of a contract and keeping a contract to a reasonable length. I've not seen any evidence from Miss M that when taking these Regulations into account, the settlement figure was wrong. If Miss M continues to dispute the charge made for settlement after she's considered those Regulations, I think it would be fair for Santander to provide their calculations to justify the charges made. And if those calculations demonstrate Miss M has been over charged, they should refund any overpayment with 8% interest from the date of payment to the date of settlement.*

### **Distress and inconvenience**

*Santander offered Miss M £150 in compensation but, as their final response didn't resolve things for Miss M, I think she's experienced additional inconvenience as she's had to escalate her claim to this Service. In those circumstances, I think Santander should pay her an additional £100 in compensation.*

### **My provisional decision**

*I'm expecting to uphold this complaint and to tell Santander Consumer (UK) Plc to put things right in the way I've set out above.*

### **Additional comments or evidence**

*Santander didn't provide any further comments or evidence.*

Miss M said:

*“In regards to the Settlement charges (36%), based on that extra information you have provided.*

*I had the arrangement for just 4 weeks, add two extra months on then that would be the equivalent of 3 months (3 x 12% = 36%). If only Santander had explained or even replied with any sort of information that would explain why they were justified to charge two further months of interest, on the basis that they can justify the 6.72% interest vs the 12.9% APR.*

*Appreciate you supporting my request to understand the 6.72% vs 12.9% and I look forward to eventually seeing that considering the agreement has £0.00 next to additional charges.”*

### **What I've decided – and why**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've not been provided with any additional comments or evidence that has persuaded me to change my provisional decision.

### **Putting things right**

My provisional decision now becomes my final decision on this complaint.

### **My final decision**

For the reasons I've given above, I uphold this complaint and tell Santander Consumer (UK) Plc to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 5 February 2024.

Phillip McMahon  
**Ombudsman**