

THE CONSUMER CREDIT (EARLY SETTLEMENT) REGULATIONS 2004 ("the Regulations")

GUIDANCE NOTES

Introduction

These Regulations are made by the Secretary of State under powers conferred by the Consumer Credit Act 1974, principally sections 95 and 97.

Settlement date

This is the date used for calculating any rebate due and which determines the amount owing by the consumer. In certain situations (see below) lenders can defer this date.

A ceiling setting regulation

The Regulations set out ceilings that cannot be breached by lenders when calculating the sum owed by consumers on early settlement. Lenders can choose to be more generous to consumers and use any alternative system of calculation that does not disadvantage the consumer and leave him owing more than the applicable ceiling.

The Regulations apply to all regulated consumer credit agreements other than those specified in regulation 2(2). Hire purchase and conditional sale agreements are covered, except in cases where the consumer terminates the agreement under s. 99 of the Consumer Credit Act.

Where the consumer has given notice under s.94 of the Consumer Credit Act the ceilings set by the Regulations are as follows:

(1) For loans with a term of not more than a year, the early settlement figure must not exceed the amount calculated by treating the settlement date as being 28 days after the date the early settlement request was received, and then using the formula in regulation 4(1), namely:

$$\sum_{i=1}^m A_i(1+r)^{a_i} \quad \text{minus} \quad \sum_{j=1}^n B_j(1+r)^{b_j}$$

(2) For loans with a term of more than a year, the early settlement figure must not exceed the amount calculated by treating the settlement date as being (i) 28 days after the date the early settlement request was received, and then by (ii) deferring a month before using the above formula from regulation 4(1).

Where the creditor or owner has given notice under s.76(1) or s.98(1) of the Consumer Credit Act the settlement date will be the payment date specified in the notice if the consumer pays not later than that date. In any other case, it will be the date on which the consumer makes the payment.

Deferring for a month or 30 days

When making the month's deferment mentioned in the paragraph before the last, lenders may choose to defer either a calendar month (so move to the same day in the next month e.g. from 17 May to 17 June), or 30 days (so to 16 June) if this suits their systems better. We allowed for this after listening to lobbying that systems updates would be made easier by such flexibility.

Payments due in periods after early settlement requests

Consumers will owe any payments due in the 28 days following receipt of an early settlement request. Account must be taken of that when the early settlement figure is worked out. If the formula is applied on the assumption that they have paid these amounts, at the due dates, then the amounts must be paid, on those dates, in addition to the sum the formula calculates as owing. If the formula is applied on the assumption that they have not been paid then the amounts will be factored into the sum the formula calculates as owing and the formula would then apply interest from the date the instalment was due until the settlement date and hence increase the amount outstanding slightly. This may arise, for example, if the lender and debtor agree to a deferral of payment of instalments due during the period up to the settlement date. Of course, any delayed payments will need to be totalled and added to the ES figure upon final payment.

Date of actual early settlement payment

Under regulation 5(a), which applies where consumer has written in requesting to settle early, the settlement date becomes 28 days after receipt of the request. Regulation 5(a) permits the consumer to specify a later date in the request as the date of early settlement. This then overrides the usual 28-day period, and does not require the lender's agreement. Regulation 6 in turn permits the lender to defer the settlement date - for calculation purposes although the final payment date would remain the same - by 30 days/one month if the loan's term is over one year.

If the consumer wishes to pay before the settlement date provided for in regulation 5(a) then he can but the lender need give him no special concessions. He is merely providing free working capital to the lender. However, if the consumer pays after the date provided for in regulation 5(a), the date of payment will become the settlement date by virtue of regulation 5(c) and the lender can recalculate the early settlement figure accordingly.

Payment schedule – use the actual or contractual?

When using the formula the lender may use the real payment schedule that the consumer has kept to with regard to any late, or missed, payments. This may well increase the sum the consumer owes as interest may have accrued on late, or missed, payments. Any charges due in the case of late, or missed, payments would be in addition to this.

Where the agreement provides for the consumer to benefit in consequence of overpayments or paying sums in advance, e.g. by way of a reduction in the amount of interest due, then any such payments amounts and the dates on which they were made must be used in the formula. However, such payments can be recorded as having been received on the due date and for the due amount if the agreement does not provide for any such benefit.

Breach of contract charges

Lenders may have levied charges under the agreement due to breaches of the terms by the consumer. These would probably be easiest sorted by a separate charge at the point of early settlement.

Other fees and charges etc

Sometimes consumers request that some charges are added to the amount borrowed (the amount involved is then generally paid direct to those making the charge; often the lender). This means that they become part of the advance of the loan and are treated as such in the formula. The interest due in respect of such charges will be part of the amount subject to a rebate on early settlement.

If the charges are part of the total charge for credit, they will be brought into account both as part of the advance and – by virtue of the Total Charge for Credit Regulations – in calculating the APR.

How to calculate the “rebate”

Most consumers want merely to know how much they would owe on the early settlement date. However, under s.97 lenders have to calculate the saving that the consumer has made, known as the “rebate”, in order to provide the information required to be given by the Settlement Information Regulations. This is obtained by subtracting the early settlement figure calculated by the formula in regulation 4(1) from the amount that would have otherwise been due for payment had the credit agreement run to term.

