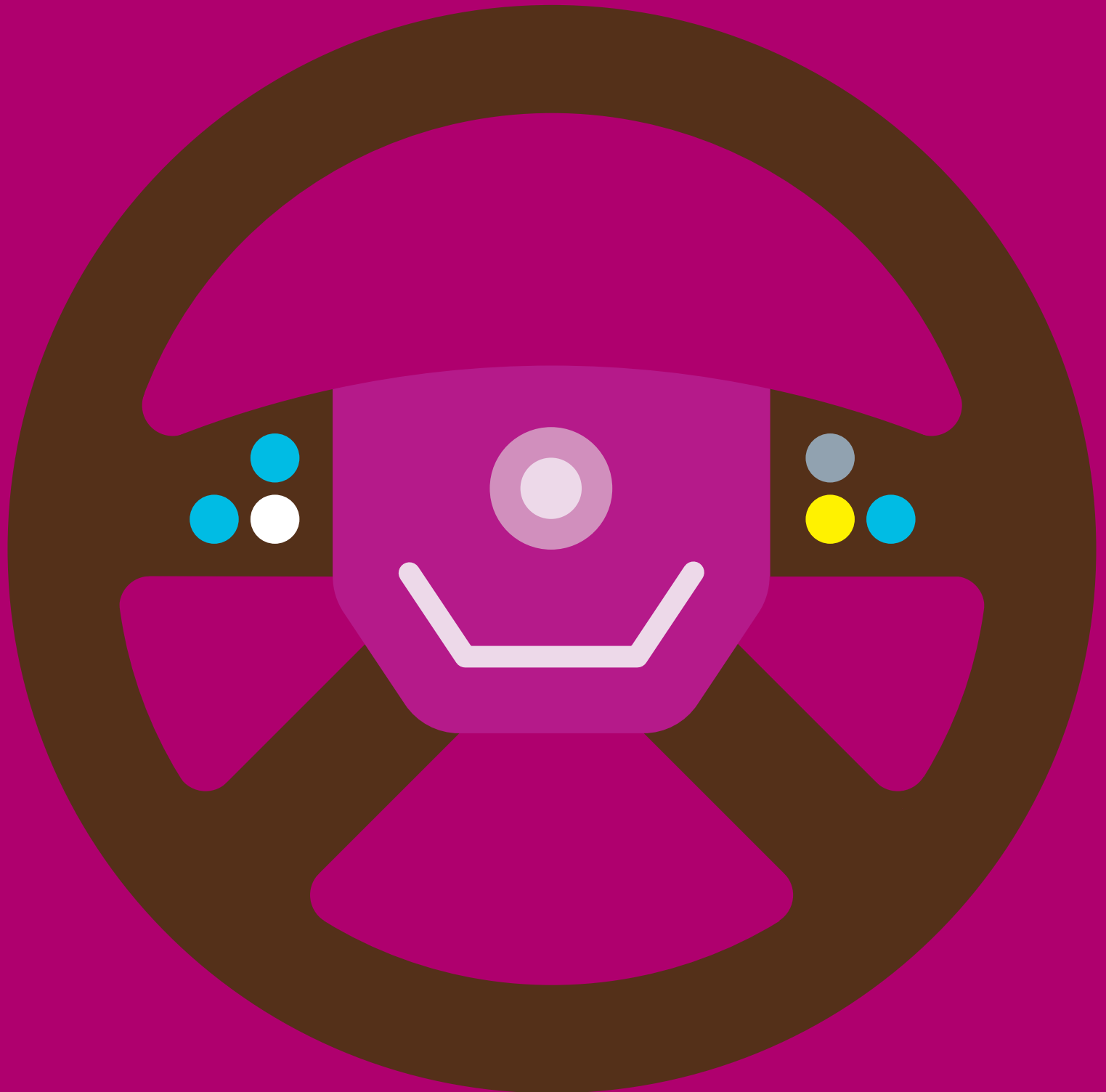
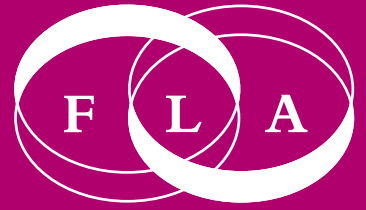


# A Guide to Used Car Finance



# A Guide to Used Car Finance

## About this guide

This guide is provided by the Financing & Leasing Association (FLA) to help you learn more about the numerous methods of paying for a used car in the UK. This guide explains the various motor finance options available to you and also provides some more general advice and tips when buying used cars..

