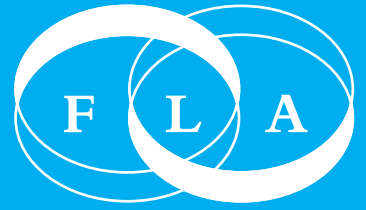


A Guide to New Car Finance



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About this guide

This guide is provided by the Finance & Leasing Association (FLA) to help you learn more about the different finance products available to help pay for a new car in the UK. This guide explains the various new car finance options available to you and also provides general advice and tips on buying a new car.

What is the FLA?

The Finance & Leasing Association (FLA) is the leading industry body for the motor finance industry in the UK. To become a member of the FLA, car finance providers must comply with the self-regulatory standards set out in the FLA Lending Code. The FLA helps ensure that finance customers are fairly treated. You can find a full list of FLA finance members in our member directory on our website. [our website](#).

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Where to start

If you're considering buying a new car, you may need finance to help you afford it. There are a wide-range of new car finance products available. The best finance option for you will depend on a variety of factors, including the cost of the new car you are buying, the period of time you wish to pay for it, your financial history and how much you can afford to pay on a monthly basis. The [car finance decider](#) tool will help direct you to the most suitable product and the [finance calculator](#) will advise you on the likely repayment amounts.

Responsible lending

As the industry body for the motor finance industry in the UK, the Finance & Leasing Association (FLA) ensures that its members who provide finance adhere to the self-regulatory standards laid out in the FLA Lending Code. This ensures that finance customers are treated fairly and responsibly. You can find a full list of FLA motor finance members in our [member directory](#).

Choosing a new car

- **Know your budget** – Before you view any cars you are interested in buying, work-out exactly how much can afford to pay. Without a clear price range it'll be hard to shortlist any potential cars and you can end up spending more than you can really afford.
- **Shop around** – Once you have found the car you'd like to buy, make sure you shop around to see which dealership is offering the best finance deal.
- **Warranties** – Warranties protect you in the event of faults with the car. Products are also available to protect you in the event that you are unable to make repayments. If you take out finance then the agreement is usually regulated under the Consumer Credit Act, offering you greater protection on the finance transaction.
- **Find a reputable dealer** – Like many other industries 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. For example, is the dealer a member of the Retail Motor Industry Federation (RMIF)?

- **Depreciation** – Most cars will depreciate over time. However some cars depreciate more slowly than others and you should factor depreciation into the costs of owning your next car.

If you want to try to avoid depreciation, consider buying a car that is likely to remain in production for some time, as cars which are still being advertised and sold new in showrooms are likely to remain in demand. Diesels are a relatively good option, as cars with lower running costs have become more popular due to increasing fuel prices.

- **New number plates** - In 2001 number plate legislation changed, and new number plates are now released every six months in March and September. To minimise depreciation, some people hold off buying a new car until the latest number plate becomes available. However, in quieter months - such as February and August - you may be able to get a great deal on a new car at your local dealership.

[The new registration format](#)

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New car finance options

Once you have chosen the model of car you are interested in, there are many different ways to fund your purchase. It can be confusing trying to find the best finance product for you, so below is a summary of the most popular types of available in most motor dealerships. There are two broad categories of products. Purchase agreements offer you the chance to own the car outright at the end of the agreement, once you have paid all outstanding repayments. Lease agreements allow you to use the car for the duration of the agreement but you must return it to the dealership or finance company at the end of the term.

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, this last payment can be significantly higher in order to reduce your monthly payments for the majority of the agreement. This is referred to as a lease purchase.

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 commonly 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 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 may not be appropriate for high value items to be repaid over a long period of time.

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Selling your old car and part exchange

The majority of new car buyers usually have to 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 some helpful links 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](#)

Scrappage Scheme

The Vehicle Discount or 'Scrappage' scheme is a voluntary scheme for motor dealers, where the government supports them to give £1000 off the price of a new vehicle if they scrap the old one. A further £1000 discount is provided by the manufacturer. The scheme is set to run until February 2010, and is great news for the UK motor industry in helping to stimulate demand for cars during the economic recession, in helping to stimulate demand for cars during the economic recession, as well as buyers there are many great deals available on new cars.

More information on the scrappage scheme can be found here:

[DirectGov: The Vehicle Discount or Scrappage Scheme](#)

[Guardian: Scrappage scheme helps drive car industry out of slump](#)

[Admiral: Scrappage scheme has had green benefits](#)

To be eligible, the date of the first registration for the car must be before 29 February 2000 or 28 February 2002 for vans. Contact your local dealer to find out if they have joined the vehicle discount scheme. They should check that the old and new vehicles meet the criteria, and when the sale is agreed scrap the vehicle on your behalf and take two-thousand pounds off the price of the new car.

The old vehicle must be a car or small van weighing up to 3,500 kilograms. It must also be registered in the UK on or before 31 August 1999. It must be registered with the DVLA (or DVA) in your name and have been registered to you for a whole year before the order date of the new car.

The old car must have a UK address on the registration certificate and be inside its MOT, with a tax disc and insurance.

The new vehicle must be a similar car or small van weighing up to 3,500 kilograms, registered after May 2009, declared new with no former owners, and be registered to the same person who owned and scrapped the old car.

The role of the FLA

Last year the FLA's members provided £18 billion pounds worth of finance for new and used cars in the UK, and funded over half of all new car registrations. Our members follow the FLA Lending Code, setting standards of good practice for the finance and leasing industry.

View the Code at:
www.lendingcode.org.uk