The tailored or representative trio of early settlement examples

These are actually legislated for in the Consumer Credit (Agreements) (Amendment) Regulations 2004 but we are repeating here the advice given in the guidance note for those.

Three examples need to be given for fixed sum credit (of more than one month) of what an early settlement figure would look like at various stages during the term of the agreement. This will help educate consumers as to the scale of the amount that may still be outstanding on a loan several years down the line. Misconceptions about the reduction in the balance due on a loan often means that consumers are shocked by what they see as high early settlement quotes and this creates animosity that we hope to avoid.

We have specified that the stages for the early settlement quotes are to be a $\frac{1}{4}$, a $\frac{1}{2}$ and $\frac{3}{4}$ s. The stages should be in terms of time (so 1, 2 and 3 years for a 4 year loan) but we allow for movement to the first repayment date that falls thereafter for ease of calculation.

We have not prescribed tailored examples because of the high cost of producing these in certain situations. These could include doorstep loan sales where representatives have no IT links with headquarters and the size of loans can vary greatly. However, lenders can provide tailored examples if they choose.

Alternatively, representative examples can be provided. These would say what amount was payable for each £100 or £1000 borrowed (choosing the more apt) at the $\frac{1}{4}$, $\frac{1}{2}$ and $\frac{3}{4}$ time periods. The consumer could calculate the precise sum owing by suitable multiplication but even without this, he will get a feel that sizeable amounts can be required at these points. This helps with our objective of better transparency contributing to educating consumers.

Lenders are required to state that the amounts are only illustrative as they do not take account of any variation that might occur under the agreement. They may wish to state any assumptions underpinning the examples such as payment schedules being met; variable interest rates remaining the same etc. They may wish to add that the early settlement date in the future would be likely to be different from the examples and so the figure would probably vary in reality.

Related purchases financed by the credit

Often Payment Protection Insurance (PPI) or Guaranteed Asset Protection (GAP) will be additional products purchased by the consumer and financed under the agreement. If the PPI and GAP is so financed, the charges on that part of the loan will also be subject to a rebate on early settlement.

There are issues here relating to s.18 multiple agreements. If the PPI or GAP is part of an overall loan, then it should be covered by the early settlement calculation. If it is regarded as a separate agreement, then it should be clear to the consumer that he has the option of settling both, and will be entitled to an early settlement rebate calculation on both.

Whether the PPI or GAP is financed by credit or not, there is a separate issue of whether the policy can be wound up and any refund provided by the insurance company. This would be down to the terms and conditions of the policy (subject to the UTCCRs¹).

¹ Unfair Terms in Consumer Contracts Regulations

Requests for early settlement

The Consumer Credit (Settlement Information) Regulations 1983 are revised to require a reply to a request for an early settlement quote to be actioned within 7, rather than the current 12, days.

Timetable

Changes to both the “Early Settlement” and the “Settlement Information” Regulations will cover all new loans taken out from 31 May 2005.

Existing loans, for terms of ten years and under, will be covered from 31 May 2007.

Existing loans for terms of over ten years will be covered from 31 May 2010.

Examples

Example 1 – medium term, medium value loan

A loan of £5,000 is repayable by 48 monthly instalments of £134.57, starting one month after 1 March 2006 (the relevant date). The monthly repayments include interest and all other charges included in the total charge for credit. Thus total amount repayable = £134.57 x 48 = £6,459.36. The total charge for credit = £6,459.36 – £5,000 = £1,459.36.

The debtor requests early settlement to take place immediately after payment of the 12th instalment (i.e. after one year) so that the settlement date is 1 March 2007.

Assuming that no charges are excluded from the calculation of the rebate under regulation 3(2), the APR on the loan required for the calculation of the rebate is 14.0% per annum.

Since the instalments are exact numbers of calendar months from the settlement date, under the TCCRs² the periods are calculated in months, counting each month equal to one-twelfth of a year. Hence, for the purposes of the formula in regulation 4(1)

$$\begin{aligned}A_1 &= 5,000 \\B_1 &= 134.57 = B_2 = \dots = B_{48} \\r &= 14.0/100 = 0.140 \\m &= 1 \\n &= 12 \\a_1 &= 1 \text{ (working in periods of whole years)} \\b_1 &= 11/12 \\b_2 &= 10/12 \\b_3 &= 9/12 \\&: \\b_{11} &= 1/12 \\b_{12} &= 0/12 = 0\end{aligned}$$

Then the loan outstanding immediately after payment of the 12th instalment as calculated by the formula in regulation 4(1) is -

$$\begin{aligned}&5,000 \times (1.140)^1 - (134.57 \times 1.140^{(11/12)} + 134.57 \times 1.140^{(10/12)} + \dots + 134.57 \times \\&1.140^{(1/12)} + 134.57 \times 1.140^{(0/12)}) \\&= 5,700.00 - (151.74 + 150.10 + 148.47 + 146.85 + 145.26 + 143.68 + 142.12 \\&+ 140.58 + 139.05 + 137.54 + 136.05 + 134.57) \\&= 5,700.00 - 1,716.01 = \text{£}3,983.99\end{aligned}$$

² Total Charge for Credit Regulations

The rebate in this case would be £860.53; this is calculated by deducting the early settlement figure of £3,983.99 from the total payments outstanding after the date assumed for calculating the rebate which is £4,844.52 (= 36 x £134.57).

