

The complaint

Mr M complains that the settlement figure quoted for his hire purchase agreement with N.I.I.B. Group Limited trading as Northridge Finance (NGL), was calculated incorrectly and is too high.

What happened

In May 2022, Mr M acquired a new car through a hire purchase agreement with NGL. The cash price of the car was £30,095. Mr M paid a deposit of £17,500 so the total amount financed on the agreement was £12,595 payable over 37 monthly repayments of £370 and one final repayment of £380.

Around February 2023, Mr M requested an early settlement figure from NGL to repay the balance of the agreement.

On 2 March 2023, NGL issued a settlement quote to Mr M which he said was calculated incorrectly. Mr M complained to NGL that the settlement figure was around £240 more than what he should have been quoted.

The basic details of the settlement quote are noted below:

- Settlement quotation before the rebate: £10,380
- Early settlement interest rebate: £538
- Total amount required to settle the agreement: £9,841.73

In March 2023, NGL issued their final response to Mr M's complaint which they didn't uphold. NGL explained that the early settlement interest rebate is calculated using a formula set by the Consumer Credit (Early settlement) Regulations 2004 (CCR). NGL said they adhered to that legislation and so their settlement calculations were correct.

Unhappy with their decision, Mr M brought his complaint to our service for investigation.

Having reviewed all the information on file, our investigator recommended that Mr M's complaint should not be upheld. Our investigator couldn't see any evidence which suggested the calculations used by NGL were incorrect.

Mr M responded to say that NGL should have made it clearer in their terms and conditions that they were bound by the CCR. So, he asked that his complaint be referred to an ombudsman for a final decision.

NGL hasn't responded to our request for information or to our investigator's view. However, having considered all the information on file, I'm satisfied that Mr M has provided our service with sufficient information and evidence, that enables me to reach a fair and reasonable decision on this complaint and without undue delay.

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.

In considering what is fair and reasonable, I've thought about all the evidence and information provided afresh and the relevant law and regulations, regulators' rules, guidance and standards, codes of practice and (where appropriate) what I consider to have been good industry practice at the relevant time.

The agreement in this case is a regulated hire purchase agreement. As such, this service is able to consider complaints relating to it.

The Consumer Credit (early settlement) regulations 2004 (CCR) is relevant in this case. Under this legislation the borrower is entitled, under a regulated consumer credit agreement to a rebate, where all or part of the amount payable to the lender is paid before the date its due. The regulations are there to protect borrowers to make sure they don't pay more than they need to, especially if they repay a loan very early in its term.

Here, having made around nine monthly payments into his 37-month hire purchase agreement, Mr M requested a settlement figure from NGL. Mr M disputed the figure with his main concern being that the terms and conditions of the agreement suggests that up to a maximum of 58 days interest will be added from the date the notice of settlement was received. Mr M appears to have calculated 58 days interest by dividing the total amount of interest chargeable on the agreement by the duration of days on the agreement and then multiplying by the days remaining (from the date of settlement).

In their final response, NGL pointed out that their hire purchase agreements are structured in a way that 'front loads' the interest, meaning that a higher percentage of interest is repaid at the beginning of the agreement, and less is repaid towards the end. In consideration of this, I don't think the way in which Mr M has calculated the interest rebate gives an accurate figure on a loan that is structured in that way. I say this because the interest doesn't appear to be equally split over the term of the loan.

For Mr M's hire purchase agreement, the settlement figure is based on the total amount payable, less any payments Mr M has already paid. The remaining sum may then be reduced by a 'rebate' of the remaining interest, to give a final settlement figure. To calculate the value of the interest rebate, NGL should apply a mathematical formula as set out in the CCR, to work out what the rebate should be. The formula works out how much of the amount borrowed is left to be repaid, and much of the future interest and charges will no longer need to be paid if the loan is settled by the settlement date.

In their final response NGL explained that they adhere to the CCR when providing early settlement figures, and that due to the complex nature of the formula, the calculations have been programmed into their systems.

Having considered the calculations as set out in the CCR, I think it's fair to say that the formula used within it, would be reasonably considered as complex. However, as noted above, the regulations are there to ensure fairness for consumers when they're settling a loan early.

I acknowledge Mr M's strength of feeling that he's being overcharged by NGL. Having seen his method of calculation, and his interpretation of the terms of the hire purchase agreement,

I can understand why he may see it this way. However, I would refer Mr M to the calculations of the early settlement rebate, as set out in the CCR, so he can better understand how it works.

All things considered, I'm satisfied with the explanation and approach that NGL has taken when working out the settlement figure. I'm also satisfied that their terms and conditions set this out fairly. I'm also persuaded Mr M realises that a different calculation applies, as noted in his email to our investigator in May 2023 when he said *'if Northridge Finance want the customer to be bound by the Legislation pertaining to Settlement Figures they should make that abundantly clear in the Terms and Conditions which the customer signs'*. I think the issue here is that Mr M is using a different method of calculating the interest rebate than what is advised in the CCR.

All things considered, I'm satisfied that NGL have used a fair and reasonable method when working out the early settlement of Mr M's hire purchase agreement.

As I've concluded that NGL were acting fairly when they calculated the early settlement on Mr M's agreement, I don't require them to take any action in respect of this complaint.

My final decision

Having thought about everything above along with what is fair and reasonable in the circumstances I don't uphold Mr M's complaint about N.I.I.B. Group Limited trading as Northridge Finance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 11 September 2023.

Benjamin John
Ombudsman