case study 3: new car

car replacement

Your situation.

You need to replace your car and have found a car costing £10,000. You would like to spread the payments over a number of years to make them affordable.
Let's explore some of the borrowing options available to buy the car.

personal loan.

You'll normally pay fixed monthly payments including interest, until the loan is paid off.

No deposit is required.

You own the car from the date of purchase.

You can sell the car at any time.

If you don't keep up with the payments, the loan provider may take you to court.

Learn more by watching our **Personal Loans** video

hire purchase (hp).

A 10% deposit is often required.

You'll normally pay fixed monthly payments including interest, until the loan is paid off.

You won't own the car until you make the last payment.

If you don't keep up with the payments the car may be taken back.

Hire purchase is only worth thinking about if you want to own the car at the end of the contract.

personal contract purchase (pcp).

A 10% deposit is often required.

You'll pay fixed monthly repayments including interest, until the end of a set period of time.

These repayments will normally be less than a personal loan or hire purchase.

At the end of the contract you can: - buy the car by making a significant one-off payment called a 'balloon payment', or - return the car to the dealer and start a new PCP contract, or - return the car to the dealer and walk away.

You won't own the car until you make the 'balloon payment'.

PCP is normally a more expensive way to buy a car outright than a personal loan or hire purchase.

Learn more by watching our Car Finance video.

always remember.

Try to use savings or other available funds before borrowing money.
Think - Can you afford to pay back the money? Click here to use the Money Advice Service budgeting tool.