If the creditor receives a request from the debtor for early settlement immediately after payment of the 12th instalment and regulation 5(a) applies (making the settlement date 28 days after the debtor's notice is received) then the settlement date will be 29 March 2007. Under the TCCRs, since the periods involved are no longer an exact number of months (or weeks), the periods must be counted in years and days (or weeks where the periods are an exact number of weeks). Hence, for the purposes of the formula in regulation 4(1)

$$A_1 = 5,000$$

$$B_1 = 134.57 = B_2 = \dots = B_{48}$$

$$r = 14.0/100 = 0.140$$

$$m = 1$$

$$n = 12$$

$a_1 = 393$ days = 1 year 28 days (working in periods of years and days, since not a whole number of weeks)

$b_1 = 0$ years 362 days

$b_2 = 0$ years 332 days

$b_3 = 0$ years 301 days = 43 weeks

$b_4 = 0$ years 271 days

$b_5 = 0$ years 240 days

$b_6 = 0$ years 209 days

$b_7 = 0$ years 179 days

$b_8 = 0$ years 148 days

$b_9 = 0$ years 118 days

$b_{10} = 0$ years 87 days

$b_{11} = 0$ years 56 days = 8 weeks

$b_{12} = 0$ years 28 days = 4 weeks

Then the loan outstanding as at 29 March 2007, calculated by the formula in regulation 4(1), is –

$$5,000 \times (1.140)^{(1+28/365.25)} - (134.57 \times 1.140)^{(362/365.25)} + 134.57 \times 1.140^{(332/365.25)} + 134.57 \times 1.140^{(43/52)} + 134.57 \times 1.140^{(271/365.25)} + 134.57 \times 1.140^{(240/365.25)} + 134.57 \times 1.140^{(209/365.25)} + 134.57 \times 1.140^{(179/365.25)} + 134.57 \times 1.140^{(148/365.25)} + 134.57 \times 1.140^{(118/365.25)} + 134.57 \times 1.140^{(87/365.25)} + 134.57 \times 1.140^{(8/52)} + 134.57 \times 1.140^{(4/52)}$$

$$= 5,757.54 - (153.23 + 151.59 + 149.97 + 148.31 + 146.67 + 145.05 + 143.49 + 141.91 + 140.39 + 138.84 + 137.31 + 135.93)$$

$$= 5,757.54 - 1,732.69 = £4,024.85$$

In this case, the rebate would be £819.67 which is calculated by deducting the early settlement figure of £4,024.85 from the total payments outstanding after

the date assumed for calculating the rebate which is £4,844.52 (=36 x £134.57).

If the creditor elects to defer the settlement date by a further month for the calculation of the rebate under regulation 6, the settlement date for calculating the rebate is 29 April 2007. Hence, for the purposes of the formula in regulation 4(1)

$$n = 13$$

$a_1 = 424$ days = 1 year 59 days (working in periods of years and days, since not a whole number of weeks)

$b_1 = 393$ days = 1 year 28 days (working in periods of years and days, since not a whole number of weeks)

$b_2 = 0$ years 363 days

$b_3 = 0$ years 332 days

$b_4 = 0$ years 302 days

$b_5 = 0$ years 271 days

$b_6 = 0$ years 240 days

$b_7 = 0$ years 210 days = 30 weeks

$b_8 = 0$ years 179 days

$b_9 = 0$ years 149 days

$b_{10} = 0$ years 118 days

$b_{11} = 0$ years 87 days

$b_{12} = 0$ years 59 days

$b_{13} = 0$ years 28 days = 4 weeks

Then the loan outstanding as at 29 April 2007, calculated by the formula in regulation 4(1), is –

$$5,000 \times (1.140)^{(1+59/365.25)} - (134.57 \times 1.140)^{(1+28/365.25)} + 134.57 \times 1.140^{(363/365.25)} + 134.57 \times 1.140^{(332/365.25)} + 134.57 \times 1.140^{(302/365.25)} + 134.57 \times 1.140^{(271/365.25)} + 134.57 \times 1.140^{(240/365.25)} + 134.57 \times 1.140^{(30/52)} + 134.57 \times 1.140^{(179/365.25)} + 134.57 \times 1.140^{(149/365.25)} + 134.57 \times 1.140^{(118/365.25)} + 134.57 \times 1.140^{(87/365.25)} + 134.57 \times 1.140^{(59/365.25)} + 134.57 \times 1.140^{(4/52)}$$

$$= 5,821.93 - (154.96 + 153.29 + 151.59 + 149.97 + 148.31 + 146.67 + 145.14 + 143.49 + 141.96 + 140.39 + 138.84 + 137.45 + 135.93)$$

$$= 5,821.93 - 1,887.99 = \text{£}3,933.94$$

The above formula assumes that the borrower will pay on the due date the instalment due between the date of request for early repayment and the settlement date assumed for calculating the rebate (i.e. the 13th repayment of £134.57 due on 1 April 2007). If the borrower does make this payment on 1 April 2007, the rebate would be £776.01 which is calculated by deducting the early settlement figure of £3,933.94 from the total payments outstanding after the date assumed for calculating the rebate which is £4,709.95 (=35 x £134.57).

