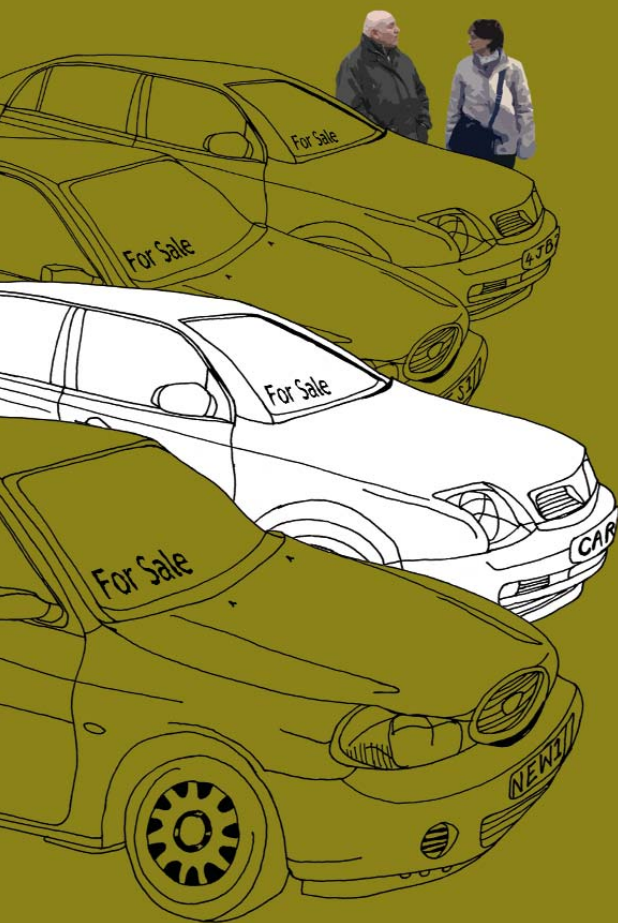




IRISH FINANCIAL SERVICES  
REGULATORY AUTHORITY

# Hire purchase agreements



You can spend weeks shopping around for the right model of car, TV or computer. But when it comes to paying for it, you may go for the convenient finance plan offered by the seller of the goods, without shopping around at all. This often means you take on a hire purchase agreement. This booklet explains how hire purchase works and will help you decide if this is the right type of finance for your needs.

Nothing in this leaflet is intended to be, nor should be understood as:

- an invitation, offer or encouragement to you or any other person to enter into an agreement for hire purchase;
- advice on the benefits of hire purchase agreements; or
- a recommendation for any particular product or product provider.

## **What is hire purchase?**

Hire purchase means you pay for the hire of goods over a set period of time, with a view to owning them eventually.

Many hire purchase agreements work in a similar way to a fixed rate loan. You pay back a set amount of money at a fixed rate of interest. You pay this by instalments of a set amount each month. You cannot usually pay more than your instalment amount.

### **Unlike a loan, however:**

- **you are the hirer of the goods.** You do not actually own them until you pay off all the instalments due;
- the lender of the finance is the **owner of the goods**;
- the **owner can take back (or re-possess) the goods** in certain circumstances; and
- you can use the goods during the agreement, but you **cannot sell them without the consent of the owner**. The owner is a bank or a finance company.

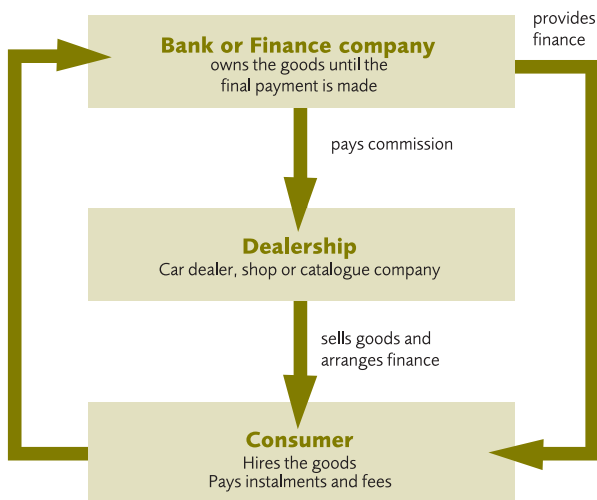
## **Is hire purchase the same as consumer hire?**

No. With a **consumer hire** agreement, you **never own the goods**. With a hire purchase agreement you will own the goods once you have paid all instalments.

### ? Who offers hire purchase agreements?

Car dealers and retail shops that sell furniture or electrical goods often offer hire purchase agreements. These agreements are also sometimes offered by catalogue companies that sell products either by post or online.

The store, catalogue company or car dealer is not actually providing the finance. It is acting on behalf of the finance company or bank that lends you the money and usually gets a commission from the finance company.



