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Regulatory Update

FCA Confirms Motor Finance Redress Scheme — Key Points for Motor Finance Lenders

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On 30 March, the UK Financial Conduct Authority (FCA) published Policy Statement PS26/3 (the PS), which confirmed the introduction of an industry-wide motor finance redress scheme (the Scheme). The Scheme is intended to compensate UK resident consumers who were treated unfairly between 6 April 2007 and 1 November 2024 by lenders failing to disclose commission arrangements or contractual ties with credit brokers with respect to regulated credit agreements. In scope motor finance agreements include personal contract purchase (PCP), hire purchase (HP) arrangements and conditional sale agreements — but **not** regulated consumer hire agreements, including Personal Contract Hire (PCH agreements.) The FCA expects the Scheme to streamline compensation, clarify eligibility and deliver fair outcomes for millions of affected consumers.

The Scheme has been split in order to separately address:

- Motor finance agreements beginning 6 April 2007 – 31 March 2014 (Scheme 1 Loans)
- Motor finance agreements beginning 1 April 2014 – 1 November 2024 (Scheme 2 Loans)

We outline below the key points of the FCA’s announcement for lenders.

Overview

1	Key Dates	
	1.1	General
	1.2	Key Dates Relating to Scheme 2 Loans
	1.3	Key Dates Relating to Scheme 1 Loans
2	Key Figures	
3	Who Will Be Eligible for Compensation Under the Scheme?	
4	Scheme Remedies: How Will Compensation Be Calculated?	
	4.1	Johnson Remedy
	4.2	Hybrid Remedy

	4.3	Hybrid Remedy Caps
	4.4	Early Settlement
	4.5	Interest on Compensation
	4.6	Set-Off
5	Enforcement of Compliance With Scheme	

1. **Key Dates**

1.1 **General**

Key Date	Item or Action Required
Within two weeks of publication of the PS	Lenders must notify the FCA whether they intend to use the implementation period for Scheme 1 Loans and/or Scheme 2 Loans, and provide the name and contact details of the senior manager responsible for Scheme oversight.
15 working days before start date of Scheme	Lenders that do not intend to use the voluntary implementation period and plan to begin assessing motor finance agreements and taking Scheme steps between publication and week 6 must also notify the FCA at least 15 working days before their intended start date and submit the six-week forecast, including the Scheme Implementation Plan.
Within six weeks of the PS	Lenders must submit a Scheme implementation plan to the FCA and report one-off information about the number of motor finance agreements in their starting population, the complaints received prior to the Scheme effective date and whether those consumers have professional representation (the six-week forecast). The Scheme Implementation Plan must set out each lender’s approach to key Scheme steps, as well as its policies and procedures for handling Scheme cases (including outsourcing), managing multiple representatives, outsourcing, automated processes and assuring the quality of outcomes.
	A senior manager is required to attest to the lender’s readiness to take steps to implement the Scheme.
Within one week of the start of the Scheme	Where a person has acquired a loan portfolio and redress obligations transferred under the sale, that person will need to provide the FCA with details of who will be completing the obligations.
31 August 2027	Deadline for complaint by consumers who are not contacted (see “Key Dates Relating to Scheme 1 Loans” and “Key Dates Relating to Scheme 2 Loans” below).
Ongoing	There are ongoing reporting requirements for lenders.

1.2 Key Dates Relating to Scheme 2 Loans

Key Date	Item or Action Required
30 June 2026	Implementation Period Ends
A. Consumers Who Complain Before 30 June 2026	
30 September 2026	Lenders must have contacted such consumers and notified them of whether they are owed compensation and how much within three months of the end of the implementation period.
31 October 2026	Consumer can accept or challenge offer within one month of receiving it.
November 2026	Redress is to be paid within one month of consumer accepting.
B. Consumers Who Do Not Complain but Have at Least One Relevant Arrangement	
31 December 2026	Within six months of the end of the implementation period, lenders must contact all consumers: <ol style="list-style-type: none"> 1. With relevant arrangements*, unless an exception applies 2. With relevant arrangements, who they have excluded because of civil limitation
30 June 2027	Within six months of contact from the lender, the consumer can choose to join the Scheme.
30 September 2027	Within three months, lenders must have confirmed whether the consumer is owed compensation and how much.
31 October 2027	Consumer can accept or challenge offer within one month of receiving it.
November 2027	Redress is to be paid within one month of consumer accepting.