If it is agreed that the borrower does not make the payment on 1 April 2007 but defers paying until the settlement date then the period b_{13} in the above formula will be 0 rather than 28 days and the amount outstanding will be

$$= 5,821.93 - 1,886.63 = \text{£}3,935.30.^3$$

In this case, the rebate would be £774.65 which is calculated by deducting the early settlement figure of £3,935.30 from the total payments outstanding after the date assumed for calculating the rebate which is £4,709.95 (=35 x £134.57).

Example 2 – longer term, high value loan

A loan of £10,000 is repayable by 180 monthly instalments of £139.51 starting one month after 1 January 2006 (the relevant date). The monthly repayments include interest and all charges included in the total charge for credit. Thus total amount repayable = £139.51 x 180 = £25,111.80. The total charge for credit = £25,111.80 – £10,000 = £15,111.80.

Immediately after payment of the 72nd instalment (i.e. after six years) the creditor receives notice from the borrower requesting early settlement.

Assuming that no charges are excluded from the calculation of the rebate under regulation 3(2), the APR on the loan required for the calculation of the rebate is 16.0% per annum.

The lender opts to defer the settlement date so that the settlement date for the purposes of calculating the rebate is 28 February 2012 (i.e. 28 days under regulation 5(a) + 30 days under regulation 6 and thus the 58th day after the payment date of the 72nd instalment on 1 January 2012). Under the TCCRs, the periods involved must be counted in years and days (or weeks where the periods are an exact number of weeks). Hence, for the purposes of the formula in regulation 4(1)

$$A_1 = 10,000$$

$$B_1 = 139.51 = B_2 = \dots = B_{180}$$

$$r = 16.0/100 = 0.160$$

$$m = 1$$

$$n = 73$$

$a_1 = 2249$ days = 6 year 58 days (working in periods of years and days, since period is not a whole number of weeks – NB number of days allows for leap year in 2008)

$$b_1 = 2218 \text{ days} - 6 \text{ years } 27 \text{ days}$$

$$b_2 = 2190 \text{ days} = 5 \text{ years } 364 \text{ days}$$

$$b_3 = 2159 \text{ days} = 5 \text{ years } 333 \text{ days}$$

$$b_4 = 2129 \text{ days} = 5 \text{ years } 303 \text{ days}$$

$$b_5 = 2098 \text{ days} = 5 \text{ years } 272 \text{ days}$$

³ Of course, any delayed payment will need to be added to the ES figure upon final payment.

$b_6 = 2068 \text{ days} = 5 \text{ years } 242 \text{ days}$
 $b_7 = 2037 \text{ days} = 5 \text{ years } 211 \text{ days} = 291 \text{ weeks}$
 $b_8 = 2006 \text{ days} = 5 \text{ years } 180 \text{ days}$
 $b_9 = 1976 \text{ days} = 5 \text{ years } 150 \text{ days}$
 $b_{10} = 1945 \text{ days} = 5 \text{ years } 119 \text{ days}$
 $b_{11} = 1915 \text{ days} = 5 \text{ years } 89 \text{ days}$
 $b_{12} = 1884 \text{ days} = 5 \text{ years } 58 \text{ days}$
 $b_{13} = 1853 \text{ days} = 5 \text{ years } 27 \text{ days}$
 $b_{14} = 1825 \text{ days} = 4 \text{ years } 364 \text{ days}$
 :
 $b_{72} = 0 \text{ years } 58 \text{ days}$
 $b_{73} = 0 \text{ years } 27 \text{ days}$

Then the loan outstanding as at 28 February 2012, calculated by the formula in regulation 4(1) is –

$$\begin{aligned}
 & 10,000 \times (1.160)^{(6+58/365.25)} - (139.51 \times 1.160^{(6+27/365.25)} + 139.51 \times \\
 & 1.160^{(5+364/365.25)} + 139.51 \times 1.160^{(5+333/365.25)} + 139.51 \times 1.160^{(5+303/365.25)} + \\
 & 139.51 \times 1.160^{(5+272/365.25)} + 139.51 \times 1.160^{(5+242/365.25)} + 139.51 \times 1.160^{(5+291/52)} \\
 & + 139.51 \times 1.160^{(5+180/365.25)} + 139.51 \times 1.160^{(5+150/365.25)} + 139.51 \times \\
 & 1.160^{(5+119/365.25)} + 139.51 \times 1.160^{(5+89/365.25)} + 139.51 \times 1.160^{(5+58/365.25)} + \\
 & 139.51 \times 1.160^{(5+27/365.25)} + 139.51 \times 1.160^{(4+364/365.25)} + \dots + 139.51 \times \\
 & 1.160^{(58/365.25)} + 139.51 \times 1.160^{(27/365.25)}) \\
 & = 24,945.00 - (343.65 + 339.73 + 335.48 + 331.41 + 327.26 + 323.30 + \\
 & 320.13 + 315.25 + 311.43 + 307.54 + 303.81 + 300.01 + 296.25 + 292.87 + \\
 & \dots + 142.84 + 141.05) \\
 & = 24,945.00 - 16,635.44 = \text{£}8,309.56
 \end{aligned}$$

