

Hire purchase

Making the right choice



**SHOP FOR
CREDIT**

Hire purchase (HP) is a common way of paying for major items such as cars, furniture and computers. But like any credit deal, you need to think carefully before committing yourself.

This leaflet will help you decide if HP is the right choice for you. It explains how an HP agreement works and what to look out for. Our advice also applies to Conditional Sale agreements, which are very similar to HP.

What are Hire Purchase and Conditional Sale?

With other forms of credit, such as a loan or credit card, the goods you buy belong to you straight away. When you use HP:

- You don't legally own the goods until you've paid back all the money you owe. This means that you cannot modify or sell them without the lender's permission.
- Your contract is with a finance company (not the retailer) who will own the goods until the final payment is made.
- The finance company can take the goods back if you don't keep up your repayments (but if you've paid more than a third it would need a court order to do so).
- You will be liable for any damage caused to the goods during the contract period.

Under an HP agreement, you pay an initial deposit followed by monthly payments (a portion of the money you borrowed plus interest) over an agreed period.

At the end of this period, you have the option of owning the goods outright, although your lender may require you to pay a fee (check because this could be high).

Conditional Sale (CS) agreements are similar to HP, you will own the goods once all your instalments have been paid. There will be no extra fee to pay at the end.

Credit is a separate purchase – shop around before you sign

Explore other credit options first. You may be able to borrow the money more cheaply through an unsecured personal loan, or get a better deal from another HP provider, such as a high street bank or on the internet.

A good way to compare the cost of credit is to look at the APR (Annual Percentage Rate) and the total amount you will pay. Remember there may be fees or charges as well as your monthly repayments.

If you opt for HP, take the time to understand what you are agreeing to and if you can afford the deal. If your circumstances change for the worse, you may lose both the goods and the money you've paid.

Read the small print

Lenders must give you key information about the contract that you can take away and consider before you buy. This is called Pre-contract Information.

Look for the heading under the title 'Pre-contract Information'. This should tell you the type of credit offered and whether it is regulated by the Consumer Credit Act 1974 (for more information on the Act see www.ofc.gov.uk/business/legal/CCA/default.htm). Likewise, the heading at the top of the agreement should also tell you.

The HP contract you are given to sign must state in plain language what is expected of you and how much you will pay. You should read the contract carefully and only sign it if you are completely satisfied.

If you have any questions, ask your retailer or lender. If you are still unsure, seek independent advice before committing yourself. Some sources of free help are listed at the back of this leaflet. **Don't sign anything you don't understand.**

Example

Your HP contract may state that you are at risk of losing the goods and will become liable to pay the lender the full amount, after one late or missed payment, or if you break the agreement in some other small way. This could be an unfair term. If you spot such statements, challenge your lender about them before signing the contract. If you've already signed an HP contract which you think might contain unfair terms, seek advice. See www.ofc.gov.uk/Consumer/Unfair+terms+in+contracts/default.htm for more information.

Insurance offered with HP agreements

You may be offered payment protection insurance to cover you against ill health or unemployment.

If you are buying a car, you may also be offered Guaranteed Asset Protection insurance (GAP) to cover you against any shortfall on your own motor insurance if the car is written off or stolen.

In both cases, think carefully about whether insurance is a good deal for you. Check the small print for any exclusions, for example payment protection insurance may not apply to self-employed people.

If you decide to go ahead with insurance you may be better off paying the premium in cash, rather than including it in your credit deal.

How to end your contract early

If your HP agreement is for under £25,000, you have two ways of ending it early:

- You can terminate an HP agreement and return the goods at any time by writing to the lender. Once you have terminated the agreement, you will need to make good any missed payments and then bring your total payments up to half the total amount payable under the agreement (the exact amount will be stated in a box on the front of your contract). But if you have already paid more than this amount, you will not receive a refund of the difference. In addition, you will also have to cover the cost of any damage to the goods, and pay off any credit you took out to pay for insurance. But you can't be prevented from terminating because you haven't yet made all of these payments. See our website for further details.

If you can't afford the repayments

- You can also pay off your loan early (including any credit for insurance) and keep the goods. Contact your lender and find out how much this will cost. You will be entitled to a rebate on future charges. There are rules on how this is calculated. Ask for help if you're not sure.

If you are in doubt about which method is best for you, ask for help.

Contact your lender as soon as possible, as it may be possible to renegotiate the deal. There are free, independent advisers you can talk to – see the back of this leaflet for contacts.

Your lender has the right to take back the goods if you don't keep up your repayments. You'll be sent a notice first, giving you the chance to put things right. But you will have to act quickly – within 7 days.

If you've paid more than a third of the total cost of the HP or CS (not including any insurance), your lender will need a court order to take the goods back.

Checklist

If you are considering HP, have you:

- Shopped around for a cheaper credit deal?
- Decided that HP is the right form of credit for you?
- Checked that you have been given a Pre-contract Information sheet?
- Worked out the total amount you will have to repay?
- Checked that you can afford the repayments?
- Read the small print carefully, seeking advice if necessary?
- Checked whether you really need any insurance offered?
- Understood what your rights are?
- Asked for advice if there is anything you don't understand?

You should be able to tick all these boxes before you enter into a deal.

For help or information

Office of Fair Trading

Go to www.oft.gov.uk for more advice on HP and CS agreements.

You can download OFT publications including *Shop for credit* (OFT754), and *Buying a new car* (OFT707).

Citizens Advice

For personal money advice that is free, confidential and impartial. Look them up in your telephone directory or go to www.adviceguide.org.uk

Consumer Direct

For consumer advice call 08454 04 05 06 or visit www.consumerdirect.gov.uk Consumer Direct is a government backed service, in partnership with Local Authority Trading Standards Services.

National Debtline

A free telephone helpline for people with debt problems in England, Scotland and Wales. Call 0808 808 4000 or go to www.nationaldebtline.co.uk

Consumer Credit Counselling Service

For free money advice, call free on 0800 138 1111.

FSA – Financial Services Authority

For the pros and cons of different ways of borrowing go to http://www.fsa.gov.uk/consumer/04_CREDIT_DEBT/mn_borrow.html

For advice and information about buying used vehicles go to www.hpcheck.com or call 01722 422 422. You can download a Car Buyer's Guide & Scorecard from here.

The information provided is intended only as a guide to the law. If have any doubts about a Hire Purchase or Conditional Sale agreement, you should consult a trading standards officer or lawyer.

This information is available in other formats and languages on request. Please ring 0800 389 3158 for details.

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