



# Guide to Borrowing for a Car

There are many different ways to borrow money to buy a car. With some forms of borrowing, you may never actually own the car. Below we explain some of the things you need to consider before signing a loan or credit agreement for buying a car. It is always important to check the terms of an Agreement before you sign it.

## Q. The agreement is a lease agreement. Will I ever own the car?

**A. The short answer:** No, with a lease agreement you will never own the car.

**The long answer:** Leasing (called 'consumer hire' under the Consumer Credit Act 1995) generally involves paying monthly instalments over 'the term'. At the end of this term you still won't own the car, and because the car does not belong to you, you will not be able to sell it.

## Q. The agreement is a hire purchase (HP) agreement. Will I ever own the car?

**A. The short answer:** Yes, but not until you make the last instalment.

**The long answer:** While a HP agreement also 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. This also means that you will be able to sell it.

However, as part of some agreements, you may have to pay a lump sum at the end. Until you have paid this lump sum, the car will not be yours, even though your payments may be up to date. This means you will have to look after the car and you won't be able to sell it until you have paid the final lump sum.

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

**A. The short answer:** Only if you do not look after the car and/or do not pay the instalments.

**The long answer:** The lender can only take back the car 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 car, the lender may threaten to repossess the car under 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 if you miss your payments. The lender must first warn you of this in writing.

If you are buying on hire purchase, the lender must obtain a Court Order to repossess the car, if you have already 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.

## Q. What about a bank or credit union loan?

**A. The short answer:** If you take out a personal loan to buy a car, then the car is yours from the day you buy it.

**The long answer:** 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 anything.

If you take out a personal loan, you must use it to buy a car if that is the purpose you stated in the agreement. If you spend the money on something else, you may find yourself breaking one of the conditions of the loan.

If you take out a term loan, however, the car will be yours from the day that you buy it. If you fall behind with the loan repayments, the bank can take legal action to recover the money you owe them. But they cannot re-possess the car unless they get a Court Order to do so.

All loan agreements for cash must include the following:

- The amount of credit advanced (how much you have borrowed)
- The agreement period (how long you will be repaying the loan)
- The number of repayment instalments
- The amount and date of each instalment
- The total amount, including interest, you must repay
- The total cost of the credit (how much you are paying in interest on the loan)
- The Annual Percentage Rate (APR) of interest

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 is often a considerable difference and it may pay off to shop around. The National Consumer Agency has a useful facility which allows you to easily compare the cost of credit from the main lenders in Ireland. See [www.nca.ie](http://www.nca.ie).

#### Q. Do I need to make an instant decision?

A. No. The Consumer Credit Act 1995 provides a set of rules that most institutions who lend money must follow. In general, agreements must offer you a 'cooling off' period. During this time you have the right to change your mind and withdraw from the agreement if you have any doubts about it.

The Money Advice and Budgeting Service has helpful information, budget sheets and sample letters available online at [www.mabs.ie](http://www.mabs.ie). Advice and information is also available by calling the MABS Helpline 0761 07 2000 (Monday – Friday 9.00 am to 8.00 pm.) and from over 60 offices nationwide.

#### Q. What about the vehicle itself?

A. 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. If it is, the person trying to sell you the car does not actually own it and has no right to sell it to you.

Hire Purchase Information Ltd keeps records of cars subject to hire purchase agreements. You can buy a vehicle report from them for €9.99. You may find it useful to contact them if you want to find out more.

Hire Purchase Information Ltd,  
Clonskeagh Road, Dublin 14.  
Tel: 01 260 0905  
[www.ifha.ie](http://www.ifha.ie)

It is important to be aware of the terms of the agreement before you sign it. Make sure that the person arranging the credit agreement with you has explained all the main terms and conditions.



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