The above formula assumes that the borrower will pay on the due date the instalment due between the date of request for early repayment and the settlement date assumed for calculating the rebate (i.e. the 73rd repayment of £139.51 due on 1 February 2012). If the borrower does make this payment on 1 February 2012, the rebate would be £6,618.01 which is calculated by deducting the early settlement figure of £8,309.56 from the total payments outstanding after the date assumed for calculating the rebate which is £14,927.57 (= 107 x £139.51).

If it is agreed that the borrower does not make the payment on 1 February 2012 but defers paying until the settlement date then the period b_{73} in the above formula will be 0 rather than 27 days and the amount outstanding will be

$$= 24,945.00 - 16,633.90 = \text{£}8,311.10.^4$$

In this case, the rebate would be £6,616.47 which is calculated by deducting the early settlement figure of £8,311.10 from the total payments outstanding

⁴ Of course, any delayed payment will need to be added to the ES figure upon final payment.

after the date assumed for calculating the rebate which is £14,927.57 (= 107 x £139.51).

Example 3 – short term, medium value, variable interest loan

A loan of £5,000 is repayable by 24 monthly instalments starting one month after 1 January 2006 (the relevant date). The rate of interest charged on the loan is variable and the instalments paid vary according to the rate of interest charged. At the outset of the loan, the monthly repayments of £229.73 include interest and all other charges included in the total charge for credit. Thus the total amount repayable = £229.73 x 24 = £5,513.52. Total charge for credit = £5,513.52 – £5,000 = £513.52.

Assuming that no charges are excluded from the calculation of the rebate under regulation 3(2), the original APR on the loan required for the calculation of the rebate is 10.0% per annum (the calculation assumes monthly instalments of £229.73 for the duration of the contract).

Immediately after the payment of the 6th instalment, the interest rate charged increases and the monthly instalments are increased to £232.95.

Immediately after payment of the 12th instalment (i.e. after one year) the creditor receives notice from the debtor requesting early settlement. Regulation 5(a) applies (making the settlement date 28 days after the debtor's notice is received) so the settlement date will be 29 January 2007. Under the TCCRs, the periods involved must be counted in years and days (or weeks where the periods are an exact number of weeks). Hence, for the purposes of the formula in regulation 4(1)

$$A_1 = 5,000$$

$$B_1 = 229.73 = B_2 = \dots = B_6$$

$$B_7 = 232.95 = B_8 = \dots = B_{12}$$

$$r = 10.0/100 = 0.100$$

$$m = 1$$

$$n = 12$$

$$a_1 = 393 \text{ days} = 1 \text{ year } 28 \text{ days (working in periods of years and days, since not a whole number of weeks)}$$

$$b_1 = 0 \text{ years } 362 \text{ days}$$

$$b_2 = 0 \text{ years } 334 \text{ days}$$

$$b_3 = 0 \text{ years } 303 \text{ days}$$

$$b_4 = 0 \text{ years } 273 \text{ days} = 39 \text{ weeks}$$

$$b_5 = 0 \text{ years } 242 \text{ days}$$

$$b_6 = 0 \text{ years } 212 \text{ days}$$

$$b_7 = 0 \text{ years } 181 \text{ days}$$

$$b_8 = 0 \text{ years } 150 \text{ days}$$

$$b_9 = 0 \text{ years } 120 \text{ days}$$

$$b_{10} = 0 \text{ years } 89 \text{ days}$$

$$b_{11} = 0 \text{ years } 59 \text{ days}$$

$$b_{12} = 0 \text{ years } 28 \text{ days} = 4 \text{ weeks}$$

Then the loan outstanding as at 29 January 2007, calculated by the formula in regulation 4(1), is –

$$5,000 \times (1.100)^{(1+28/365.25)} - (229.73 \times 1.100^{(362/365.25)} + 229.73 \times 1.100^{(334/365.25)} + 229.73 \times 1.100^{(303/365.25)} + 229.73 \times 1.100^{(39/52)} + 229.73 \times 1.100^{(242/365.25)} + 229.73 \times 1.110^{(212/365.25)} + 232.95 \times 1.100^{(181/365.25)} + 232.95 \times 1.100^{(150/365.25)} + 232.95 \times 1.100^{(120/365.25)} + 232.95 \times 1.100^{(89/365.25)} + 232.95 \times 1.100^{(59/365.25)} + 232.95 \times 1.100^{(4/52)})$$

$$= 5,540.33 - (252.49 + 250.65 + 248.63 + 246.75 + 244.71 + 242.80 + 244.22 + 242.25 + 240.36 + 238.42 + 236.56 + 234.66)$$

$$= 5,540.33 - 2,922.50 = \text{£}2,617.83$$

In this case, the rebate would be £177.57 which is calculated by deducting the early settlement figure of £2,617.83 from the total payments outstanding after the date assumed for calculating the rebate which is £2,795.40 (=12 x £232.95).