## What is the FLA?

The Financing & Leasing Association (FLA) is the leading industry body for the motor finance industry in the UK. All FLA members that provide finance must comply with the self-regulatory standards of the **FLA Lending Code** to ensure that finance customers and potential customers are treated fairly, reasonably and responsibly. You can find a full list of FLA motor finance members in our **member directory**.

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# A Guide to Used Car Finance

## Where to start

If you're thinking about buying a used car there is a good chance you may need finance to help you afford it – particularly if you are buying a 'nearly-new' car. The good news is that there is a wide-range of motor finance products to suit your individual needs and budget. It is important that you understand the differences between the products to ensure you get the best deal for you. A lot will depend on the cost of the car you are buying, the period of time you want to be making repayments for, your financial history and how much you can afford to repay each month. The car **finance decider** tool will help direct you to the most suitable product and the finance calculator will advise you on likely repayments.

Other big questions that you will need to fully consider include:

- Do you want to own the car out-right?
- How old is the car you are want to buy and what is its true market value?
- How long do you intend to own the car for?

## Responsible lending

Whatever car finance option you go for, you will want to deal with a reputable lender. The Financing & Leasing Association (FLA) is the leading industry body for the motor finance industry in the UK. All FLA members that provide finance must comply with the self-regulatory standards of the **FLA Lending Code** to ensure that finance customers and potential customers are treated fairly, reasonably and responsibly. You can find a full list of FLA motor finance members in our **member directory**.

## Choosing a used car

Essential advice when buying used cars from private sellers:

- Know your budget – before you view any used cars you are interested in buying, work-out exactly how much you are willing to pay. Without a clear price range it'll be hard to shortlist any potential used cars and you can end up spending more than you can really afford.
- Research the value – you don't want to pay over the odds for your car, so remember the price advertised for a car may not be the market value or the price you end up paying. You can search the Parker's Guide Book or on eBay to find out how much the same make and model of car has previously sold for.

- Ask to see the documentation before paying – before exchanging any money you need to know what documentation the car has. Ask to see the V5 registration document (also known as the log-book), and if the car is being sold with an MOT you need to see the MOT certificate. And just because service history may have been mentioned in the advert, that doesn't mean it actually exists on paper!
- Always test drive the car – some cars look great but aren't mechanically sound, even if you're not technically minded, you will be able to make a reasonably assessment of a car by driving it, and if you're lacking in confidence take someone else along during the test drive.
- If it's too good to be true, it probably is. This saying applies perfectly to buying used cars. If the price is significantly lower than you've seen similar cars advertised for, you have to question the reasons for its low price. It could be naivety from the seller, but it could equally be because of the quality of the car and its history.
- Don't be afraid to negotiate on price. For many people 'haggling' can be particularly awkward or unpleasant, however when it comes to second hand cars it is factored into the price, and if you don't negotiate you may pay more than the car is worth.
- Don't be afraid to walk away if something doesn't feel right. If you have a bad feeling about any aspect of a second-hand car sale prior to making a payment, then don't feel bad for walking away. Lots of people have felt compelled to follow through on a sale and have lived to regret it.

Advice when buying a used car from a motor dealership:

- The law gives you more rights when buying a car from a dealer than you would get from a private sale. For example, warranties are often provided by dealerships that protect you in the event of their being faults with the car. Also, if you take out finance then the agreement is usually regulated under the Consumer Credit Act.
- Time your purchase around when dealers are most likely to need a quick sale. For example, it may be the last week of the month and dealership staff are looking to reach their sales target. This may help your negotiations.
- Find a trustworthy dealer. Like many other sectors there are a number of trade bodies and accreditation organisations that hold their members to account. Finding members of these groups give you additional peace of mind.
- Also consider the advice above on private purchasing when buying a used car from a dealer. Although buying from a dealer may offer more protection it is still well worth being vigilant to ensure you get the best possible deal on your used car.

