

**CASE TYPE PROFILE:
CAR FINANCE
MIS-SELLING/
PERSONAL CONTRACT
PURCHASE (PCP) CLAIMS**

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EXECUTIVE SUMMARY

Following several years of talk of a major scandal in the car finance sector and concerns that motorists had been overcharged billions of pounds in interest, the Financial Conduct Authority (FCA) initiated an investigation into the market in January 2024, initially estimating that affected customers could be due £1,100, on average, in compensation.

At the heart of the FCA's investigation are discretionary commission arrangements (DCAs). DCAs allowed brokers – who would often be car dealers themselves acting in the capacity of an intermediary – to artificially increase customers' interest rates before they were banned in January 2021.

The regulator estimates that before this date:

- Up to 95% of car finance deals included commission; and,
- Interest rate inflation occurred in 40% of cases.

Given that up to 90% of new car purchases involve some form of financing, the FCA's investigation, the next steps to which the regulator is due to announce within six weeks of the handing down of a critical Supreme Court judgment, could lead to significant volumes of claims and mis-sold car finance agreements being eligible for compensation. The regulator is expected to announce a formal redress scheme, with car finance agreements dating as far back as 2007 potentially being eligible for redress.

A May 2024 survey by MoneySavingExpert highlighted that many of the UK's leading car finance brands were implicated in widespread DCA usage and that vast percentages of their customers are likely owed compensation.

A landmark Court of Appeal ruling in October 2024 further established precedent around such claims and also opened up the possibility that non-disclosure of any commission – not just commission earned via artificially inflated interest rates – could constitute mis-selling and thus amplify potential claims and compensation volumes to an even greater extent.

An appeal against this ruling was heard at the Supreme Court from 1st – 3rd April 2025, with a ruling expected before the end of July 2025. The FCA will outline the next steps, likely to include a consultation around a formal redress scheme, within six weeks of the Supreme Court delivering its verdict.

As of May 2025, we have approved facilities of £4,000,000.00 with two law firms to run over 19,200 car finance mis-selling cases, with one of those firms having already secured a further 28,800 claims to its work-in-progress book. Two more firms currently in our due diligence pipeline are seeking funding of over £14,500,000.00 to run these claims.



WHY PCP MIS-SELLING CLAIMS?

The FCA has been scrutinising the motor finance market in some way, shape or form since summer 2017.

In March 2019, the regulator published "Our work on motor finance – final findings,"¹ outlining several findings, including that:

- The way commission arrangements are operating in motor finance may be leading to consumer harm on a potentially significant scale.
- The widespread use of commission models that link broker commission to customer interest rates and allow brokers wide discretion to set the interest rate give rise to conflicts of interest and creates strong incentives for the broker to charge a higher interest rate.
- These incentives have significant effects on the cost of motor finance for consumers, and that for commission models where the broker has discretion over the interest rate, increases in broker commission are associated with higher increases in interest rates.

INITIAL FCA ACTION BANS DISCRETIONARY COMMISSION ARRANGEMENTS

DCAs² – banned from 28th January 2021³ – allowed car finance brokers and intermediaries, including car dealers and salespeople, to artificially raise interest rates on car finance deals.

As well as leading to higher repayments for the consumer, an increased rate also meant the salesperson received more commission.

The FCA said such practices are unfair because consumers were often not told about the commission element of the deal. The regulator believes many consumers agreed to deals thinking they were receiving a flat rate from the finance provider and would have attempted to negotiate or considered alternative options if they were aware of what was included in the rate.

FCA LAUNCHES FULL INVESTIGATION IN JANUARY 2024

On 11th January 2024, the FCA launched an investigation into the potential mis-selling of car finance, specifically Hire Purchase (HP) and Personal Contract Purchase (PCP) deals⁴, amid concerns that consumers have been charged billions of pounds in overcharged interest where a DCA was used.

Estimates at the time suggested consumers could be due an average of £1,100 in compensation.



LANDMARK LEGAL RULING SETS PRECEDENT AROUND CAR FINANCE MIS-SELLING

A landmark legal ruling, handed down by the Court of Appeal on Friday, 25th October 2024⁵, brought significant implications for car finance firms and consumers and their representatives who have been working to secure compensation from mis-sold car finance agreements.

The Court of Appeal ruled that:

- Car finance brokers could not lawfully receive commissions from lenders without a customer's fully informed consent.
- For fully informed consent to be given, the consumer would need to be told all material facts that might affect their decision, including the amount of the commission and how it was to be calculated.

The judges ruled this didn't happen in any of the cases it considered.

This ruling established a clear legal precedent meaning millions of motorists could successfully claim car finance mis-selling compensation – and could even open up the possibility of additional claims being brought.

WHAT ADDITIONAL CLAIMS COULD BE BROUGHT?

While DCAs have been the focus of the FCA's investigation, the Court of Appeal ruling potentially opens up claims relating to fixed commissions as well as interest rate inflation, meaning that additional claims could follow Plevin in that non-disclosure of any commissions – and not just where interest rate inflation has been applied – is grounds to bring a successful compensation claim.

In December 2024, the regulator confirmed an extension to its existing pause on DCA-related complaints to cover those relating to other types of commission and hidden charges in motor finance agreements⁶.

INDUSTRY AWAITS SUPREME COURT VERDICT

As of May 2025, complaint handling by lenders remains on hold^{7,8} while the regulator awaits the Supreme Court's ruling from an appeal against October's Court of Appeal ruling, which it heard from 1st – 3rd April 2025.

