Your ultimate guide to buying a car on finance

What is car finance?

Car finance is a way to spread the cost of a new or used car over regular monthly payments. Instead of paying the full amount upfront, a finance company owns the car while you pay for it in instalments.

Car finance is a popular way to buy a car in the UK, but there are several different types of agreement. Understanding how they work can help you decide whether car finance is right for you – and avoid paying more than you should.

Jargon Buster

HP – Hire purchase	A loan where you make fixed monthly payments and own the car at the end.
PCP – Personal contract purchase	A loan with lower monthly payments and the option to return or pay a final lump sum to own the car.
PCH – Personal contract hire	Leasing a car for a set period with no option to buy.
APR – Annual percentage rate	The total cost of borrowing for the year, including interest and fees.
Balloon payment	A large final payment at the end of a PCP agreement.

Things to consider when buying a car

Before signing any finance deal, ask yourself:

- **Can I afford to buy the car outright?** Cash purchases mean no interest payments.
- **Do I want to own the car?** Some finance options (like PCH) don't give you ownership.
- **Do I have a deposit saved up?** A bigger deposit can lower monthly payments.
- **How much can I afford each month?** Ensure repayments fit your budget.
- **Am I prepared for mileage restrictions?** Exceeding limits can lead to extra charges.

Car finance options explained

Finance type	How it works	Things to consider
Hire purchase (HP)	Pay a deposit and monthly instalments. You own the car once all payments are made.	No mileage restrictions. Higher monthly payments. Extra fees for ending the agreement.
Personal contract purchase (PCP)	Lower monthly payments with final balloon payment if you want to own the car.	More expensive overall due to interest. Must stay within mileage limits. Extra fees for damage.
Personal contract hire (PCP)/ Leasing	Rent the car for a fixed term and return it at the end.	No ownership option. Mileage and condition requirements. Road tax often included.
Personal loan	Borrow money from a bank and buy the car outright.	No dealer finance incentives. Fixe interest rates. Higher monthly payments.

*With any of these options the car can be repossessed if you miss payments.

Top 5 car finance myths – Busted!

1. **You must use the dealer's finance deal.** False! Always shop around.
2. **Dealers always give the best deal.** Not necessarily. Check multiple lenders.
3. **Dealers are independent.** Some get commission for selling certain finance deals.
4. **Your interest rate is personal.** Not always. Dealers may set rates based on commissions.
5. **Dealers make money only from car sales.** Many make more from finance deals!

What are my rights?

Car finance complaints aren't just about interest rates. You can act if:

- You were mis-sold the loan or not given full details.
- Your dealer was paid a secret commission.
- You were pushed into an unaffordable loan.
- You faced unexpected fees.
- Your car was faulty or not as described.

Always keep your finance documents, especially the **Initial Disclosure Document**. If you don't have them, the Financial Ombudsman Service can still investigate if needed.

Spotlight on car finance mis-selling

Many drivers may be owed compensation after paying too much for car finance because of unfair commission arrangements. The regulator is considering a redress scheme following findings that dealers were able to earn more commission by increasing interest rates, often without customers being told.

What can you do now? Ask your lender whether commission was included in your agreement and make a complaint to protect your position. You can access templates to help and stay up to date with the latest developments on our website.

How to complain about car finance

1 Complain to your lender or dealer first. They have up to 8 weeks to respond.
2 If unresolved, contact the Financial Ombudsman Service.
3 Use our free complaint letter template to claim back mis-sold finance fees.

https://consumervoice.uk/rights/car-finance-rights/

Guide to haggling & getting the best deal

Before visiting a dealership

- **Research discounts and finance options** before stepping into the showroom.
- **Compare dealer finance with personal loans** to ensure the best rates.

At the dealership

- **Ask for offers** on cars and finance deals.
- **Haggle!** Don't accept the first deal. Keep part-exchange discussions separate.
- **Check finance deal options.** Ask how many lenders they considered.
- **Commission and fees.** Ask if they earn commission from introductions to lenders.
- **Read the small print.** Understand all terms before signing.
- **Walk away if unsure.** Take time to review and shop around before committing.

Final Tip: Be a Smart Buyer!

Whether you buy with cash, finance, or lease, knowing your options and rights puts you in control. Always compare deals and never rush into a car finance agreement!