# A Guide to Used Car Finance

## Used car finance options

Once you've decided to buy a used car there are many ways to fund your purchase, other than buying it outright with cash. Sometimes the differences between the options can be a little confusing, so below we've described all the major types of car finance available via most motor dealerships.

### Hire-Purchase or Conditional Sale

You agree with the dealer the amount you need to borrow, less any cash deposit or the value of any car offered as part exchange. The dealer then contacts a motor finance company which pays for the car on your behalf if your application for finance is approved.

You repay the motor finance company, typically on a monthly basis, for the length of the agreement. It's important to remember you do not own the car until you make the final payment. In some hire purchase agreements, which are also known as Lease Purchase agreements, this last payment can be significantly higher in order to reduce your monthly payments for the majority of the agreement.

### Personal Contract Purchase (PCP)

With a PCP scheme you agree with the dealer the amount you need to borrow, minus any deposit payment and value of part exchanged vehicles. Your dealer would then contact their motor finance company who, provided you pass your credit checks, pays for the car on your behalf.

You then make reduced monthly payments to the finance company, making the car more affordable by putting off some of the cost of the car until the end of the agreement. During the agreement you only have to pay for the difference between the full loan and the deferred amount, plus an interest charge.

At the end of the agreement you have three options - pay-off the deferred amount in full and own the car outright, hand back the keys of the car to dealer and walk away, or you could trade the car in against a new model car and use some of the money raised to make the deferred payment.

### Personal Leasing (Personal Contract Hire)

In this arrangement you agree with the dealer a fixed monthly payment to rent the car, usually including all service and maintenance over an agreed period.

The dealer you are working with then contacts the finance company who pays for the car on your behalf. Then you pay the finance company a fixed monthly rental until the end of the agreement when you hand the car back to the dealer or in some cases directly to the finance company. There is no option to purchase. In these arrangements you have to be careful not to exceed the agreed contract mileage.

### Personal Loan

Perhaps the most understood way of financing a car purchase where you organise the money for the car by taking out a personal loan with a bank or other lender.

You have chosen which car you want at dealership or private seller and pay the owner with the money you have borrowed. You then take on the responsibility to repay the lender you borrowed the money from.

You own the car from the start and it is your responsibility – you pay for repairs/servicing/insurance, etc. You can also sell the car when you want, but you will need to continue paying the bank or financial institution until the loan is paid off.

### Mortgage top-up

You may be able to borrow money from your mortgage provider – either by withdrawing equity from your house, or by getting a second mortgage for the amount needed to buy the car.

You choose the car and how much you borrow, the car is yours and also your responsibility – you pay for repairs/servicing. You can also sell the car when you want. You pay back the borrowing via mortgage repayments. Your house could be at risk if you do not keep up the repayments.

### Credit card

It is possible to buy cars on a credit card, but cards should only be used for short term borrowing, such as paying a deposit or when you are waiting for other finance to become available.

Interest rates on credit cards may be higher than other forms of finance and they are not recommended for high value items to be repaid over a long period of time.

# A Guide to Used Car Finance

## Car history checks

Without carrying out a car history check, buying a used car can be a lottery. A check will disclose the past history of the car you are about to buy and will give you invaluable information before you part with your money. There have been problems with people altering their car's history in order to help sell it. For example, by reducing a car's mileage or hiding serious accident damage.

Experian and HPI – both members of the FLA - investigate a vehicle's background and carry out an independent car history check on your behalf.

### **Why should I check the history of a motor vehicle?**

## Selling your old car and part exchange

The majority of used car buyers must first sell their existing car to help contribute to the cost of their next model. There's lots of good information online, which can help you with the sale of your existing car, either through a part exchange agreement with a used car garage or a private sale. Below are a number of articles to get you started:

### **Trade It or Sell It: How to Get Rid of Your Old Car**

### **How to part exchange your car**

### **Advice on selling your vehicle**

## The role of the FLA

FLA members provided £18 billion of finance to businesses and consumers last year for the purchase of new and used cars. This included funding more than 50% of all new car registrations in the UK.

