

THE

# CARZU

GUIDE TO

# CAR FINANCE

FIND  
THE BEST WAY  
TO FUND YOUR  
NEXT CAR



# IT'S GOOD TO BE CHO~~X~~✓**OSY**

## **CHOICE IS A GOOD THING. WHICH IS WHY AT CARZU WE OFFER A RANGE OF FINANCE PRODUCTS.**

All you need to do is choose which one works for you.

The Carzu Guide to Car Finance explains all the finance options we offer through our panel of lenders, and how they work - the advantages and the things you need to be aware of.

However, it's also worth keeping in mind that other sources of finance might also be available to you, such as banks or internet aggregators.

If you need further assistance, organisations such as the Finance and Leasing Association ([www.fla.org.uk](http://www.fla.org.uk)) or the Money Advice Service ([www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)) are always good sources of information.

And, of course, you can always contact one of the Carzu team:



**01782 366440**

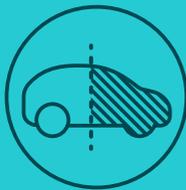


**INFO@CARZU.COM**

# INITIALLY, CAR FINANCE CAN BE A BIT CONFUSING o.O

Like most industries, the world of car finance is full of initials and abbreviations. Though this is meant to make things easier, it can be kind of confusing at first. Especially as some of them are pretty similar.

Here are all the main types of car finance we'll be covering in the guide. We've included their abbreviations and their full titles.



**PCP: PERSONAL CONTRACT PURCHASE**

Page 6



**PCH: PERSONAL CONTRACT HIRE**  
**BCH: BUSINESS CONTRACT HIRE**

Page 9



**HP: HIRE PURCHASE**

Page 12



**CS: CONDITIONAL SALE**

Page 15



**LP: LEASE PURCHASE**

Page 18

# GETTING UNDER THE HOOD

HERE, WE TAKE A LOOK AT ALL YOUR FINANCE OPTIONS IN DETAIL – WHAT THEY ARE, HOW THEY WORK, THE ADVANTAGES, AND THE THINGS YOU NEED TO BE AWARE OF.



# PERSONAL CONTRACT PURCHASE

## WHAT IS IT?

Personal Contract Purchase (PCP) is a finance agreement secured against the car. It is made up of fixed monthly repayments and an optional Final Payment which is deferred until the end of the agreement. Instead of paying for the whole car, your monthly payments are based on part of its value. Then at the end of the agreement you have a few options to choose from.

## HOW DOES IT WORK?

The finance company guarantees what they believe the car will be worth at the end of the agreement. This is known as the Guaranteed Minimum Future Value (GMFV).

Your monthly payments are then based on the length of your agreement (usually between 2 and 4 years), the size of your initial payment, the number of miles you intend to drive and the GMFV (plus any interest).

At the end of the agreement you have a few options; you can choose to own the car, part exchange or sell it, or hand it back to the finance company.

If you choose to own the car, you should know that there is a Final Payment which you must pay before you can become the legal owner. This Final Payment (otherwise known as a Balloon Payment) is made up of the GMFV and an Option to Purchase Fee.

## PCP



### WHAT ARE THE ADVANTAGES?

- Lower monthly payments than a Hire Purchase (HP) as there is an optional Final Payment that is deferred to the end of the agreement.
- At the end of agreement you can choose to own the car, part exchange or sell it, or hand it back.
- If the final value is greater than the GMFV value, you'll have equity in the car that you can put towards your next one.
- New or nearly new cars are usually covered by the manufacturer's warranty. But be sure to check the terms, as depending on the age of the vehicle it may expire before the end of your contract.

### WHAT YOU NEED TO BE AWARE OF

- You will only own the car at the end of the agreement if you have made all payments, including the Final Payment.
- If the predicted GMFV is very close to the actual value of the car at the end of agreement, you may not have any equity to put towards another one.
- If you go over your agreed mileage you'll be charged a set pence per mile for the excess.
- You can't sell or modify the car before you become the legal owner.
- The GMFV is based on you handing back the car in good condition and not exceeding your mileage allowance. If anything beyond normal wear and tear needs fixing, you'll have to pay for it.
- If you fail to make your repayments, the finance company can repossess the car.

