



# Cars and credit

Your rights and options

There are many different ways to obtain a car, but some forms of finance mean that you may never actually own it. This leaflet attempts to point out some of the things you need to consider before signing a credit agreement for a car.

### **Is the agreement a lease agreement?**

Leasing (called consumer hire under the Consumer Credit Act) generally involves paying monthly instalments over a fixed period, say three or five years. At the end of this term however, you will still not own the car. You won't be able to sell it as it does not belong to you.

### **Is the agreement for hire purchase (HP)?**

Though a HP agreement again involves paying monthly instalments over a fixed period, the crucial difference is that when you have made the final payment, you will own the car and will be able to sell it. However, the agreement may require you to pay a lump sum payment at the end before you are able to do this. Up to this point, even though your payments may be up to date, the car will not be yours, so you will be under a duty to look after it and won't be able to sell it until you have made all payments.

## **Can the owner take back the car before the agreement is due to end?**

They can only take it back if you break the terms of the agreement. So if you look after the car and keep up your repayments, it will not be repossessed. If you go into arrears, or fail to take reasonable care of the vehicle, however, the lender may threaten to seize the car in line with the terms of the agreement.

In the case of a leasing agreement, the car can be seized at any time during the course of the agreement in the event of default, provided the owner has sent you a written notice advising you of this.

If you are buying on hire purchase, the owner must obtain a court order, as long as you have paid more than one third of the total hire purchase price. The total hire purchase price includes any deposit you have paid as well as the instalments due under the agreement.



## What about a bank loan?

There are basically two types of loan, a personal loan for a stated purpose (to buy the car) and a term loan that can be used for any purpose. If you take out a personal loan, you must use it to buy a car if that is the purpose stated in the agreement. If you spend the money on something else you may find yourself breaking one of the conditions of the loan.

The major difference in using a bank loan is that the car will be yours from the day that you buy it. If you fall behind with the loan repayments, the lender can take legal action to recover the money owed to them, but cannot repossess the car.



## How can I compare different loan agreements?

All cash loan agreements must show the following:

- the amount of credit advanced,
- the agreement period (three years for example),
- the number of repayment instalments,
- the amount and date of each instalment,
- the total amount repayable,
- the total cost of credit and
- the Annual Percentage Rate (APR).

The APR is particularly useful as it lets you compare the rates of interest for various loans of the same type over the same repayment period. Generally, the lower the rate, the better the deal. So if you want to borrow €10,000 over five years, you can compare how much various lenders will charge you. There can often be a considerable difference and it may pay to shop around.

## **Do I need to make an instant decision?**

No, the Consumer Credit Act 1995 provides a set of rules that most institutions lending you money must follow. Agreements in general must offer you a cooling off period of 10 days, during which time you have the right to change your mind and withdraw from the agreement if you have any doubts about it. However, you may be asked whether you want to sign away this right before you sign the actual agreement itself. Beware of being pushed into this, particularly if you feel you need time to read the terms of the agreement and perhaps seek advice about it.

## **What about the vehicle itself?**

Experience shows that it is worthwhile checking the registration documents of a second hand car to make sure that it is not already owned by a finance company, in which case the person trying to sell you the car does not actually own it and therefore does not have the right to sell it to you. There is a company that keeps records of cars subject to HP agreements – you may find it useful to contact them if you want to check this further.

Hire Purchase Information Ltd,  
Clonskeagh Road, Dublin 14.  
(Tel 01 260 0905)

[www.ifha.ie](http://www.ifha.ie)

It may also be worthwhile making sure that a second hand vehicle is worth what you intend paying for it, by having a mechanic independently assess and mechanically inspect it. Though there are costs involved in this, it may save you money and trouble in the long run if the vehicle turns out to be defective.

**If you require guidance on how to go about this, please visit our website, [www.mabs.ie](http://www.mabs.ie), or contact us for an appointment to speak to a money adviser in confidence.**



### **Disclaimer**

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