If the creditor elects to defer the settlement date by a month under regulation 6, this makes the settlement date for calculating the rebate 28 February 2007. Then, for the purposes of the formula in regulation 4(1) –

$$n = 13$$

$a_1 = 423$ days = 1 year 58 days (working in periods of years and days, since not a whole number of weeks)

$b_1 = 392$ days = 56 weeks

$b_2 = 0$ years 364 days = 52 weeks

$b_3 = 0$ years 333 days

$b_4 = 0$ years 303 days

$b_5 = 0$ years 272 days

$b_6 = 0$ years 242 days

$b_7 = 0$ years 211 days

$b_8 = 0$ years 180 days

$b_9 = 0$ years 150 days

$b_{10} = 0$ years 119 days = 17 weeks

$b_{11} = 0$ years 89 days

$b_{12} = 0$ years 58 days

$b_{13} = 0$ years 27 days

Then the loan outstanding as at 28 February 2007, calculated by the formula in regulation 4(1), is –

$$5,000 \times (1.100)^{(1+58/365.25)} - (229.73 \times 1.100^{(1+56/52)} + 229.73 \times 1.100^{(52/52)} + 229.73 \times 1.100^{(333/365.25)} + 229.73 \times 1.100^{(303/365.25)} + 229.73 \times 1.100^{(272/365.25)} + 229.73 \times 1.110^{(242/365.25)} + 232.95 \times 1.100^{(211/365.25)} + 232.95 \times 1.100^{(180/365.25)} + 232.95 \times 1.100^{(150/365.25)} + 232.95 \times 1.100^{(17/52)} + 232.95 \times 1.100^{(89/365.25)} + 232.95 \times 1.100^{(58/365.25)} + 232.95 \times 1.100^{(27/365.25)})$$

$$= 5,583.87 - (254.49 + 252.70 + 250.59 + 248.63 + 246.63 + 244.71 + 246.14 + 244.15 + 242.25 + 240.32 + 238.42 + 236.50 + 234.60)$$

$$= 5,583.87 - 3,180.20 = \text{£}2,403.67$$

The above formula assumes that the borrower will pay on the due date the instalment due between the date of request for early repayment and the settlement date assumed for calculating the rebate (i.e. the repayment of £232.95 due on 1 February 2007). If the borrower does make this payment on 1 February 2007, the rebate would be £158.78 which is calculated by deducting the early settlement figure of £2,403.67 from the total payments outstanding after the date assumed for calculating the rebate which is £2,562.45 (=11 x £232.95).

If it is agreed that the borrower does not make the payment on 1 February 2007 but defers paying until the settlement date then the period b_{13} in the above formula will be 0 rather than 28 days and the amount outstanding will be

$$= 5,583.87 - 3,178.55 = \text{£}2,405.32.^5$$

In this case, the rebate would be £157.13 which is calculated by deducting the early settlement figure of £2,405.32 from the total payments outstanding after the date assumed for calculating the rebate which is £2,562.45 (=11 x £232.95).

Example 4 – short term, lower value loan

A loan of £300 is repayable by 28 weekly instalments of £12.80, starting one week after 1 January 2006 (the relevant date). The weekly repayments include interest and all other charges included in the total charge for credit. Thus the total amount repayable = £12.80 x 28 = £358.40. The total charge for credit = £358.40 – £300 = £58.40.

On 16 May 2006, two days after payment of the 19th instalment, the creditor receives notice from the debtor requesting early settlement.

Assuming that no charges are excluded from the calculation of the rebate under regulation 3(2), the APR on the loan required for the calculation of the rebate is 92.8% per annum.

If regulation 5(a) applies, the settlement date will be 28 days after the debtor's notice is received ie on 13 June 2006. Since the period for repayment of credit is not over a period greater than one year, it is not possible for the lender to opt to defer the settlement date under regulation 6.

⁵ Of course, any delayed payment will need to be added to the ES figure upon final payment.

Under the TCCRs, since the periods involved are not exact number of weeks (or months), the periods must be counted in years and days (or weeks where the periods are an exact number of weeks). Hence, for the purposes of the formula in regulation 4(1)

$$A_1 = 300$$

$$B_1 = 12.80 = B_2 = \dots = B_{23}$$

$$r = 92.8/100 = 0.982$$

$$m = 1$$

$$n = 23$$

$$a_1 = 0 \text{ years } 163 \text{ days (working in periods of years and days)}$$