## PCP



# KEY FACTS



### INITIAL PAYMENT:

- An initial payment may be required.



### FEES:

- Finance agreement arrangement fees can be paid upfront or spread over the term of the agreement. If you want to keep the car, there is the Final Payment (GMFV and an Option to Purchase fee).



### RESTRICTIONS:

- You'll need to keep the car in good condition and maintained according to the manufacturer's recommendations.
- If you go over your agreed mileage you'll be charged a set pence per mile for the excess.



### ENDING THE AGREEMENT:

At the end of the agreement, you have three options:

- **Hand it back**

If the car is worth less than the GMFV, you can return it to the finance company after all your payments have been made (subject to mileage and condition).

- **Buy the car outright**

Once you've made all your payments, if you'd like to own the car, you can make the Final Payment and you'll become the new legal owner.

- **Part exchange or sell**

You can part exchange or sell the car. If the value of the car is greater than the GMFV, you can use the difference as an initial payment for your next finance agreement or sell the car privately and settle the GMFV.



# PERSONAL CONTRACT HIRE & BUSINESS CONTRACT HIRE

## WHAT IS IT?

Personal Contract Hire (PCH) (known as a Personal Lease) or Business Contract Hire (BCH) (known as a Business Lease) is where you lease the car for a set period of time. You pay fixed monthly rentals for a set period of time, and then hand it back to the leasing company at the end of your agreement. All rentals will attract VAT at the current rate.

## HOW DOES IT WORK?

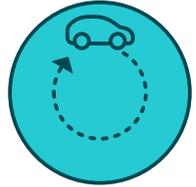
You'll need to select how long you would like your agreement to run for. Then, at the beginning of the agreement you'll pay an initial rental, which is usually 3 or 6 months' of your monthly rentals made in advance.

You then pay the leasing company fixed monthly rentals (including VAT) over the length of the agreement. The monthly rentals will be calculated based on your initial rental and agreed annual mileage.

The leasing company continues to own the car, and at the end of the agreement you hand it back.

A maintenance plan can also be added at an additional cost.

## PCH & BCH

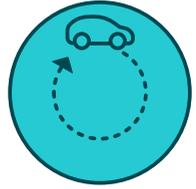


### WHAT ARE THE ADVANTAGES?

- Choice of initial rental profiles.
- Cars are often new and covered by a manufacturer's warranty. But be sure to check the terms, as depending on the age of the vehicle it may expire before the end of your contract.
- At the end of the agreement, subject to meeting your contract's terms and conditions, you hand the car back.
- If you're a VAT registered business and you take out a BCH, you may be able to claim back up to 50% of the VAT paid on your monthly rentals.
- You can extend the agreement if this option is available.

### WHAT YOU NEED TO BE AWARE OF

- You'll have no option to own the car.
- If you go over your agreed mileage you'll be charged a set pence per mile for the excess.
- You are liable for any damage to the car.
- You can't sell or modify the car.
- If you settle the agreement early you will be charged early settlement penalties.
- If you fail to make your repayments, the finance company can repossess the car.



## KEY FACTS



### INITIAL PAYMENT:

- An initial rental; usually 3 or 6 months' of your monthly rentals.



### FEES:

- You may be charged arrangement and additional fees by the leasing company.



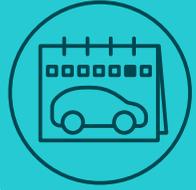
### RESTRICTIONS:

- You'll need to hand the car back in good condition. If anything beyond normal wear and tear needs fixing, you'll have to pay for it.
- If you go over your agreed mileage you'll be charged a set pence per mile for the excess.



