



Ending a hire purchase agreement

**Useful information from the Competition and Consumer
Protection Commission**



Coimisiún um
Iomaíocht agus
Cosaint Tomhaltóirí

Competition and
Consumer Protection
Commission



If you have a car finance agreement, it could be a hire purchase agreement rather than a loan.

Hire purchase agreements are different to loans in many ways, but one of the main differences is how you can end the agreement.

If you have a loan, you can pay back the loan either by using money you already have or by selling the car and using the proceeds to pay off the loan.

With a hire purchase agreement, you cannot sell the car during the period of the agreement as you do not own the car until the last payment has been made. If you want to end the agreement early, and become the owner of the car, you can pay off the full amount at any time. If you decide to do this, you are entitled to a reduction in the cost of credit. Make sure you ask your lender/provider about this.

How you end a hire purchase agreement depends on whether you want to keep the car.

DO YOU WANT TO KEEP THE CAR?

YES

Talk to your finance company and explain your situation. Ask them to restructure the agreement – but be aware that a rescheduling charge might apply. Ask your finance company to confirm in writing what conditions are included in the restructuring and what impact, if any, the restructuring will have on your original hire purchase agreement. For example, your finance company may lengthen your existing agreement, or you may be entering into a new agreement. Be sure you are happy with the restructuring before agreeing to it. If you restructure your agreement you can still return the car later using the ‘half rule’.

The third rule

Your car can be repossessed if you break the terms of the agreement, for example, by missing payments. If you have paid off less than one-third of the hire purchase price, the car finance company can take back the car without taking legal action against you. If you have paid more than one-third of the hire purchase price, a lender cannot repossess the car without taking legal action against you.

Your car cannot be repossessed from your home, regardless of how much money you have paid back.

NO

You have 2 main options:

- 1** If you are near the start of your agreement, it may be more beneficial for you to ask for your finance company’s permission to sell the car yourself and use the proceeds to repay the loan. If your lender agrees to this, ask them to confirm in writing before you sell the car. Be aware that you may not get enough money from selling the car to pay back all the money owed. Ask your finance company what will happen in this case.
- 2** Return the car using the ‘half rule’ (see below)



The ‘half rule’

The ‘half rule’ allows you to return the car and end the hire purchase agreement and limits your liability to half the hire purchase price of the car. This is a legal right under section 63 of the Consumer Credit Act 1995. Your agreement must show what half the hire purchase price is.

You do not have to pay half the hire purchase price to the finance company before you end the agreement and return the car, but you will still owe the difference between half the hire purchase price and the payments you have made.

Can I end my agreement using the half rule even if I am in arrears?

Yes – you can end your agreement and avail of the half rule while you are in arrears. However, you will still owe the arrears to the finance company and you can be charged interest on these arrears, called surcharge interest. You need to check your original agreement to confirm the amount of surcharge interest you can be charged.

How to calculate the ‘half rule’

Joe picked a car that cost €13,300 from a car dealer. The dealer arranged a five-year hire purchase agreement for Joe, and asked for a deposit of €1,000. The total hire purchase price is €16,790.69. It is made up of:

Cash price of the car	€13,300
Less deposit	€1,000
Amount for finance	€12,300
Plus interest charges	€3,355.20
Plus documentation fee	€72.00
Plus completion fee	€63.49
Equals the total hire purchase price	€16,790.69
Half the hire purchase price	€8,395.35

The three examples below show the impact of the half rule.



Example 1 – Half the hire purchase price has already been paid

At month 37, Joe has already paid over half of the hire purchase price.

37 x €260.92 monthly repayments	€9,654.04
Plus deposit	€1,000.00
Plus documentation fee	€72.00
Total amount paid to date	€10,726.04

The amount paid to date of €10,726.04 is more than half the hire purchase price of €8,395.35. Joe has not missed any payments, and he wants to give back the car. He should write to the hire purchase company to inform them of this using the template letter on page 4. Joe will also be responsible for the cost of any repairs that are necessary. He will not get a refund if he has paid over half of the hire purchase price before handing back the car.

Example 2 – Half the hire purchase price has not been paid

You can end your agreement and avail of the half rule while you are in arrears. If Joe has not paid half the hire purchase price but he can still end the agreement, give back the car and **arrange to pay the balance up to half the hire purchase price.**

Joe has paid €6,290.40, which is less than half the hire purchase price of €8,395.35. Joe has also missed three monthly repayments and is in arrears of €782.76.

Half the Hire Purchase price	€8,395.35
Less the amount paid to date	€6,290.40
Difference between what has been paid and half the hire purchase price	€2,104.95

Joe will need to arrange to pay €2,104.95 to the car finance company. This figure includes the 3 months arrears of €782.76. He may also have to pay additional interest on the arrears.



Example 3 – Half the hire purchase price has been paid and Joe is in arrears

In this example, Joe has already paid half the hire purchase price but has missed the last 4 repayments totalling €1,043.68.

Therefore he can end the agreement but will have to pay the outstanding arrears of €1,043.68 and interest on the arrears.

How to return a car under the ‘half rule’:

- 1** It is very important to read any documentation sent out by your car finance company when you return your car using the half rule. **Do not sign a ‘voluntary surrender form’ as you will give up your right to return the car under the half rule.** Voluntary surrender means that you volunteer to give the car back to the finance company but still owe the balance due on the agreement – your debt does not disappear with the car. Voluntary surrender will usually cost you far more than returning the car using the half rule, as with the half rule you only owe half the hire purchase price. **So be very careful about what you sign.**
- 2** Write to your car finance provider or bank, and explain you want to return the car using the half rule – use our sample letter on the next page to help you. Once you have sent this letter, be very careful about signing any forms your car finance company sends you, particularly any forms that say ‘voluntary surrender’.
- 3** Don’t give instructions over the phone - putting it in writing makes it very clear how you want to end the agreement.
- 4** Agree a pick up point or return the car yourself. If the hire purchase company collects the car, you may be charged a collection fee, so make sure you ask how much this is if you would prefer the company to collect the car.
- 5** Take pictures of the car, inside and out, to confirm its condition so you are not liable for any additional costs if the car gets damaged after you return it. If there are damages to the car already, you may want to get the repairs done yourself before you give it back or your provider may charge you for the cost of any repairs.
- 6** Return the car to the garage or to whatever location and time is agreed between you and the finance company.



**Letter template for termination of hire
purchase contract**

Company's Address

Your name

Date

Your Address

**TERMINATION OF AGREEMENT
UNDER THE HALF RULE**

Dear Sir/Madam

Re: Account Number (*Car Make/Model and
Registration Number*)

I wish to exercise my right to terminate the above
Agreement under Section 63 of the Consumer
Credit Act 1995.

Please send me details of how the vehicle can
be returned to you.

Please confirm receipt of this request by
telephone/fax to me on (*your telephone number
or fax number*).

Yours faithfully,

Your Name



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