

Car finance



If you have decided to invest or reinvest in cars for your business, raising the money is unlikely to be a problem. Provided you have the cash for the deposit, and a reasonable credit record, any dealer will arrange terms.

But arranging terms is one thing; arranging good terms is quite another. Get it right, and you will have an arrangement that works so well you never have to think about it again. Get it wrong, and you could end up with big headaches and even bigger bills.

This briefing looks at the factors you need to consider. It covers:

- What you want.
- Using a dealer.
- What type of finance to use.
- Extra services.

1 Your requirements

How good a deal you get depends largely on how well you work out your needs beforehand.

1.1 What do you want to **get out** of the deal.

- A mid-range car (or cars), paid off in full, for use in the business?
You probably need a lease purchase or hire purchase agreement (see **4.1**). But check the running costs (see box, page 2) before making a final decision.
- An executive car, paid off in full, mainly for your personal use?
You might be better off forgetting about buying it through the business, and considering a personal contract purchase

instead. Check the tax position and talk to your accountant.

- Just the use of some reliable vehicles for two or three years?

Go for a leasing deal (see **4.2**).

1.2 What do you want to **put into** the deal?

- Nothing at all up front, but you can meet monthly repayments.
You will have to put down a deposit. Paying ten per cent is normal, but you might get away with three months' payments.
If your credit record is poor, or your business is new, you might have to put down six months' worth of payments.
- Most of the price. You need a top-up, but you would rather keep repayments down.
Think carefully before choosing this option.

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about the services available to you.

If you use up your working capital (or even worse, your overdraft facilities) on a big deposit, you reduce your commitments. But you could end up with inadequate cash for trading.

Try to manage your resources instead by spreading car payments more evenly.

- A regular amount over a given number of years, so you know what your outgoings are going to be.
A hire purchase deal or a lease should suit you fine. Consider a servicing and maintenance contract (see 5).
- As little as possible, at least for now.
Go for a lease (or possibly a lease purchase) deal.
Directors of limited companies that are seeking finance are increasingly required to

give personal guarantees.

1.3 What kind of **deal** are you looking for?

- Just finance.
Most purchase or lease deals allow you to spread the cost over two or three years. The one you should go for depends on both your needs and your tax position.
- Finance plus servicing and maintenance.
Go for contract hire (or a contract purchase). The costs will be higher, but you will know what your outgoings are going to be, and they will be spread evenly over the period of the deal.
Make sure you get details of the servicing and maintenance charges, and exactly what they cover (see 5).
- Help with purchasing and sale, as well as everything in between.
Consider fleet management. It will cost more than contract hire or contract purchase, but should relieve you of all the management hassles associated with cars.

➔ CAP
(www.cap.co.uk)
and Glass' Guide
(www.glass.co.uk)
give details of
secondhand values
for cars.

What car?

You will probably have your own ideas about the make of car you want. But to maximise efficiency and minimise outgoings, you need to bear several factors in mind.

A Speed of **depreciation**.

- This will partly determine what the car is worth at the end of the financing period. If its value is negligible, you will have nothing to trade in when you want a replacement.
- Depreciation also affects the cost of leasing. If the finance company expects the value to be low at the end of your three years' use, it will charge you more.

B What the **running costs** will be. These are the costs of keeping the car on the road — for example, miles per gallon.

- They could vary dramatically, according to the type of motoring.
- Low-emission cars or cars that use alternative technologies offer tax savings.

C **Maintenance** and **repair** costs.

- Both spare parts and the labour involved in replacing them can be high with foreign cars or unusual models.

D What the **insurance costs** will be.

- Although the car belongs to the finance company, it is your responsibility to arrange comprehensive insurance.
- Costs will probably be higher for a company car than for a private car.

2 Where to buy

First decide what car (or cars) you want to buy (see box), and where to get it. Then choose the sort of finance you want.

Most sellers will arrange finance. If you do not like their terms, you may have to go elsewhere.

2.1 Buying new from the **manufacturer**.

- Unless you are buying cars in serious numbers (hundreds, or even thousands), manufacturers will not deal direct. They will recommend your nearest authorised dealer, and may provide finance.
- You may be able to get good terms on a model the manufacturer wants to shift. This is fine if it suits your needs (see box). But remember, such models may have been sitting around for some time waiting to be sold.

➔ Car magazines sold to the public give information on car costs. But the prices they quote for secondhand cars are the prices you will pay to buy, not the price you can expect as a seller.

2.2 Buying new or second-hand from a **dealer**.

- Most cars are sold through dealers, and most dealers have access to finance from a variety of sources.
- Authorised dealers may have access to finance on favourable terms from the manufacturers.
- Choosing the right dealer will be critical to the success of the deal (see 3).

2.3 Buying second-hand from a **private** seller.

- This is not a good idea if you want finance. Most finance companies are reluctant to get involved in private deals, where there is no warranty or guarantee.

3 Using a dealer

You need to think about several factors when choosing a dealer to buy from.

3.1 **Cost** is important.