Currently, the FCA plans to provide a further update and outline next steps within six weeks of the Supreme Court handing down its ruling, which the Court expects to do before the end of July.

Lenders are currently not required to respond to claims until 4th December 2025, at the earliest.

WHAT HAPPENS NEXT?

It is highly likely that the regulator will announce a consultation around a formal redress scheme during its next update, with the Supreme Court decision dictating whether such a scheme will cover non-DCA as well as DCA claims.

Of primary concern is the method of that redress scheme and who will police it. When lenders were left to "mark their own homework" in the PPI redress scheme, consumers did not receive justice, as the subsequent Plevin case and wave of claims demonstrates. For a truly genuine consumer redress scheme to exist, it will still require the involvement of third parties to police the lenders, meaning there are huge volumes to play for around claims values and lending levels.

In addition to claims that are already sitting with professional representatives, many consumers who are yet to claim may also choose to seek representation to ensure they receive a fair and full redress payment.



HOW COMMON WAS PCP MIS-SELLING?

The regulator estimates that 95% of all car finance deals had a commission model⁹ and that 40%¹⁰ of those sold before the DCA ban will have included some element of interest inflation.

Given that up to 90% of new cars in the UK¹¹ – and a significant portion of the used car market – are purchased using financing, the FCA's verdict on DCAs and car finance mis-selling could open the floodgates to complaints and compensation on a similar scale to the PPI scandal.

The expected confirmation of significant car finance mis-selling will deliver a considerable opportunity for claimant firms and litigation funders, with some commentators predicting that the industry is facing collective redress liabilities totalling £44bn¹².



DCA USAGE BY LENDER

In May 2024, consumer website *MoneySavingExpert* launched a survey that gathered over 11,000 responses from readers who had already made a complaint to their car finance provider, providing an insight into the scale at which selected lenders were using DCAs in their car finance agreements¹.

The results, detailed in the table below, highlight the percentage of customers at selected car finance brands that had, as of May 2025:

- Been told their agreement included a DCA, indicating that they are likely due compensation.
- Been told their agreement didn't have a DCA.

- Not had their complaint dealt with, including but not limited to customers who received an acknowledgement of their complaint, did not receive a response, were asked for further information, or who were told they did have a DCA, but the lender did not believe their agreement was mis-sold.

Based on the percentage of customers with each lender that has been told they didn't have a DCA, we have projected the potential percentage of customers who may be owed compensation related to DCA usage.

Customers without a DCA may still be eligible for compensation if they paid other hidden commissions or charges.

Car finance provider	% of customers told their agreement included a DCA	% of customers told they didn't have a DCA	% of customers whose complaint is yet to be dealt with	Projected % of customers potentially owed compensation
Black Horse (Lloyds Banking Group)	57	2	41	98
Close Brothers	64	5	31	95
MotoNovo	77	5	18	95
Barclays Partner Finance	61	10	29	90
Mobilise (excluding RCI)	41	11	48	89
Santander	63	15	22	85
Ford Credit Europe	8	15	77	85
BMW Financial Services	36	19	45	81
Stellantis (excluding Vauxhall)	46	23	31	77
Stellantis (Vauxhall only)	35	30	35	70
VW Financial Services (excluding Audi)	33	43	24	57



USE OF OTHER COMMISSION MODELS

Outside of DCAs, it is possible that lenders were using a broad range of commission models, potentially including paying advance commissions to brokers¹⁴.

Given the potential diversity of commission models, and the potential for lenders to have been using multiple models across its car finance agreements – and in some cases multiple models on the same agreement – the only useful guide to the potential

number of mis-sold customers is the FCA's estimate that 95% of car finance deals included commission.

The proportion of these deemed to be mis-sold will depend largely on how the Supreme Court decides, with the key questions to be answered around what constitutes adequate disclosure and what constitutes fair or excessive commission.

COMPENSATION POTENTIAL

Claimants' car finance mis-selling compensation awards will depend on several factors specific to their circumstances.

While the FCA's estimates that claimants would be due an average of £1,100 in compensation per mis-sold agreement where a DCA was in place, the regulator may direct that statutory interest should also apply when calculating redress. Should statutory redress apply, claimants that had three agreements with DCAs between 2007 and 2021 could receive in excess of £7,000 in total.

While our due diligence process ensures we will be able to realise our target returns, which effectively means we will only fund cases with a specific minimum value, the value of a claim is otherwise unimportant to us, except for scenarios where we're pursuing a specific joint venture profit share around this claim type.

ABOUT OUR FUNDING ACTIVITIES

Seven Stars lends law firms a flat fee per case, with the fee designed to promote efficient case management from the firm and to maximise our returns for the business and its investors.

As of May 2025, we have approved lending facilities of £4,000,000.00 with two law firms to run over 19,200 claims between them.

One of those law firms has also secured a further 28,800 claims to run, which we may choose to fund subject to the Supreme Court verdict and subsequent FCA update.

We also have two further law firms in our due diligence pipeline seeking in excess of £14,500,000.00 to run car finance claims.

CORPORATE GOVERNANCE

Further information about how we assess requests for litigation funding and work to fulfil our responsibilities to our investors, borrowing firms, and the legal and legal funding industries is outlined in our Corporate Governance Statement.

To receive a copy of this document, please email hello@7stars.legal.



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