* If a lender lacks the necessary records to identify whether there was a relevant arrangement, it must request relevant information from the credit broker. Upon receiving such a request, the credit broker must conduct a thorough search and respond within one month, either by providing the information requested or confirming it does not hold the information. If the broker fails to respond within one month, the firm must issue a follow-up letter, allowing an additional 14 days for a response.

1.3 Key Dates Relating to Scheme 1 Loans

Key Date	Item or Action Required
31 August 2026	Implementation Period Ends
A. Consumers Who Complain Before 31 August 2026	
30 November 2026	Lenders must have contacted such consumers and notified them of whether they are owed compensation and how much within three months of the end of the implementation period.
31 December 2026	Consumer can accept or challenge offer within one month of receiving it.

January 2027	Redress is to be paid within one month of consumer accepting.
<i>B. Consumers Who Do Not Complain but Have at Least One Relevant Arrangement</i>	
28 February 2027	Within six months of the end of the implementation period, lenders must contact all consumers: <ol style="list-style-type: none"> 1. With relevant arrangements*, unless an exception applies 2. With relevant arrangements, who they have excluded because of civil limitation
31 August 2027	Within six months of contact from lender, consumer can choose to join the Scheme.
30 November 2027	Within three months, lenders must have confirmed whether the consumer is owed compensation and how much.
31 December 2027	Consumer can accept or challenge offer within one month of receiving it.
January 2028	Redress is to be paid within one month of consumer accepting.

* If a lender lacks the necessary records to identify whether there was a relevant arrangement, it must request relevant information from the credit broker. Upon receiving such a request, the credit broker must conduct a thorough search and respond within one month, either by providing the information requested or confirming it does not hold the information. If the broker fails to respond within one month, the firm must issue a follow-up letter, allowing an additional 14 days for a response.

2. Key Figures

The FCA have made changes following the consultation period aimed at designing an approach that is fair for consumers but proportionate for lenders. The below figures highlight how certain key figures have changed.

Figure	Consultation Proposals	Final Policy
Total potential redress liabilities	£9.7 billion	£10 billion
Expected uptake by consumers	85%	75%
Estimated total costs to lenders	£11 billion*	£9.1 billion**
Total redress costs expected to be paid out by lenders	£8.2 billion*	£7.5 billion**
Total non-redress costs to be paid out by lenders	£2.8 billion	£1.6 billion
Total agreements eligible for compensation <i>(Zero APR agreements and high-value loans are now excluded).</i>	14.2 million	12.1 million
Average redress per agreement	£695	£829

Meaning of “high commission”	35% of the total cost of credit and 10% of the loan	39% of the total costs of credit and 10% of the loan
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* At estimated 85% uptake

** At estimated 75% uptake

3. Who Will Be Eligible for Compensation Under the Scheme?

Consumers will be eligible for compensation if they were **not informed** of at least one of the following elements being present when entering into the relevant motor finance agreement:

- (a) A Discretionary Commission Arrangement (DCA) that allowed brokers to adjust customer interest rates to increase commission;
- (b) A High Commission Arrangement (being a commission of at least 39% of the total cost of credit and 10% of the loan); or
- (c) Contractual ties that gave a lender exclusivity or a right of first refusal, unless visible links with the manufacturer/dealer can be demonstrated, unless that customer falls within an exception, where:
 - (d) The commission was less than £120 (for Scheme 1 Loans) or £150 (for Scheme 2 Loans);
 - (e) The consumer borrower was not charged interest;
 - (f) The DCA was not used to earn discretionary commission;
 - (g) The lender can prove, in certain limited circumstances, it was fair not to disclose one of the arrangements above or that the consumer did not suffer any loss. This includes if a tie was not operated in practice or no better deal was available; or
 - (h) The loan’s value was higher than 99.5% of other loans that year.

There are other situations in which a customer may not receive compensation, such as via the operation of the cap on the Hybrid Remedy (see “Hybrid Remedy Caps” below).

4. Scheme Remedies: How Will Compensation Be Calculated?

The FCA has established a tiered remedies framework to ensure its goal that consumers in similar situations receive consistent outcomes. The framework distinguishes between the wider population of unfair relationships (i.e., the majority of cases/complainants) and the legal precedent set in *Johnson v FirstRand Bank Ltd*, *Wrench v FirstRand Bank Ltd* and *Hopcraft v Close Brothers Ltd* (together, *Johnson*).

4.1 Johnson Remedy

Eligible cases that align with the facts of *Johnson* will receive what the FCA is calling the Johnson Remedy.

Johnson cases must demonstrate the following attributes:

- (a) Very high commission (at least 50% of the total cost of credit and 22.5% of the loan); and

- (b) Presence of either a DCA, a tie or both.

