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Peers Call for Shorter UK Car Finance Redress Period

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Members of the House of Lords have urged the UK financial regulator to reduce the length of time covered by its proposed redress scheme compensating consumers mis-sold car finance agreements.

In a letter to the Financial Conduct Authority (FCA), Lord Michael Forsyth, chair of the House of Lords' Financial Regulation Committee, expressed concerns about the FCA's plan to include mis-sold car loans dating back to 2007. The peers warned that extending compensation claims over such a long period would present practical challenges for both consumers and lenders.

The FCA's proposed scheme aims to address a widespread scandal involving car finance customers who were mis-sold loans by motor finance firms. The regulator estimates the total cost of compensation could range between £9 billion and £18 billion, although the exact figure remains under discussion.

Lord Forsyth suggested it might be more appropriate to limit the scheme to cover claims within six years of the end of a loan agreement, aligning with the statutory time limit under the 1974 Consumer Credit Act. This six-year period is the usual timeframe in which consumers can bring legal claims to court regarding credit agreements.

In his letter, Lord Forsyth requested that FCA chief executive Nikhil Rathi attend a committee meeting in September to discuss the legal advice underpinning the chosen timeframe and the methodology used to estimate the scheme's costs.

The FCA's decision to propose a redress scheme followed a Supreme Court judgment last week, which partially overturned an earlier ruling that had limited the number of eligible compensation claims. While the Supreme Court reduced the number of possible claims, it upheld one case, prompting the FCA to act.

In response to the committee, the FCA emphasised that many motor finance firms had not complied with existing rules or legal requirements. It said the compensation scheme aims to restore integrity in the motor finance market to better serve consumers now and in the future. The regulator plans to conduct a broad consultation on how the scheme should be implemented.

Stephen Braviner Roman, FCA general counsel, explained in a recent call with financial analysts that many claims relating to the car finance scandal would fall outside the six-year legal limit due to an exemption. This exemption applies when consumers were unaware of material facts relevant to their complaint at the time the loan was made or ended.

The FCA had previously communicated to the House of Lords committee that the 2007 cut-off date was selected to coincide with the earliest point at which consumers could still bring complaints to the Financial Ombudsman Service or the courts. This approach seeks to handle all eligible claims in an orderly and consistent manner.

Mr Rathi acknowledged the practical difficulties of recovering records going back nearly two decades but argued that excluding such agreements could result in prolonged uncertainty for both consumers and motor finance firms. He said the FCA believes it is in the interests of all parties for the scheme to cover the period from 2007 onwards.

Some lenders have expressed doubts about the feasibility of compensating consumers for loans issued up to 18 years ago, citing difficulties with record-keeping and administrative burdens.

The car finance scandal has drawn significant public and parliamentary attention amid concerns about fairness and transparency in consumer credit markets. The proposed redress scheme represents an important step towards resolving outstanding complaints and restoring consumer confidence.

The FCA's forthcoming consultation will provide further details on how compensation payments might be calculated and distributed. It is expected to invite input from consumer groups, lenders, and other stakeholders.

As the regulatory process continues, the House of Lords committee's involvement underlines the importance of balancing consumer protection with practical considerations for businesses operating in the motor finance sector.