

What is a hire purchase agreement?

A hire purchase agreement is a way in which you can purchase a car on finance, i.e. you are provided with the car but you have not as yet bought it outright.

For a hire purchase agreement you will be required to pay a deposit initially and then a fixed amount for an agreed number of months. Once you have paid the entire amount you will own the title to the car.

When is a hire purchase arrangement available?

You are able to purchase both new and used cars through a hire purchase agreement.

Are any cars excluded from the possibility of a hire purchase agreement?

Used cars which are over two years old are often excluded from hire purchase agreements as their value will be too low by the time the loan comes to an end.

Which organisations are able to provide me with a hire purchase agreement?

You are able to organise a hire purchase agreement with the following bodies:

- Banks
- Car dealers
- Loan companies

Are there any advantages in purchasing a car using a hire purchase agreement?

The main advantages of using this method to purchase a car on finance is that a hire purchase agreement is easy to obtain and very straightforward to use and in many cases it is cheaper than other types of loan which are available.

Are there any disadvantages in purchasing a car using a hire purchase agreement?

The two main disadvantages of using this method to purchase a car on finance are as follows:

1. The car remains the property of the lender until the agreement ends. This means that you cannot sell the car without obtaining permission before the agreement ends.

2. If you start to fall behind on your payments the finance company can repossess your car and sell it cheaply at auction suing you for whatever is still owed plus their additional costs incurred.

Are there any other options available to me to purchase a car?

Other than a hire purchase agreement there are two other options available to help your purchase a new car. They are as follows:

1. Normal unsecured loan
2. Personal Contract Purchase

Normal Unsecured Loan

- For a normal unsecured loan you will obtain the [money](#) in advance to obtain the goods then repay the [debt](#) in monthly installments. A normal unsecured loan is available from banks, building societies and finance companies.
- Often this is not used to purchase a car as it is harder to obtain than other types of finance as often lenders will only provide to homeowners who have sound finance.

Personal Contract Purchase

- For personal contract purchase you must initially pay a deposit of up to 20% of the total then an agreed number of monthly repayments for up to three years. Following the agreed period a final payment of the difference must be paid.
- Although this method offers cheaper monthly payments and a convenient way of funding a new car every three years it is often more costly in the long run than hire purchase and it is difficult to sell the car.
- As a consequence a hire purchase agreement is the most popular method of purchasing a car on finance.

What are the potential issues which I may face having entered into a hire purchase agreement?

Having entered into a hire purchase agreement there are a variety of issues which you may face. They can be related to the following circumstances:

- You do not wish to continue with the agreement
- You have defaulted on your payments
- You wish to sell the car

What happens if I no longer wish to continue with the agreement?

The rules and regulations for hire purchase agreements are stated in the Hire Purchase Act 1984:

- In relation to the purchase of a car on hire purchase the circumstances of you handing back your vehicle will depend upon the length of time in which you have had the car.
- The general rule is that if you have paid for more than half of the total amount which remains outstanding then you should be able to return the vehicle without any legal consequence.
- This will often depend upon the terms and conditions of your hire purchase agreement so you must make sure that you have read all of these prior to purchase.

What happens if I wish to send the car back before this time?

If you wish to send the car back before you have got to the point stated above then you will be required to pay early redemption penalties.

How much will this be?

Early redemption penalties are traditionally worked out as the difference between the amount you have already paid and half of the total value of the car.

Default on payments and [repossession](#) of the car

Under what circumstances can the hire purchase company repossess the car?

If you have fallen behind on as little as two repayments the finance company has the legal right to repossess the car. The general rule is that if you have fallen behind on your payments and you have paid less than one third of the total repayments you will be liable for repossession.

Parked on public ground

The hire purchase company can legally repossess your car only when it is parked on public land. The hire purchase company cannot repossess the vehicle if it is parked on your private property or the private property of a third party.

Will the hire purchase company repossess my car without notice?

The hire purchase company will not repossess your car without notice. They will issue with a pre-possession order which will give your 15 days notice before it is repossessed.

Can the hire purchase company take me to court over the repossession of the vehicle?

The only circumstance whereby the hire purchase company will be required to take you to court to regain possession of the vehicle is if you have made more than one third of the payments as they cannot legally simply repossess your vehicle.

Selling the vehicle

Can I sell a vehicle while it is under a hire purchase agreement?

It is against the law specified in the Hire Purchase Act to sell a car which is still the subject of a hire purchase agreement. If you wish to sell the car you must ensure that you have squared everything with the hire purchase company.

What happens if I bought a car of another which was subject to a hire purchase agreement?

According to the Hire Purchase Act a buyer of a car, which is still subject to a hire purchase agreement, will get good title to the car if the following conditions are met:

- The buyer did not know that the car was under hire purchase therefore buying the car in good faith believing the seller had the right to sell it
- The buyer is a private buyer and not a dealer or a finance company

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