Redress in Johnson cases are for of **all commission plus interest** (see “Interest on Compensation” below).

The rationale for this distinction is that similar cases to Johnson should receive the same remedy the Supreme Court awarded, thereby assuring the legal precedent and certainty.

The FCA anticipates there are around 90,000 consumers that will be eligible for the Johnson Remedy. There is no cap on Johnson Remedy redress.

4.2 Hybrid Remedy

All other eligible cases before 1 April 2014 under Scheme 1 and on or after 1 April 2014 under Scheme 2 will receive what the FCA is calling the Hybrid Remedy. This covers the vast majority of cases and redress will be the **average of estimated loss and commission paid plus interest**, subject to caps as set out below. For ongoing agreements, lenders will need to assume that the agreement ran to term when calculating redress.

The loss element of the remedy will depend on when the agreement began. The FCA estimate average loss to be equivalent to an APR adjustment of:

- (a) In relation to Scheme 2 Loans, 17%; and
- (b) In relation to Scheme 1 Loans, 21%.

4.3 Hybrid Remedy Caps

Cases that are eligible to receive the Hybrid Remedy will be subject to a cap, wherein redress will be **capped** at the lowest of:

- (a) 90% of commission plus interest;
- (b) The total cost of credit, adjusted to account for a minimal cost offered to only 5% of the market at the time, excluding 0% APR deals; or
- (c) The actual cost of credit, calculated on a simpler basis — this may be the lower figure if the adjusted cost of credit cannot be accurately calculated, for example, if the lender does not have the payment schedule.

The caps ensure consumers receiving the Hybrid Remedy are not compensated more than had they been treated fairly or than those who suffered the most unfairness.

The FCA expects that in around one in three cases where consumers are receiving the Hybrid Remedy, the cap will limit the amount of redress payable (in all other cases eligible to receive the Hybrid Remedy, it does not expect that the ordinary Hybrid Remedy would ordinarily exceed the cap).

Due to the operation of this cap, the FCA anticipates there are around 64,000 agreements (where the APR was in the lowest 5% offered in the market at the time, excluding 0% deals) where the customer will not receive compensation.

4.4 Early Settlement

Where lenders do not wish to undertake the full redress calculation, settlement offers can be made at the maximum redress a consumer would receive under the Scheme. Offers are to be issued as provisional redress decisions.

Settlement offers can be made at (i) commission plus interest (the sole remedy for cases eligible for the Johnson Remedy, and higher than the redress any case eligible for the Hybrid Remedy would receive) or (ii) for any cases eligible for the Hybrid Remedy only, at any of the Hybrid Remedy caps set out above (see “Hybrid Remedy Caps” above).

4.5 Interest on Compensation

Simple interest to be paid on compensation, set at the annual average Bank of England base rate per year plus 1%, and set at a minimum of 3% interest in any year.

Consumers will not be able to challenge the rate they get.

Interest is calculated from the date of overpayment to the date compensation is paid.

4.6 Set-Off

Consistent with its intention to provide consumers with consistent outcomes, the FCA has confirmed that lenders can only set off redress against consumer arrears and defaults specifically on the motor finance agreement to which redress is owed rather than any wider consumer credit agreements, save for one minor exception where multiple agreements are used to finance a single vehicle sales transaction.

This means that lenders cannot rely on any existing contractual, legal or equitable set-off rights for the purposes of the Scheme.

Further, set-off will no longer form part of the redress calculation itself. Lenders must calculate the redress due then apply set-off in the provisional redress decision, giving consumers the opportunity at this stage to dispute the set-off.

Consumers will be able to object to set-off where the arrears or default sums are disputed or they have arrears on priority debts. The FCA expect lenders to treat consumers fairly and in good faith when considering consumer’s objections to set-off.

In the case of ongoing agreements not in arrears, lenders need consent to set-off redress.

5. Enforcement of Compliance With Scheme

The FCA have established a dedicated supervisory team that will monitor lenders closely, including assessing whether any exclusions of agreements have been applied appropriately.

Lenders’ senior managers will be responsible for their firm’s overall oversight and delivery of the Scheme, and lenders will have to report regularly.

The FCA will consider whether additional measures or supervisory intervention is required, including the use of its usual supervisory or enforcement powers as necessary.

Consumers who disagree with a lender's conclusions as to eligibility for redress under the Scheme remain able to challenge it through the Financial Ombudsman Service (FOS) (whose power will be limited to assessing whether the lender properly followed the relevant Scheme requirements) or to pursue claims through the courts.

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