$$b_1 = 0 \text{ years } 156 \text{ days}$$

$$b_2 = 0 \text{ years } 149 \text{ days}$$

$$b_3 = 0 \text{ years } 142 \text{ days}$$

$$b_4 = 0 \text{ years } 135 \text{ days}$$

$$b_5 = 0 \text{ years } 128 \text{ days}$$

$$b_6 = 0 \text{ years } 121 \text{ days}$$

$$b_7 = 0 \text{ years } 114 \text{ days}$$

$$b_8 = 0 \text{ years } 107 \text{ days}$$

$$b_9 = 0 \text{ years } 100 \text{ days}$$

$$b_{10} = 0 \text{ years } 93 \text{ days}$$

$$b_{11} = 0 \text{ years } 86 \text{ days}$$

$$b_{12} = 0 \text{ years } 79 \text{ days}$$

$$b_{13} = 0 \text{ years } 72 \text{ days}$$

$$b_{14} = 0 \text{ years } 65 \text{ days}$$

$$b_{15} = 0 \text{ years } 58 \text{ days}$$

$$b_{16} = 0 \text{ years } 51 \text{ days}$$

$$b_{17} = 0 \text{ years } 44 \text{ days}$$

$$b_{18} = 0 \text{ years } 37 \text{ days}$$

$$b_{19} = 0 \text{ years } 30 \text{ days}$$

$$b_{20} = 0 \text{ years } 23 \text{ days}$$

$$b_{21} = 0 \text{ years } 16 \text{ days}$$

$$b_{22} = 0 \text{ years } 9 \text{ days}$$

$$b_{23} = 0 \text{ years } 2 \text{ days}$$

Then the loan outstanding as at 13 June 2006, calculated by the formula in regulation 4(1), is –

$$300 \times (1.928)^{163/365.25} - (12.80 \times 1.928^{(156/365.25)} + 12.80 \times 1.928^{(149/365.25)} + \dots + 12.80 \times 1.928^{(9/365.25)} + 12.80 \times 1.928^{(2/365.25)})$$

$$= 402.12 - (16.94 + 16.73 + 16.52 + 16.32 + 16.11 + 15.91 + 15.71 + 15.51 + 15.32 + 15.13 + 14.94 + 14.75 + 14.57 + 14.39 + 14.21 + 14.0. + 13.85 + 13.68 + 13.51 + 13.34 + 13.17 + 13.01 + 12.85)$$

$$= 402.12 - 340.50 = \text{£}61.62$$

The above formula assumes that the borrower will pay on the due dates the instalments due between the date of request for early repayment and the settlement date assumed for calculating the rebate (i.e. the 20th, 21st, 22nd and

23rd repayments of £12.80 due on 21 May, 28 May, 4 June and 11 June 2006). If the borrower does make these payments as they fall due, the rebate would be £2.38 which is calculated by deducting the early settlement figure of £61.62 from the total payments outstanding after the date assumed for calculating the rebate which is £64.00 (= 5 x £12.80).

If it is agreed that the borrower does not make the repayments after the 19th instalment on the due dates but defers paying until the settlement date then the periods b_{20} , b_{21} , b_{22} and b_{23} in the above formula will be 0 rather than 23, 16, 9 and 2 days respectively and the amount outstanding will be

$$= 402.12 - 339.33 = £62.79.^6$$

In this case, the rebate would be £1.21 which is calculated by deducting the early settlement figure of £62.79 from the total payments outstanding after the date assumed for calculating the rebate which is £64.00 (= 5 x £12.80).

Example 5 – medium term, medium value loan

A loan of £4,000 is repayable by 24 monthly instalments of £200 starting one month after 1 January 2006 (the relevant date). In addition, a set-up fee of £100 is charged on 15 January 2006 (halfway through the first month after the relevant date) and a further charge of £75 is levied at the end of the first month (in addition to the instalment of £200 due at that date). This £75 charge is included in calculating the APR for the loan but the lender has chosen to exclude this charge under regulation 3(2) for the purposes of calculating the rebate. Thus, the APR for the loan is 25.3% per annum (calculated assuming 24 monthly payments of £200.00 plus the set up fee of £100 payable on 15 January 2006 and the additional charge of £75 payable at the end of the first month).

Thus total amount repayable = £200.00 x 24 + £100 + £75 = £4,975.00. Total charge for credit = £4,975 – £4,000 = £975.00.

Immediately after payment of the 9th instalment, the creditor receives notice from the debtor requesting early settlement.

Assuming that the £75 charges is excluded from the calculation of the rebate under regulation 3(2), the APR on the loan required for the calculation of the rebate is 22.9% per annum (the calculation assumes monthly instalments of £200.00 for 24 months and the set up fee of £100.00 paid on 15 January 2006).