The FLA Lending Code sets out standards of good practice for the finance and leasing industry. It includes commitments made by our members, which go above and beyond the regulatory requirements, and is intended to reassure anyone who applies for finance from full members that they are doing business with responsible lenders.

View the Code at:

**[www.lendingcode.org.uk](http://www.lendingcode.org.uk)**

# A Guide to Used Car Finance

## Useful terminology

### A

#### Acceptance fee

An additional charge that is sometimes made by the lender (finance company) and is in addition to the interest.

#### Administration fee

An additional charge that is sometimes made by the lender (finance company) and is in addition to the interest.

#### Agreement

Legal document completed and signed by the lender (or owner) and the borrower (or hirer) following an application to obtain goods on credit or hire.

### B

#### Balance

The difference between the totals of the credit and debit sides of an account or the remaining amount due to be paid on a credit agreement at any particular time.

#### Balloon payment

Under certain agreements the consumer can negotiate a larger, single payment at the end of the agreement to reduce regular payments.

### C

#### Cancellable Agreement

A type of credit or hire agreement regulated by the Consumer Credit Act that is signed off Trade Premises. This gives the customer the right to cancel (in writing) within a number of days of signing it. The cancellation terms are shown in the agreement.

#### Capital

An amount borrowed or due to be repaid immediately or by instalments, excluding interest.

#### Certificate of SAF Competence -

Introduced by the Finance & Leasing Association (see FLA) the Certificate of SAF (Specialist Automotive Finance) Competence is clear recognition to consumers which dealership staff have attained the professional standard on motor finance set by the SAF Competence Test (online testing).

#### Compliance

A financial measure to dictate if you are acting according to certain accepted standards. Regulatory compliance refers to systems or departments at corporations and public agencies to ensure that personnel are aware of and take steps to comply with relevant laws and regulations.

#### Conditional Sale

A type of purchase plan where title to goods passes from the Finance Company to the customer when certain conditions are met (i.e. Payments made, comprehensive insurance and good condition of the vehicle).

#### Contract

A legally binding agreement between two or more persons for the purchase of financial products.

#### Contract Hire (or Operating Lease)

This is a method of funding the use but not the ownership of a vehicle, the customer (Lessee) is renting the vehicle for a fixed rental from a leasing company (Lessor) for an agreed period.

**Credit Sale** - An agreement for the sale of goods which allows the customer to pay all or part of the cost of the goods in instalments. It differs from Hire Purchase and Conditional Sale in that the title (ownership) passes to the customer at the start of the contract.

### D

#### Debtor

The customer, company or individual entering into the agreement to borrow money from a lender or a person who has an obligation of paying a debt.

### Deposit

A initial payment of a portion of the capital cost of the vehicle. This usually takes the form of cash / cheque or equity in a part exchange vehicle.

### Distance Selling

The sale of goods or services to consumers via the telephone, fax, mail-order and increasingly by the internet or a digital TV is protected by Distance Selling Regulations. The sale of motor vehicles is covered under the Distance Selling Regulations.

### Document Fee

An additional charge that is sometimes made by the lender and is in addition to the interest.

### E

#### Early Settlement

Payment of the balance owing on a credit agreement, including interest, before the final payment is due. If it is a Regulated agreement under the Consumer Credit Act, there is a legally specified rebate that the customer must be given.

#### End of Agreement / Contract

When all the contracted payments have been made (including any fees) on an agreement. For Hire Purchase and Conditional Sale agreements, this is when title is transferred to the customer.

#### Equity

The 'positive' difference between the value of a vehicle and any money owed on that vehicle.

#### Executed Agreement

When a contract (document) containing all the written terms of an agreement is signed by all the people involved in it.

### F

#### Finance Contract

A document that details all the terms and conditions of a financial arrangement as well as vehicle and customer details.