- If the dealer is arranging finance as well as selling you the car, look at the whole deal and its component parts.
- You need to know the cost of the car (and how that compares with list price), the size of the deposit, the size of the monthly instalments, how many instalments have to be made, and what you get at the end.
- In the case of a hire purchase contract, ask what rate of interest is being charged. If your business is incorporated (a limited company), the dealer is not obliged to give the APR (annual percentage rate of charge), but most will. Be cautious about those that will only quote you a 'flat' rate.
- Make comparisons. Obtain quotes from at least three dealers, and make sure you are comparing like with like.
- If the figures quoted by your favoured dealer are well out of line, try haggling.

3.2 **Convenience** is also important.

- Think twice before you buy at the other end of the country, even if the cost is low. If things go wrong, you will have to see they are put right.
- If you have a service and maintenance contract, you may have to take the car back to the garage you bought it from.

3.3 Check the dealer's **reputation**.

- You want to know that the dealer will still be there, and prepared to take responsibility, if things go wrong.
- If the same dealer is to do your maintenance and servicing, check its reputation for competence and thoroughness in this area too.

3.4 Always make sure you have seen the vehicle's **original documentation**.

- Consider using the AA's Car Data Check service. For £30 (£25 online) the service will verify the vehicle's ownership and mileage,

protecting you against dealers selling previously written-off or clocked cars. Visit www.theaa.com or call 0800 056 8040.

If you need a number of cars, you may get a better deal from the dealer if you buy in bulk, or if there is the prospect of more business to come. Test the water before committing yourself to a sizeable deal.

4 What type of finance?

The type of deal to go for will depend on whether or not you want to own the car eventually, and what extra services you want. Your tax position will also be relevant.

4.1 If you do want to own the car, go for **hire** or (lease) **purchase**.

- You make the same payments all the way through, or choose lower payments initially and a larger ('balloon') payment at the end.
- The car remains the property of the finance company until you have made the final payment. You are responsible for maintenance, servicing and insurance.
- Financing costs will be based on the cost of the car, less the deposit, plus interest and a charge for administration.
- Your liability will show up on your balance sheet, and might (if it is substantial in relation to your assets) affect your ability to borrow.

4.2 If you do not want to own the car, go for a **lease** arrangement.

- This arrangement makes sense when the vehicle will be used primarily for business.
- It also makes sense if you have neither the time nor the resources to spend on vehicle disposals.
- You make the same monthly payments the whole way through the deal.
- Check whether you or the leasing company is responsible for selling the car when the lease period is up. The employee who used the car may be able to buy it. With some lease arrangements, you may be entitled to a share of the proceeds when the car is sold.
- You may be liable for additional costs if the car is in poor condition at the end of the lease, or if you exceed the agreed mileage.
- The car remains the property of the finance company but you are responsible for maintenance, servicing and insurance.

4.3 An operating lease (also known as contract hire) may include **servicing** and **maintenance**.

- Ask for quotes that both include and exclude servicing and maintenance options, so you know what the costs will be.
- Check exactly what is covered. What about replacement of parts, or consumables, such as tyres?
- Check whether anything is excluded. For example, damage from excessive wear.
- Check whether the dealer provides additional services.

For example, a replacement car when your car is being repaired or serviced, or collection and delivery of the car before and after servicing.

5 Fleet management

With careful management, you will get much better value out of your car fleet. If you do not have the time to do it yourself, using a fleet management company might be worthwhile.

Fleet management is a standalone service provided separately from your finance package.

5.1 Fleet management companies will normally only take on **larger companies** (those with more than 100 vehicles).

- You sign up for three to five years.
- Ensure there are reasonable break clauses in the contract so you can walk away if you do not get the service promised.

5.2 Services will vary according to your needs and the size of the fleet. They may include:

- Analysing the capacity and productivity of the existing car fleet.
- Developing a replacement policy.
- Sourcing new cars and arranging finance.
- Arranging service and maintenance.
- Analysing fuel consumption.
- Incident management — dealing with accidents and breakdowns.
- Arranging sales to maximise value.
- Provision of management information.

5.3 Smaller companies should consider a contract hire firm capable of adding the fleet management approach.

5.4 Additional **costs** should be outweighed by **savings** on:

- Bulk purchase deals.
- Greater operating efficiency.
- More careful driving by employees, if they know they are being monitored.
- Better resale values.

6 When things go wrong

Although the car remains the property of the finance company throughout the deal (even on a purchase arrangement, you do not obtain ownership until the final payment has been made), you will still have to do most of the legwork if things go wrong.

There are a number of common problems.

6.1 The car is **faulty**.

- You will have to force the dealer to repair or replace it. This is why it pays to use a reputable dealer.
- If your business is unincorporated (a partnership or sole trader), you can require the finance company to take some responsibility under the Consumer Credit Act (which now covers all consumer credit agreements, regardless of their value). But it could be hard work, unless you have a cast-iron case.

6.2 The car's **performance** falls short of your expectations.

- This is too bad. Once you have signed up, you are committed.

6.3 You have an **accident** and write the car off.

- It is your responsibility to arrange comprehensive insurance cover. This usually costs more for business use.
- Make sure the insurance company knows who is going to drive the car, and anything that affects their driving status (eg endorsements).

6.4 You **default** by failing to keep up your payments, or by breaching any other terms (eg an arrangement with your creditors).

- Ask about this before you sign. The finance company will be entitled to take the car, but you may be able to come to an arrangement.

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