## Hire purchase at a glance

For more information about your rights and responsibilities under a hire purchase agreement, follow the page guide below.

What is the hire purchase price? How is it worked out?

**See page 5**

Can I afford it? With some hire purchase agreements the size of the last instalment may be higher than the others. How does this affect me?

**See page 7**

How can I end a hire purchase agreement before the agreed end date? Do I have to give back the goods?

**See page 8**

What do I have to do to own the goods?

**See page 10**

When can the owner take back the goods from me?

**See page 13**

### **What does a hire purchase agreement contain?**

A hire purchase agreement must be given to you in writing. The words 'Hire purchase agreement' must be contained in a prominent position, and the agreement itself must include the following information:

- the cash price of the goods (the cost if you paid in full by cash);
- the deposit required, if any;
- the number of instalments you have to pay, the frequency (e.g. monthly) and the amount of each instalment;
- the hire purchase price (the total of all instalments plus fees) that you must pay to own the goods;
- the amount (usually half the hire purchase price) that you would owe if you end the agreement early;
- information about the 'cooling-off' period; and
- the costs and penalties you are liable to pay if you cannot meet your repayments.

You will note that you are referred to as **'the hirer'** throughout this agreement, and not as the 'borrower' or 'buyer'.

### **What costs are involved?**

The costs vary depending on the type of goods you are hiring and on the company offering the finance.

The following is an example of the typical costs for hire purchase car finance.



Joe picks a car costing €13,300 from a motor dealer. The dealer arranges a 5 year hire purchase plan for Joe, and asks for an initial deposit of €400.

**Example:** Joe's hire purchase plan over 5 years (60 months)

	€
Cash price	13,300.00
<small>This is the cost of the car if Joe was paying cash.</small>	
<b>(1) Less: deposit/part exchange</b>	– 400.00
<b>Amount for finance</b>	<b>12,900.00</b>
Plus: interest charge	+ 3,972.60
<b>(2) Total</b>	<b>16,872.60</b>
<b>Plus: Fees</b>	
<b>(3) Documentation fee</b>	+ 63.45
<small>This is the fee for setting up the agreement.</small>	
<b>(4) Completion fee</b>	+ 63.45
<small>This is a fee charged to end the agreement .</small>	
<b>Hire purchase price (1)+(2)+(3)+(4)</b>	<b>17,399.50</b>
<b>The amount for finance plus the interest (€16,872) is repayable by 61 instalments of €276.60</b>	

The real cost of Joe's car is the hire purchase price of **€17,399.50**.



**Note:** With any form of credit, try to choose the shortest repayment plan you can afford. The longer you take to pay off what you owe, the more costly the finance will be. You may have a lower monthly instalment, but the total cost over the life of the agreement will usually be higher.



### Tempted by in-store and catalogue shopping?

Some of the 'buy now, pay nothing for a year' deals offered by stores and catalogue companies may seem good value. Many offer 'interest-free credit' for six or twelve months, so the monthly payments quoted may be quite low.

However, these 'deals' usually have conditions attached. For example, the payment must be made by a set date. Sometimes the last monthly payment due is much higher than the other payments. If you cannot pay it on time or in full by that date, you can find yourself 'locked in' to a three, four or even five-year hire purchase agreement. By that time, you may have paid off nearly double the price of the goods.



### Can I compare a hire purchase agreement with a personal loan?

It is usual to compare loans using the APR (annual percentage rate of interest). However, a hire purchase agreement **does not have to state the APR**. This is because it is a hire agreement and not a loan. So, how can you compare the costs of a hire purchase agreement with a personal loan?

- Make sure you compare like with like, eg. the same amount for finance, and the same length of agreement; and
- compare the total amount payable on a personal loan (**the loan plus interest and costs**) with the **hire purchase price**.

Some hire purchase agreements have similar costs to those on a personal loan. Others may be more expensive. Comparing costs in this way will help you to choose the most suitable product for you.

### **Can I afford it?**

It is tempting to decide this based on the amount of your monthly or weekly instalment. However, you also need to look at the **total number** of instalments, plus any fees. This lets you see the total cost.

Also, with some hire purchase agreements, your last instalment may be bigger than all the others. This is called a **balloon payment**. It means your payments are not evenly spread out. You pay less each month but then you owe more at the end of the agreement. The finance **may appear more affordable than it really is**.

The size of any final instalment is very important because:

- the larger the final payment the longer it takes you to pay half the hire purchase price – the point when you could end the agreement (see page 8); and
- a large final payment could be more than the value of the goods at the end of the agreement.