#### Finance Lease

This is a method of funding the use but not the ownership of a vehicle. The customer (Lessee) is renting the vehicle for a fixed rental from a leasing company (Lessor) for an agreed period. In this type of lease, the customer is responsible for the whole cost of the asset to the leasing company and will share in any profit when the asset is sold. The 'Risk and Reward' are with the lessee.

#### Finance & Leasing Association (FLA)

The FLA is the main representative body for the UK motor finance industry and its Lending Code sets out standards of good practice for the finance and leasing industry. Full FLA membership requires compliance to the Lending Code.

#### Fixed rate of Interest

A rate of interest which cannot be altered during the term of a financial transaction.

#### Flat Rate of Interest

A 'flat' interest rate is the most common method used to calculate interest charges payable on a finance agreement. It is normally on a per annum basis and the total interest is calculated on the amount of money borrowed and the term of the loan.

### G

#### GAP

An insurance policy that bridges the gap between the insurance company payout and finance company settlement (or original vehicle cost) in the event of total loss or theft of the vehicle.

#### Guarantee

A form of security used in support of a finance agreement where a third party acts as surety in the transaction between the finance company and customer.

#### Guaranteed Minimum Future Value (GMFV)

This is set by the manufacturer or finance company and allows the customer to know the least amount the car will be worth at a point in the future and it normally guarantees the balloon payment on a Personal Contract Purchase (PCP). It is normally calculated after taking into consideration the retail price of the vehicle, the length of time the customer wants to keep the vehicle and the mileage they will cover during that time.

# A Guide to Used Car Finance

## Useful terminology

### H

#### Hire Purchase

A Hire Purchase Agreement is a fixed cost, fixed period loan of money to purchase goods. It is a 'Tri-Partite' agreement where a finance company HIRES the vehicle to the customer for an agreed period at an agreed monthly sum; the customer can gain ownership (title) by paying an additional sum called the Option to Purchase Fee or Purchase Fee.

#### Hirer

The person to whom goods are hired under a consumer hire agreement.

### I

#### Instalments

Amounts payable at regular intervals under a credit agreement.

#### Interest

An amount of money payable to the lender, in addition to the amount borrowed. This reflects the cost of money, the term over which it is lent and the risk involved - *See Charges. It can be either a Fixed or Variable rate of Interest.*

### L

#### Lease

A contract between a lessor and a lessee for the hire of a specific asset where the title to the goods is retained by the finance company.

#### Lease Purchase

A Lease Purchase is a purchase agreement (similar to a Hire Purchase or Conditional Sale). The term 'Lease Purchase' was introduced into the finance industry to describe a Hire Purchase or Conditional Sale contract with a payment structure similar to a lease. I.e. Instead of a deposit, 'Advance Payments' may be paid and it is usual to have a balloon payment.

#### Lending Code

The FLA's Lending Code sets out the key commitments and principles which members are expected to follow at all times.

#### Lessee

The user of leased goods (Customer).

#### Lessor

The owner of leased goods (Finance House / Bank).

#### Liability

A customer's obligations under a credit or hire agreement.

#### Loan

A sum of borrowed money that is generally repaid with interest.

### N

#### Negative Equity

The 'negative' difference between the actual value of a vehicle and money owed on that vehicle.

#### Non-Cancellable Agreement

A regulated credit or consumer hire agreement that is signed On Trade Premises, where the customer cannot cancel once signed.

#### Non-Regulated Agreement

A credit or hire agreement that is not governed by the Consumer Credit Act.

### O

#### Option to Purchase Fee

The fee that is only applicable on a Hire Purchase Agreement (usually payable with the final payment) that officially transfers title from the finance company to the customer. The fee is set by the lender (finance company) and will be a minimum of £1.00. There is no maximum limit.

#### Operating Lease

This is a method of funding the use but not the ownership of a vehicle. The customer (Lessee) is renting the vehicle for a fixed rental from a leasing company (Lessor) for an agreed period. At the end of the contract the vehicle is handed back to the leasing company. An Operating Lease transfers substantially all the Risks and Rewards of ownership to the lessor and is an 'Off-Balance Sheet' method of funding.

