# Lloyds Banking Group allocates £1.2 billion to address car loan mis-selling scandal



Lloyds Banking Group has announced that it has allocated £1.2 billion to address a scandal involving the mis-selling of car loans, resulting in a significant 20 per cent decrease in profits. As part of this effort, the lender has earmarked an additional £700 million for compensation, building on a previously set £450 million. This decision comes amid a mounting wave of complaints from hundreds of thousands of drivers and a formal investigation launched by the Financial Conduct Authority (FCA).

This controversy has been likened to the notorious payment protection insurance (PPI) scandal from a decade ago, with analysts suggesting that the current car finance mis-selling saga could potentially cost the banking sector billions. It has even been dubbed 'PPI on wheels.' Lloyds, which operates the car loan business Black Horse, is expected to be one of the most severely affected institutions among the major UK high street banks.

In a critical Supreme Court hearing scheduled for April, judges will determine whether customers were adequately informed regarding commission payments associated with motor finance agreements. The Appeal Court previously ruled that it was illegal for dealers to receive commissions from lenders without clear customer consent.

Elsewhere, rival banks are also feeling the strain. Santander has indicated its UK operations may be liable for £295 million in compensation while Barclays has set aside £90 million. Close Brothers, another lender, estimates its potential costs could reach up to £165 million. Lloyds, under the leadership of chief executive Charlie Nunn, has stated that the £1.2 billion provision represents the 'best estimate of the potential impact' regarding the scandal, but cautioned that the situation carries significant uncertainty about the final financial outcome.

Investment director Russ Mould from AJ Bell remarked that while the increased provisions may not have been unexpected, the rejection of the government's intervention attempt by the Supreme Court added to the difficulties faced by the banking sector. Matt Britzman, an analyst at Hargreaves Lansdown, also noted Lloyds' substantial exposure to the situation, stating that the outcome remains uncertain.

The heightened compensation provisions contributed to a notable drop in earnings from £7.5 billion to £6 billion in 2024, falling short of the £6.39 billion anticipated by City analysts. The results were influenced by a decline in income as customers sought to remortgage at reduced rates following a cut in borrowing costs by the Bank of England, which in turn impacted Lloyds' net interest margin. However, the bank chose to increase its dividend by 15 per cent to 3.17 pence per share and initiated a £1.7 billion share buyback programme. Following this announcement, Lloyds shares rose by 4.9 per cent, or 3.06 pence, to 65.9 pence.

Meanwhile, the impact of the mis-selling scandal is intensifying on the broader financial landscape, with Chancellor of the Exchequer Rachel Reeves facing potential repercussions to public finances. Analysts at RBC Capital have highlighted that up to £5.5 billion in corporation tax receipts could be lost due to compensation payouts linked to the scandal, complicating Reeves’ efforts to balance the budget amidst weak economic growth and rising borrowing costs.

Further complicating matters, the Supreme Court's decision to block Reeves' attempts to intervene in a key case has deepened the challenges associated with the scandal. If the Court upholds the previous appeal ruling that deemed commission payments to dealers without customer consent as unlawful, it could lead to a wave of compensation payouts totalling £33 billion, significantly impacting tax revenue.

Non-bank lenders, which handle the majority of the seven million outstanding car loan agreements, could also create additional legal complexities for the Treasury, according to Wayne Gibbard from the law firm Shoosmiths. Although bank-owned finance firms may not be able to deduct their compensation payouts as expenses, there are crucial loopholes for non-bank lenders that warrant attention.

In conclusion, as Lloyds Banking Group grapples with the ramifications of the car loans mis-selling scandal, its financial forecasts present a challenge for both the banking sector and the UK’s public finances, with ongoing developments in court and investigations continuing to unfold.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.hutcheonlaw.co.uk/claim-info/lloyds-mis-sold-car-finance/> - This URL supports the claim that Lloyds Bank, through its subsidiary Black Horse Finance, has been involved in the mis-selling of car loans and has set aside funds for compensation payouts. It also highlights the role of the Financial Conduct Authority (FCA) in investigating these practices.
* <https://www.hutcheonlaw.co.uk/blog/mis-sold-car-loan-claims-the-new-ppi-scandal/> - This article further explores the comparison between the car loan mis-selling scandal and the PPI scandal, emphasizing the potential scale of the issue and the legal actions involved.
* <https://www.motorfinanceonline.com/news/lloyds-triples-car-finance-compensation-provision-to-1-2bn/> - This URL corroborates Lloyds' decision to triple its car finance compensation provision to £1.2 billion, reflecting the growing financial impact of the mis-selling scandal.
* <https://crsolicitors.co.uk/lloyds-allocates-1-2-billion-for-car-loan-mis-selling-payouts/> - This source also confirms Lloyds' allocation of £1.2 billion for car loan mis-selling payouts and discusses the scrutiny over commission payments to car dealers.
* <https://www.vacourts.gov/courts/scv/rulesofcourt.pdf> - Although not directly related to Lloyds or the car loan scandal, this document provides context on court procedures, which could be relevant to understanding legal actions taken in such cases.
* <https://www.noahwire.com> - This URL is the source of the original article but does not provide additional corroboration beyond the text itself.