

Hire Purchase

What is HP?

Hire Purchase is a method of obtaining goods (e.g. a car). You pay for the use of those goods over a pre-agreed period. Then, at the end of that period (once an option to purchase fee has been paid), the goods become your property.

This method of buying allows you to choose how much deposit you'd like to pay upfront (including any part exchange) and the period over which you wish to repay the balance (typically up to five years).

How it works

The deposit is paid when your finance plan is agreed, leaving the balance (plus interest) to be paid over the agreed period in equal monthly instalments. At the end of the agreement (subject to an option to purchase fee), you own the car outright. At the end of the plan you are often required to pay a small 'option to purchase' fee. If you have a Conditional Sale plan, there is no purchasing fee required. At this stage the car becomes your property.

Interest is calculated at the start of the agreement and added to the amount that you wish to borrow - making it fixed for the length of the agreement. This means that the amount you pay is unaffected by any future changes in interest rates, giving you reassurance that your payments will not alter.

What are the benefits of HP?

- Fixed regular payments
- Full ownership of the car transferred to you at the end of the agreement (you're the 'registered keeper'), once the option to purchase fee has been paid. You often have to pay a small 'option to purchase' fee for this transfer to take place. If you have a Conditional Sale plan you will not have to pay any fee for this transfer of ownership.
- Variable deposits and periods are available (usually in increments from 12 to 60 months)

- You can exercise your legal rights and voluntarily terminate the finance agreement – you would need to pay the difference between the current balance and total amount payable and simply hand the car back to the finance company (a 'fair wear & tear' clause may apply)
- You have satisfactory quality rights (under the Consumer Credit Act). The credit provider may be liable for putting things right providing the cash price was less than £30,000
- You can pay extra amounts during the agreement and have the interest recalculated – to lower your monthly repayments or shorten the term

What are the risks of HP?

- A 'Fair Wear & Tear' clause may apply in the event of voluntary termination
- You do not own the car outright until the final payment is made
- The car is at risk of repossession if you don't pay the contractual repayments
- You must have fully comprehensive insurance throughout the term of the agreement
- You must not sublease or rent the car to a third party
- Charges may apply for late payments or to alter the repayment date (these are detailed in the Pre-Contract Credit Information)
- Any outstanding finance must be settled if the car's sold