Regulation 5(a) applies (making the settlement date 28 days after the debtor's notice is received) so the settlement date will be 29 October 2006. Under the TCCRs, the periods involved must be counted in years and days (or weeks

⁶ Of course, any delayed payments will need to be totalled and added to the ES figure upon final payment.

where the period is an exact number of weeks). Hence, for the purposes of the formula in regulation 4(1)

$$A_1 = 4,000$$

$$B_1 = 100.00$$

$$B_2 = 200.00 = B_3 = \dots = B_{24}$$

$$r = 22.9/100 = 0.229$$

$$m = 1$$

$$n = 10$$

$$a_1 = 0 \text{ year } 301 \text{ days (working in periods of years and days) } = 43 \text{ weeks}$$

$$b_1 = 0 \text{ years } 287 \text{ days } = 41 \text{ weeks}$$

$$b_2 = 0 \text{ years } 270 \text{ days}$$

$$b_3 = 0 \text{ years } 242 \text{ days}$$

$$b_4 = 0 \text{ years } 211 \text{ days}$$

$$b_5 = 0 \text{ years } 181 \text{ days}$$

$$b_6 = 0 \text{ years } 150 \text{ days}$$

$$b_7 = 0 \text{ years } 120 \text{ days}$$

$$b_8 = 0 \text{ years } 89 \text{ days}$$

$$b_9 = 0 \text{ years } 58 \text{ days}$$

$$b_{10} = 0 \text{ years } 28 \text{ days } = 4 \text{ weeks}$$

Then the loan outstanding as at 29 October 2006, calculated by the formula in regulation 4(1), is –

$$4,000 \times (1.229)^{43/52} - (100.00 \times 1.229^{(41/52)} + 200.00 \times 1.229^{(270/365.25)} + 200.00 \times 1.229^{(242/365.25)} + 200.00 \times 1.229^{(211/365.25)} + 200.00 \times 1.229^{(181/365.25)} + 200.00 \times 1.229^{(150/365.25)} + 200.00 \times 1.229^{(120/365.25)} + 200.00 \times 1.229^{(89/365.25)} + 200.00 \times 1.229^{(58/365.25)} + 200.00 \times 1.229^{(4/52)})$$

$$= 4,743.65 - (117.65 + 232.93 + 229.28 + 225.30 + 221.52 + 217.67 + 214.02 + 210.31 + 206.66 + 203.20)$$

$$= 4,743.65 - 2,078.54 = \text{£}2,665.11$$

In this case, the rebate would be £334.89 which is calculated by deducting the early settlement figure of £2,665.11 from the total payments outstanding after the date assumed for calculating the rebate which is £3,000.00 (=15 x £200.00).

If the creditor elects to defer the settlement date by 30 days under regulation 6, this makes the date for calculating the rebate the 28 November 2006 after the payment date for the 10th instalment

For the calculation using the formula in regulation 4(1),

$$n = 11$$

$$a_1 = 0 \text{ year } 331 \text{ days (working in periods of years and days)}$$

$$b_1 = 0 \text{ years } 317 \text{ days}$$

$$b_2 = 0 \text{ years } 300 \text{ days}$$

$$b_3 = 0 \text{ years } 272 \text{ days}$$

$b_4 = 0$ years 241 days
 $b_5 = 0$ years 211 days
 $b_6 = 0$ years 180 days
 $b_7 = 0$ years 150 days
 $b_8 = 0$ years 119 days = 17 weeks
 $b_9 = 0$ years 88 days
 $b_{10} = 0$ years 58 days
 $b_{11} = 0$ years 27 days

Then the loan outstanding to be repaid on 28 November 2006 as calculated by the formula in regulation 4(1) is -

$$\begin{aligned}
 & 4,000 \times (1.229)^{331/365.25} - (100.00 \times 1.229^{(317/365.25)} + 200.00 \times 1.229^{(300/365.25)} + \\
 & 200.00 \times 1.229^{(272/365.25)} + 200.00 \times 1.229^{(241/365.25)} + 200.00 \times 1.229^{(211/365.25)} + \\
 & 200.00 \times 1.229^{(180/365.25)} + 200.00 \times 1.229^{(150/365.25)} + 200.00 \times 1.229^{(17/52)} + \\
 & 200.00 \times 1.229^{(88/365.25)} + 200.00 \times 1.229^{(58/365.25)} + 200.00 \times 1.229^{(27/365.25)}) \\
 & = 4,821.86 - (119.60 + 236.91 + 233.19 + 229.15 + 225.30 + 221.39 + 217.67 \\
 & + 213.95 + 210.19 + 206.66 + 203.07) \\
 & = 4,821.86 - 2,317.08 = \text{£}2,504.78
 \end{aligned}$$

The above formula assumes that the borrower will pay on the due date the instalment due between the date of request for early repayment and the settlement date assumed for calculating the rebate (i.e. the repayment of £200.00 due on 1 November 2006). If the borrower does make this payment on 1 November 2006, the rebate would be £295.22 which is calculated by deducting the early settlement figure of £2,504.78 from the total payments outstanding after the date assumed for calculating the rebate which is £2,800.00 (=14 x £200.00).

If it is agreed that the borrower does not make the payment on 1 November 2006 but defers paying until the settlement date then the period b_{11} in the above formula will be 0 rather than 28 days and the amount outstanding will be

$$= 4,821.86 - 2,314.01 = \text{£}2,507.85.^7$$

In this case, the rebate would be £292.15 which is calculated by deducting the early settlement figure of £2,507.85 from the total payments outstanding after the date assumed for calculating the rebate which is £2,800.00 (=14 x £200.00).

End.

DTI Consumer and Competition Directorate, May 2005

⁷ Of course, any delayed payment will need to be added to the ES figure on final payment.