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UK Drivers Face Delay in Car Finance Compensation

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Millions of UK motorists mis-sold car finance deals will have to wait until 2026 to receive any compensation, according to the Financial Conduct Authority (FCA).

The regulator confirmed that a formal consultation into a redress scheme will not begin until October this year, meaning payouts are unlikely to start until well into next year. The scheme,

which could be worth between £9 billion and £18 billion, follows mounting pressure on the FCA after a landmark Supreme Court ruling last Friday.

The issue stems from discretionary commission arrangements used by car dealers and lenders, which allowed brokers to earn more money by increasing customers' interest rates. These arrangements, banned by the FCA in 2021, are believed to have led to widespread overcharging between 2007 and 2021.

In its announcement, the FCA said: "This will take time to establish. The aim is to ensure any compensation is provided in a fair and consistent way." While some drivers may receive multiple payouts if they purchased more than one vehicle through hire purchase agreements, the FCA estimates that "most individuals will probably receive less than £950 in compensation".

Around 10 million complaints have already been submitted over mis-sold car finance, prompting concern over the scale and administration of any redress scheme. Under the proposed system, lenders rather than car dealerships would be responsible for compensating affected customers.

Sheldon Mills, the FCA's executive director for consumers and competition, stated: "We're taking the action we think is necessary to ensure people who are owed compensation receive it." However, he also warned that investigating past practices and designing a robust process "will take time".

The regulator is expected to use powers under section 404 of the Financial Services and Markets Act to establish a formal scheme. The upcoming consultation in October will outline how the FCA intends to carry this out and what affected motorists should expect in terms of process, eligibility, and timeline.

Although the final amount of compensation per claimant is likely to vary based on the value and terms of individual finance agreements, drivers are being advised not to pursue legal claims in the meantime. The FCA said such actions could interfere with the broader redress process and potentially delay payments further.

Consumer groups have welcomed the FCA's commitment but criticised the long wait facing those affected. The scheme could become one of the most significant financial redress efforts since the PPI scandal.

Motorists are advised to keep hold of all relevant documents, including finance agreements and correspondence, and await further guidance once the FCA's consultation opens in autumn.