
# PAYING FOR YOUR NEW CAR

## Most of us plump for car dealers' finance without looking at the options – and end up hundreds of pounds out of pocket as a result

These days almost every car dealer will also offer you finance – it's a big source of profit for them and the choice can be befuddlingly wide.

## DEALER FINANCE

There are four main types of dealer finance, each most suited to a different type of buyer.

### HIRE PURCHASE (HP)

● **Best for** People who want a simple form of finance that's easy to arrange.
● **Typical cost** 8 to 13 per cent APR.
● **How it works** You pay an initial deposit, normally at least 10 per cent of the car's price. Then you pay the remainder, with interest, in monthly instalments. There's usually an administration fee to pay with the first payment and an 'option to purchase' fee with the final one.
● **Drawbacks** You don't own the car until the end of the contract – so you can't sell or modify the car without the lender's permission.

If you have a good credit record, you'll find that Best Buy personal loans are usually cheaper.

### PERSONAL CONTRACT PLAN (PCP)

● **Best for** People who want to keep repayments low and like a new car every two to four years.
● **Typical cost** 9 to 14 per cent APR.
● **How it works** You put down a deposit, pay monthly instalments as you go along, and leave a lump sum to pay off at the end of the contract. The amount you defer, which is set by the finance company, is called the minimum guaranteed future value. The lender guarantees that your car will be worth that amount at the end of the contract.

At the end of the contract, you have three options:
● pay the deferred sum and keep the car
● sell the car privately to fund the final payment
● hand the car back to the dealer. If the car is worth more than predicted, you can use the difference as a deposit on a new car.
● **Drawbacks** PCPs usually work out more expensive than hire purchase (see table, below). And there are a couple of complications. First, you have to estimate your mileage – and you'll be charged (say, 9p a mile) for each mile above the estimate. Second, if you return the car, it has to be in good nick – any damage will be charged to you.

### 0 PER CENT FINANCE

● **Best for** People who can pay a large deposit.
● **Cost** None.
● **How it works** You pay a hefty deposit – 35 per cent of the car's price isn't unusual – and there's then no interest on your monthly instalments.

### EXPENSIVE EXTRAS

You're likely to be offered payment protection insurance (PPI) with any finance that you take out – in fact, many lenders include it automatically in their quotes.

The idea is that it covers your payments if you're unable to work because you become sick or unemployed.

However, it's expensive, it gives limited cover and it's not suitable for everyone. For example, if you're self-employed or on a contract, or you have a pre-existing illness, it probably won't pay out.

## HP versus PCP

This is an example of the costs of finance for a Honda Jazz. The 35 monthly payments for HP are £90 dearer than the 36 monthly payments for a PCP. But, overall, hire purchase is £798 cheaper.

| Dealer finance | Type of finance | |
|---|---|---|
| | Hire purchase | Personal contract plan |
| **COSTS** | | |
| Cost of Honda Jazz | £10,700 | £10,700 |
| APR | 8.9% | 10.5% |
| Deposit | £2,117 | £2,156 |
| Monthly payments | £270 | £180 |
| Final payment | £315 | £4,044 |
| Total charge for credit | £1,182 | £1,980 |

**Note** PCP assumes 12,000 miles a year
Correct at 30 September 2005

PHOTOGRAPHY ALAMY, NEWSPRESS

## Beat the dealers at their own game

### 1 BARGAIN HARD

For a car salesperson, selling you a finance deal is often more important than selling you the car.

Patrick Barnes, of fleet-car company Dixons Direct, says dealers need the money to make up for falling margins: 'It's not unusual for them to earn more from selling the extras, such as finance, than from selling the car.'

**How to beat them** If you have a good credit record, personal loans usually offer the lowest interest rates. If you're a cash buyer, get a quote for a personal loan and use it as a bargaining tool; this will help you get a better price for the car.

It's a good idea to go to two or more dealers and play them off against each other.