### ENDING THE AGREEMENT:

- You may be able to extend the lease, or hand the car back.
- You can end the agreement early at any time, but you will be charged penalties for doing so.



# HIRE PURCHASE

## WHAT IS IT?

Hire Purchase (HP) is a finance agreement where you hire the car for a set period of time by paying fixed monthly payments. Then at the end of the agreement you have the option to become the legal owner by paying an Option to Purchase Fee.

## HOW DOES IT WORK?

Your fixed monthly payments will be based on how much you want to borrow and the length of your agreement, which is usually between 1 and 5 years.

During this time you are the registered keeper of the car and responsible for insurance, road tax and maintenance.

Anytime during or at the end of your agreement, you have the option to pay the balance in full, including an Option to Purchase fee, and become the legal owner of the vehicle.

## HP



### WHAT ARE THE ADVANTAGES?

- Flexible terms usually between 1 and 5 years.
- After all payments are made, including the Option to Purchase fee, the car is yours.
- There are no mileage restrictions.

### WHAT YOU NEED TO BE AWARE OF

- Monthly repayments are often higher than for a Personal Contract Purchase (PCP) as there is no deferred payment at the end.
- You don't own the car until you pay the Option to Purchase Fee.
- You can't sell or modify the car before you become the legal owner.
- If you fail to make your repayments, the finance company can repossess the car.

HP



## KEY FACTS



### INITIAL PAYMENT:

- An initial payment may be required.



### FEES:

- Usually there is an arrangement fee. This may be included as part of the monthly payments.
- Option to Purchase fee.



### RESTRICTIONS:

- The finance company may impose certain restrictions on usage and location of the vehicle, so always check.



### ENDING THE AGREEMENT:

- Once all the repayments have been made, including the Option to Purchase fee, the car becomes yours. You can choose to repay the finance company early however you may be charged penalties.



# CONDITIONAL SALE

## WHAT IS IT?

Conditional Sale (CS) is similar to Hire Purchase (HP). The finance is secured against the car and ownership remains with the finance company until the end of the agreement. You will pay fixed monthly payments over a set period of time. Unlike a HP agreement legal ownership transfers automatically at the end of the agreement once the last payment (including any fees) has been made.

## HOW DOES IT WORK?

Your fixed monthly payments will be based on how much you want to borrow and the length of your agreement, which is usually between 1 and 5 years.

During this time you are the registered keeper of the car and responsible for insurance, road tax and maintenance.

Once you have made all your payments, ownership of the car will automatically pass to you.

CS



### **WHAT ARE THE ADVANTAGES?**

- Flexible terms usually between 1 and 5 years.
- No Option to Purchase fee.
- There are no mileage restrictions.

### **WHAT YOU NEED TO BE AWARE OF**

- Monthly repayments are often higher than Personal Contract Purchase (PCP) as there is no deferred payment.
- You don't own the car until you make the last payment.
- You can't sell or modify the car before you become the legal owner.
- If you fail to make your repayments, the finance company can repossess the car.

CS



## KEY FACTS



### INITIAL PAYMENT:

- An initial payment may be required.



### FEES:

- There is usually a finance agreement arrangement fee. This can be included as part of the monthly payments.



### RESTRICTIONS:

- Lenders may impose certain restrictions on usage and location of the vehicle, so always check.



### ENDING THE AGREEMENT:

- Once all the repayments have been made the car becomes yours. The agreement can be settled anytime by paying the outstanding balance, however you may be charged penalties.



# LEASE PURCHASE

## WHAT IS IT?

On a Lease Purchase (LP) your payments will consist of fixed monthly payments over a set period of time, and a Final Payment (also known as a Balloon Payment) which is deferred until the end of the agreement. This will allow you to become the legal owner of the car.

## HOW DOES IT WORK?

You will need to decide on your annual mileage, the length of your agreement and your initial payment.

Your monthly payments will be based on these conditions, plus a Final Payment that is deferred until the end of your agreement.