#### Overdraft

A banking facility that allows an account to be operated, up to an agreed limit, when no credit funds are in that account.

### P

#### Part Exchange

The process when a customer exchanges their car with a motor dealer to form part or all of a deposit towards the price of their next new vehicle.

#### Payment Holiday

A period during the agreement when the customer does not make any payments.

#### Payment Protection Insurance (PPI)

Also known as Payment Protection Plan (PPP), is an insurance policy to pay the customer's finance in the event of personal circumstances changing. (Death, sickness, accident, redundancy etc.) - *see CPI.*

#### Personal Contract Purchase (PCP)

A PCP is in essence a Purchase agreement (similar to a Hire Purchase or Conditional Sale) that is governed by vehicle mileage and term, where a predicted minimum value (GMFV) is offset until the end of the agreement.

#### Personal Loans

A loan of money to purchase any item the customer wants - including vehicles. The facility is widely offered by Banks, Building Societies, Direct Lenders and Finance Companies.

#### Primary Period of Hire

The initial period of a lease where the lessor recoups his investment and any interest charges.

### R

#### Rebate (Early Settlement)

A sum of money returned to a customer following the early payment of a finance agreement. For agreements regulated by the Consumer Credit Act, the minimum amount of rebate is legally specified.

#### Regulated Agreement

An agreement regulated by the CCA.

#### Residual Value

The value of goods at a point in the future - normally the end of a finance agreement. It is only a predicted figure at the start of the agreement.

### S

#### Specialist Automotive Finance (SAF)

SAF is a kite-mark developed by the FLA to raise standards and improve skills for those involved in the sale of motor finance. SAF will improve consumer confidence and change consumer awareness of showroom finance.

#### Service Contract

A specially tailored service contract can be included in finance packages to cater for service, repair and maintenance costs of a vehicle.

#### Settlement

The finalising of a financial agreement.

#### Settlement Penalty

An amount charged to customers who settle an agreement early. Any customer has a statutory right to complete payments under an agreement early, if they so desire. When this happens, the customer is entitled to a rebate of the outstanding interest if the agreement is regulated under the Consumer Credit Act. The Finance Company, however, is allowed to charge a penalty to compensate for breaking the contract earlier than anticipated - this is currently one month's penalty interest but it may differ between finance providers and finance agreement.

# A Guide to Used Car Finance

## Useful terminology

### Spread Rentals

This refers to a payment profile for a contract. The capital and interest is being paid for 'spread' over the whole period (as opposed to having a 'terminal pause').

### Supplier

The invoicing dealership.

## T

### Termination

The ending of certain types of credit agreement according to the terms and conditions of the individual agreement.

### Termination Rights

Detailed under the Consumer Credit Act as the 'halves rule'. The legal rights of the customer to end an agreement and return the goods. The CCA allows the consumer to terminate the agreement before the end of the contractual term. Termination is not the same as settlement, because title to the goods does not pass to the customer.

### Title

Legal ownership of a vehicle.

### Total Amount Payable

The total amount a customer pays for good including all charges and fees.

### Trade In

A vehicle offered as part payment in respect of the purchase of another vehicle. See also Part Exchange.

### Tri-partite agreement

An agreement which has three parties involved in the transaction: Customer; Dealer; Finance Company.

## V

### Variable rate of Interest

Rate of Interest charged that changes in response to movements in the base rate of interest used. This Rate of Interest is also known as 'base rate' linked, but unlike 'fixed rate', it may change during the life of an agreement in line with current market conditions. This means it could go up - costing the customer more; or go down - costing the customer less.

### V5 (Registration Certificate)

A registration document provided by the Driver and Vehicle Licensing Agency (DVLA) that provides details on a vehicle, its specification and the registered keeper (name and address).

### Value Added Tax (VAT)

Is a general tax on goods and services which was introduced into the UK in 1973 and is policed by Her Majesty's Revenue & Customs (HMRC - used to be Customs & Excise).

### Vehicle Identification Number (VIN)

A unique number that is attached to vehicles in order for them to be identified.

## W

**Wear & tear** - The deterioration in vehicle condition (and value) due to ordinary and normal use.