Let's Talk

Police Mutual

Car Finance

October 2024

You may be considering purchasing a new car, but you are uncertain as to the best way to pay for one. There are so many options of financing a vehicle that you maybe unsure which to choose. We all have different requirements, so it's important to look at which option is best for your individual needs.

Which is the best option for you?

Sadly, there's no simple answer, as it depends on whether you want to own the car and many other factors. However, we've included more information on each alternative to a car loan below, to help work out which is right for you.

Cash

If you've got the money and you want to own the car fully from day one then this could be your best option, as you'll avoid paying any interest or taking on debt.

If you're looking to buy a brand-new car, you need to consider the depreciation of the car and add this into your overall costs.

Credit card – 0%

Depending on the price of your new car, a 0% spending credit card could be the cheapest way to borrow. You'll own the car outright plus you'd be covered by Section 75 of the Consumer Credit Act (the cost of the car must be more than £100 and less than £30,000 in total), which provides you with extra protection if things go wrong. You will need to check if the car dealer accepts payment by credit card, as not all do.

You will need to check the credit limit on your card, as this may be less than the cost of the car. You will also need to ensure you'll be able to repay the full cost before the 0% interest rate finishes, as the interest rate after this period may be considerable.

Personal loan

This option may allow you to borrow more and over a longer period than you'd get on a credit card. You'll be able to choose the repayment period to suit your budget. Most personal loans will offer a one-to-five-year repayment term. With a personal car loan, you own the car outright from the beginning.

It's important to shop around for the best interest rate and repayment period.

You'll pay interest – known as APR. APR stands for annual percentage rate, which is the total cost of your borrowing for a year and includes the standard fees and interest you'll have to pay. The rate you'll pay is dependent on aspects such as the lender, how much you're borrowing and your credit score.

You can be rejected for a personal loan, as its classed as an unsecured personal loan, so the same rules and procedures will apply.

During the process of applying for the personal loan, you'll be credit-checked. If the lender deems you uncreditworthy or the loan is unaffordable, you won't be accepted.

Car finance

More traditional car finance encompasses car leasing, Hire Purchase and Personal Contract Purchase. These generally involve lower monthly payments than personal car loans, as well as a smaller down-payment. The overall costs are likely to be higher though.

Personal Contract Purchase (PCP)

Unlike a normal personal loan, a PCP won't involve you paying off the full value of the car and you won't own the vehicle at the end of the deal (unless you choose to pay the large final payment).

This is a more complex way to purchase a car, to make it clearer, it can be broken down into three parts:

1. **The deposit** - this will usually be around 10% of the car's price. Remember, the larger the deposit, the less you'll have to borrow.
2. **The borrowed amount** – this amount will be the value of the car minus the deposit, which will then be borrowed from the finance company. This differs from a personal loan, as the repayments aren't designed to pay this whole amount off.
3. **The balloon payment** – this is the large final payment you pay **IF** you want to keep the car. This payment is also referred to as the guaranteed future value (GMFV) or optional final payment. The amount is agreed at the start of your deal. The finance company will contact you towards the end of your deal to ask whether you'll pay the balloon payment or hand the car back.

You will normally need to choose your mileage allowance at the start of your agreement, and you will be responsible for the car's upkeep. At the end of the agreement, you simply return the car, although you could be charged a fee if you've exceeded the mileage allowance or if there is any damage to the car.

Hire Purchase (HP)

This works in a similar way to a loan. You will be borrowing and paying off the full cost of the car, you won't however, own it until you've made the final payment. The car will be owned by the finance company. It will be used as security against the loan, so if you fail to pay your repayments, they can seize the car. You'll usually need to pay a deposit of around 10% or more of the car's price.

Again if you pay this deposit on a credit card, you will be covered by Section 75 of the Consumer Credit Act (the cost of the car must be more than £100 and less than £30,000 in total), which provides you with extra protection if things go wrong.

Even if you only pay a small amount with your credit card you will get this greater protection.

You'll pay interest – known as APR. APR stands for annual percentage rate, which is the amount of interest charged on the loan agreement, plus any associated fees. The rate you'll pay is dependent on aspects such as the lender, how much you're borrowing and your credit score.

Hire Purchase (HP) is one of the most popular ways to pay for a car.

If you fail to keep up with your payments, the finance company is entitled to seize the car.

Car Leasing / Personal Contract Hire (PCH)

This is essentially a long-term rental, you'll never own the car, nor have the option to buy it. You will get a brand-new car. You'll need to pay an initial deposit followed by monthly repayments for the duration of the contract of usually one to four years.

As with PCP, you'll need to choose a mileage allowance and you'll be responsible for the car's upkeep. At the end of the agreement, you simply return the car, although you could be charged a fee if you've exceeded the mileage allowance or if there is any damage to the car.

Other things to consider when purchasing a car

There are many other costs involved in buying and using a car. There are lots to consider when working out how much a car will cost you overall.

Here are the main expenditures to consider:

- **Fuel**
- **Insurance** - the minimum you will need is third-party motor insurance to drive legally in the UK.
- **MOT** - passing the MOT (Ministry of Transport test) is a legal requirement for all cars more than three years old.
- **Servicing and maintenance** – these costs will depend on the condition of your car.
- **Vehicle tax** – car, road or vehicle tax is compulsory in order to use public roads. Its cost depends on the age of your car, the engine size, fuel type and CO_2 emissions. Some cars have a zero-rate tax.
- **Other costs** - parking, tolls, breakdown cover and other road charges such as the congestion charge.

GAP insurance

GAP insurance protects you when you get a new car. Its designed to cover the difference between the amount your car insurer would pay out if your car was stolen or written off and the price you paid for your car.

Gap insurance is there to cover this 'gap', between the amount your insurer pays and the amount you'd need to buy that car (or another similar model) again.

Car insurance differences

There are three main types of car insurance cover:

- **Third party** – this is the minimum level of cover needed to drive legally. It only covers damage to someone else or their property.
- **Third party, fire and theft** – above plus additional cover in case the car gets stolen or catches fire.
- **Fully comprehensive** – the widest level of cover available. You get third-party, fire and theft cover, plus if you have an accident and it was your fault you can claim the cost of repairing your car (as well as any damage you cause to someone else or their property).

When deciding which car insurance provider to choose, you need to look at many factors, including the price, cover provided, service before and after sale, service on a claim.

For more details on Police Mutual car insurance click here.

Specialist cover for Police Officers who drive on official police business or carry police kit (with social, commuting and business insurance), when selecting class 1 business cover.

We let you spread the annual cost into monthly payments at no extra cost to you.

The Police Mutual car insurance is provided by ERS. Terms and Conditions apply.

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