At the end of the agreement, you must make the Final Payment and then you will become the legal owner. There is no option for you to hand the car back, so you must have sufficient funds to make the Final Payment.

## LP



### WHAT ARE THE ADVANTAGES?

- Lower monthly repayments as a Final Payment is deferred until the end of the agreement.
- At the end of agreement you can choose to keep, part exchange or sell the car.
- At the end of the agreement if the value of the car is greater than the Final Payment, you'll have equity in the car that you can put towards your next one.

### WHAT YOU NEED TO BE AWARE OF

- There is no option to return the car at the end of the agreement.
- You must be able to pay the Final Payment.
- Depending on market conditions, the car could be worth less at the end of the agreement than the finance company's original valuation. This means the Final Payment could be higher than the value of your car, leaving you with negative equity if you decide to part exchange or sell it.
- You can't sell or modify the car before you become the legal owner.
- If you fail to make your repayments, the finance company can repossess the car.

LP



## KEY FACTS



### INITIAL PAYMENT:

- An initial payment may be required.



### FEES:

- Usually there is a finance agreement arrangement fee. This can be included as part of the monthly payments.



### RESTRICTIONS:

- Lenders may impose certain restrictions on usage and location of the vehicle, so always check.



### ENDING THE AGREEMENT:

- **Buy the car**

You must make the Final Payment and you will become the new legal owner.

- **Part exchange or sell**

You also have the option to part exchange or sell the vehicle.

# A CARZU COMPARISON

Here are all the finance options and features at a glance:

	 PCP	 PCH/BCH	 HP	 CS	 LP
<b>INITIAL PAYMENT</b> 	May be required.	Likely advance rental – 3 or 6 months.	May be required.	May be required.	May be required.
<b>FEES*</b> 	Arrangement fees and Option to Purchase.	Arrangement fees.	Arrangement fees and Option to Purchase.	Arrangement fees.	Arrangement fees.
<b>RESTRICTIONS</b> 	You maintain car. Must keep to agreed mileage and keep car in good condition.	Maintenance packages available. Must keep to agreed mileage and keep car in good condition.	Possibly on usage and location (check terms). Must keep car in good condition.	Possibly on usage and location (check terms). Must keep car in good condition.	Possibly on usage and location (check terms). Must keep car in good condition.
<b>ENDING THE AGREEMENT</b> 	Own and keep. Part exchange or sell. Hand back.	Extend lease. Hand back.	Hand back. When all payments are made including Option to Purchase fee, the car is yours.	When all payments are made, the car is yours.	When all payments are made including Final Payment, the car is yours.

\*Fees can vary depending on the Finance Company, so always check the terms of the agreement. Carzu charge a broker service charge of £150 (plus VAT) per vehicle order.

# JARGON BUSTER

Know your excess from your excise, and future value from your initial rental...

Like any specialist subject, car finance has a language all of its own. Here's a guide to the most common terms and what they mean.

## **GUARANTEED MINIMUM FUTURE VALUE (GMFV)**

This is the amount that the finance company guarantees what they believe the car will be worth at the end of the agreement.

## **VEHICLE EXCISE DUTY (VED)**

You probably know it as Road Tax. This is the annual tax you have to pay on a car, based on its fuel type, engine size and CO2 emissions.

## **INITIAL PAYMENT (DEPOSIT)**

This is a lump sum payment upfront, otherwise known as a deposit, payable at the beginning of some contracts.

## **INITIAL RENTAL**

An upfront payment, usually on lease cars, based on the monthly rental (often 3 or 6 months' worth of the monthly rental).

## **EXCESS MILEAGE**

This refers to any number of miles you drive over the prearranged amount. Excess miles are charged in pence per mile.

# NEED DIRECTIONS?

If you'd like to talk to someone in our experienced car finance team about financing your next car, get in touch.



**01782 366440**



**INFO@CARZU.COM**



**WWW.CARZU.COM**

# CARZU

**CAR LEASING AND FINANCE**