### 2 KNOW THE REAL APR

The APR (annual percentage rate) is the only rate that lets you compare one credit deal with another. But, oddly enough, some salespeople prefer to avoid discussing it.

Dealers often use the flat rate when they talk about finance to make it look cheaper – unlike the APR, it doesn't take account of fees or when the interest is paid.

**How to beat them** Ask the dealer for the APR of their finance. This includes both fees and interest – so you can compare the total cost with other types of finance, such as a personal loan.

### 3 DON'T BE TIED DOWN

Your dealer may offer a discount on the car only if you take its finance. They'll still get their profit from you; you'll just be giving it to them in a different way.

**How to beat them** Don't rush into signing on the dotted line. Work out whether it's cheaper to get your finance elsewhere.

### 4 LOOK AT THE LONG VIEW

Weekly or even daily repayments look affordable but can disguise an expensive deal. For example, £10.50 a day or £74 a week still means monthly payments of £321.

**How to beat them** Ask the dealer for the total cost of finance, including fees, interest and all other charges.

### 5 DO YOUR SUMS

The longer the repayment period, the lower the monthly repayments. By adding a couple of years to the term of the loan, the salesperson can succeed in making their deal look much more affordable. For example, a £10,000 loan at 10 per cent APR costs £320 a month over three years and £210 over five – but overall the five-year loan will cost an extra £1,078.

**How to beat them** Be aware that a longer loan period will cost you more in the end.

### 6 TAKE YOUR TIME

High-pressure tactics such as suggesting that the deal is available only today are used to convince you to sign up.

**How to beat them** Never allow any salesperson to put pressure on you. In most cases, a similar or better deal will be available tomorrow, either at that dealer or at another.

### 7 KEEP YOUR COOL

Salespeople can make it sound as if they're really squeezing their margins for you – in fact, they know exactly how far they can go before losing their commission. Don't fall for the old 'I'll have to go and ask my boss' trick.

**How to beat them** This is just part of the game they play, so don't be fazed by it.

- **Drawbacks** It's expensive on a monthly basis and it's not available on all cars. You're also unlikely to get a discount on a 0 per cent deal, so it could work out more expensive overall.

### LEASING

- **Best for** People who want a new car regularly without the hassle of owning it themselves.
- **Cost** Monthly payments are normally between £100 and £400 a month.
- **How it works** You choose your vehicle and how long you want it for, and state your annual mileage. These three factors determine your monthly payments. With some schemes, you can opt for the payments to include maintenance.
- **Drawbacks** You normally pay a few months' rental in advance. And you have to take out comprehensive insurance to cover damage – which is costly for expensive cars.

## INDEPENDENT FINANCE

You'll often get a better rate outside the dealerships – particularly if you can take out a personal loan.

### PERSONAL LOAN

- **Best for** People with a clean credit history.
- **Cost** 5.7 to 12 per cent APR.
- **How it works** You borrow the amount you need and pay for the car outright. Repayment periods are one to seven years; APRs vary with loan company and your credit history (see 'Money monitor', p39.)
- **Drawbacks** You may have to pay a penalty of two months' interest if you settle the loan early.

### CREDIT CARD

- **Best for** People with credit and self-discipline.
- **Typical cost** 6.9 to 19 per cent APR.
- **How it works** If you have a large credit limit, this works like any other purchase. If you hop between introductory offers on different cards, beware that you may not always get as much credit as you need.

If the car has a fault, the credit card issuer is jointly liable with the dealer for sorting it out. This applies to any purchase between £100 and £30,000.

- **Drawbacks** Not all dealers accept credit cards. And they may charge an extra 1 to 3 per cent fee.

### MORTGAGE

- **Best for** People who want low repayments even if it ends up more expensive in the long run.
- **Cost** 5.4 to 6.9 per cent APR
- **How it works** Mortgage interest rates are low compared with even personal loan rates.
- **Drawbacks** It's costly if you spread the repayments over a long period. And if you can't keep up repayments, you could lose your home.