### **Can I change my mind after signing a hire purchase agreement?**

You are entitled to a ten-day 'cooling off' period in which you can change your mind. This gives you time to consider the terms and conditions of the agreement, and to seek advice if you want to. If you decide not to go ahead with the agreement, you must give notice in writing to this effect.

As with a personal loan, most hire purchase agreements have a section called a **Waiver**. If you sign the Waiver it means that you give up your right to the ten-day cooling-off period and you would not then be able to change your mind about the agreement.

**You do not have to sign this Waiver in order for your application to be processed. Don't be pushed into making a quick decision. You will have to wait 10 days to receive the goods, but this gives you time to consider the terms and conditions and to shop around. Remember that once you sign the agreement and take home the goods, it is usually not possible to change your mind without being liable for certain costs.**

### **Can I end a hire purchase agreement once it's up and running?**

If you no longer want to keep the goods, or find that you cannot afford the repayments, you can end a hire purchase agreement at any time. **However, there are certain conditions and costs involved.** These are:

- you must give **notice in writing** and agree to **return the goods**;
- you are legally liable to pay **half the hire purchase price**, less the total of your payments to date. This is sometimes called the **half rule**;

- you are also liable for repair costs if you have not taken reasonable care of the goods (see page 10).



**Let's look at how this might affect Joe if he ends his hire purchase agreement after two years.**

**Month 25:** Joe sends a letter of notice to his lender and arranges to give back the car.

**Example:** Cost to Joe of ending agreement in month 25

	€
Half the hire purchase price of €17,399.50	8,699.75
Less: amounts paid off to date:	
25 payments of €276.60	6,915.00
deposit	400.00
documentation (or set-up) fee	63.45
	7,378.45
<b>Amount due (€8,699.75 less €7,378.45):</b>	<b>1,321.30</b>

If he ends the agreement at month 25, Joe will have to give back the car. He will owe an extra €1,321.30 to bring his payments up to half the hire purchase price.

If Joe had already paid half the hire purchase price or more, he would only owe any instalments that were in arrears at the date he ended the agreement.



### **How do I return the goods?**

Banks and finance companies will usually arrange collection of the goods and charge you a collection fee. To avoid this you can suggest returning the goods yourself, or agree on a convenient collection point such as a local garage.

### **Am I responsible for damage to the goods?**

Yes, under a hire purchase plan you have a duty to take reasonable care of the goods you hire. You can usually expect to receive a bill for repairs if the goods are returned damaged.

In the case of car repairs, consider getting your own mechanical report and paying for any necessary repairs before you return it to the bank or finance company. Depending on the value of the car, consider getting comprehensive motor insurance cover for any car you hire under a hire purchase agreement.

The owner is entitled to know where the goods are being kept at any given time. You must notify the owner if the goods are moved to a new location. This might happen, for example, if you changed address.

It is important to be aware that if the goods are deliberately destroyed or damaged the owner is entitled to charge you for replacement costs.

### **Can I decide to pay off a hire purchase agreement early and own the goods?**

If you can afford it, you can decide at any time to pay off the full hire purchase price and become the owner of the goods.

## ? How much could it cost to do this?



Let's look at what it could cost Joe to buy the car outright after two years.

**Example:** Joe's bill to buy the car (month 25)

	€
<b>Hire purchase price</b>	<b>17,399.50</b>
Less: Amounts Joe has paid to date	
Deposit	– 400.00
25 payments of €276.60	– 6,915.00
Documentation fee	– 63.45
<b>Total paid</b>	<b>7,378.45</b>
Amount Joe still owes (17,399.50 less 7,378.45)	<b>10,021.05</b>
Plus: completion fee	63.45
Less: interest rebate*	– 746.14*
<b>Total Joe must pay to own car</b>	<b>9,338.36</b>

\* Joe will get back some of the interest that would be due in years 3, 4 and 5. The amount can vary depending on the formula that is used by the finance company.



**Note:** Joe cannot decide to sell the car to raise some of the money due because he is not the owner of the goods. **This means he may find it hard to pay off his hire purchase agreement early.**

### **What should I do if I cannot afford to keep up payments?**

If you find it difficult to keep up your payments or you have already missed payments, contact the bank or finance company as soon as you can. They will often agree to re-schedule your agreement. If this is agreed:

- the owner may be entitled to charge a re-scheduling fee;
- the term will be extended so extra interest will apply to cover the longer period; and
- monthly instalments may be reduced, but because the agreement is extended it will take you longer to own the goods.

Despite this, **re-scheduling is usually less costly for you than ignoring the problem and possibly facing repossession**. Re-scheduling also means you can continue to use the goods.

If you are unsure what to do, you can get help from the Money Advice and Budgeting Service (MABS).

### **How can MABS help me?**

MABS is an independent body set up to help people organise their finances and manage their debts. MABS offices are located throughout the country and its services are free and totally confidential.

For details of your local MABS office, enquire at your nearest Citizen Information Centre or library, or check the list in the telephone directory or on **[www.mabs.ie](http://www.mabs.ie)**.



**Note:** As with a loan or mortgage, if you cannot pay back what you owe on a hire purchase agreement, your credit rating will be affected. This is likely to make it more difficult for you to get a loan or mortgage at a later date.



### **Can the goods be repossessed?**

Yes. The owner is entitled to know where the goods are kept at all times and can, in certain circumstances, take the goods back from you, or 'repossess' them.

If you have paid off **less than one-third** of the hire purchase price, a lender can take back the goods without taking a legal action against you. In practice a lender could do this only if you broke the terms of the agreement, for example if you had missed repayments or had caused damage to the goods. The **lender must give you notice in writing** and must give you 21 days' notice to resolve the problem.

Once you have paid **one-third or more** of the hire purchase price, a lender cannot repossess the goods without taking legal action against you. In calculating one third of the hire purchase price, any deposit you paid or the value of any trade-in will be taken into account.

## **How much could repossession cost me?**

If goods are repossessed you will usually face many extra costs on top of what you already owe.

These costs may include some or all of the following:

- repossession fee, which could be around €300;
- additional interest penalty, which varies from about 0.5% to 2% per month of the instalments you missed;
- unpaid fees, which are charged each time a cheque bounces or a direct debit fails; and
- towing or trace fees would apply if the owner had to tow or locate a vehicle;



**If you are buying a second hand car, it is important to make sure that it is not already owned by a finance company. You can check this by contacting:**

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

### Questions to ask

- What is the total amount I have to pay to own the goods - the hire purchase price?
- Is the final instalment larger than the rest, or are there extra instalments at the end of the agreement?
- What amount would I have to pay back if I need to break the agreement?

### ✓ Do's

- Do try to compare the total hire purchase price with the amount payable on a personal loan from a bank or credit union.
- Do make sure you understand the terms and conditions before signing the agreement.
- Do look at the type of agreement you are signing – make sure that it is a **Hire Purchase agreement**, and not a Consumer Hire agreement.
- Do match the term of the agreement to the purpose of the borrowing and the expected lifespan of the goods.
- Do look at the number of instalments and the amount of the final instalment. The larger the final instalment, the more difficult it may be for you to own the goods.
- Do ensure when offered car finance that the car dealer is authorised to offer you credit – a credit intermediary. This authorisation is granted by the Office of the Director of Consumer Affairs. You can contact them on 01 402 5500 or visit **www.odca.ie** for a list of authorised credit intermediaries.

### **X** **Don't's**

- Don't borrow more than you can afford to repay – consider saving part or all of the cost of what you want first.
- Don't be tempted into buying goods simply because you are offered a convenient finance plan.
- Don't choose long, fixed-repayment agreements if you can get a more flexible personal loan from a credit union or bank.
- Don't be influenced by lower monthly or weekly payments – look at the total hire purchase price as this is what you must pay to own the goods.
- Don't sign the Waiver of your right to the cooling-off period unless you are satisfied that you understand the terms and conditions.
- Don't sign any voluntary surrender document if you have already given notice to return the goods and end the agreement under the half rule. Always ask for an explanation of how this will affect you.

## Who we are and what we do

We regulate financial services firms in Ireland including banks, building societies, insurance companies, brokers, moneylenders, investment companies, mutual funds and stockbrokers. It is our job to ensure that you, as a consumer, are protected in your dealings with regulated firms. We do this by monitoring the solvency of firms and by ensuring they comply with legislation and codes of conduct.

We aim to help you make informed financial decisions by providing independent information about financial products in plain English. We also offer support and assistance to you in your dealings with regulated firms.

If you need to find out more,  
contact our consumer **helpline** on lo-call

1890 77 77 77

visit our website [www.itsyourmoney.ie](http://www.itsyourmoney.ie)

or drop in to our **information**centre

College Green, Dublin 2

Because **it's your money**, contact us:

**Consumer help-line:** lo-call 1890 77 77 77

**Information Centre:** College Green, Dublin 2

**E-mail:** [consumerinfo@ifsra.ie](mailto:consumerinfo@ifsra.ie)

**[www.itsyourmoney.ie](http://www.itsyourmoney.ie)**



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ÚDARÁS RIALÁLA SEIRBHÍSÍ  
AIRGEADAIS NA HÉIREANN

PO BOX No 9138

COLLEGE GREEN,

DUBLIN 2, IRELAND

**T** +353 1 410 4000

**F** +353 1 410 4900

**W** [www.ifsra.ie](http://www.ifsra.ie)