[1.2]

*Preview text*: Different car finance options and what to consider when deciding how to pay for a new or used car

**Car finance explained (H1)**

*[page intro para]* Finding just the right car can be a challenge but deciding how to pay for it can be even tougher. Here we summarise the options available to help you weigh up their different pros and cons.

**Deciding which payment option meets your needs (H2)**

Choosing how to pay for your car is an important decision, so take time to think through each of the following options.

**Cash** – nearly always the most cost-effective way to buy a car if you have enough in savings. Find out why by reading our guide [1.4] Deciding how to pay for your car

**Personal loan**. With a personal loan from a bank or building society you can spread the cost over 1 to 7 years. The monthly repayments can be higher than for other options, but you own the car and the total amount you pay should work out less than most other methods than cash.

Personal loans are usually the cheapest way to borrow over the long term. But if your credit rating isn’t good you may find it difficult to get one. You may need to consider one of the financing methods offered by car dealers instead.

**Find out more about buying a car through a personal loan** *[link to 1.6]*

**Hire purchase**. After paying a deposit of normally around 10%, you make fixed monthly payment over an agreed period. The car isn’t yours until after the final payment, unlike with a personal loan.

**Find out more about buying a car through hire purchase** *[link to1.8]*

**Car leasing**. This is more like a long-term rental, in that you make fixed monthly payments to use the car until the contract expires. There are two main types of car leasing – personal contract hire (PCH) and personal contract purchase (PCP)

The payments tend to be lower than with other types of car finance, but there’s a mileage restriction. And with PCH you’ll never own the car, whereas with PCP you have the option of buying the car at the end of the contract by making a ‘balloon payment’.

**Find out more about leasing a car** *[link to new combined leasing page]*

**Other car payment options (H2)**

**Credit Card**. Using a credit card to pay all, or part, of your car’s purchase price will give you extra protection on the full purchase cost – as long as you paid at least £100 of it by card and meet your monthly card payments. However, some dealers charge a card-handling fee – sometimes as much as 3% – and some may not accept credit cards at all.

Find out more about using credit cards - link to https://www.moneyadviceservice.org.uk/en/articles/credit-cards

**Peer-to-peer loan**. This is borrowing and lending between individuals through websites such as Zopa. Although peer-to-peer loans bypass traditional financial institutions such as banks or building societies, you still need a good credit score to get the best rate.

Find out more about peer-to-peer loans - link to https://www.moneyadviceservice.org.uk/en/articles/peer-to-peer-loans

**REMEMBER**

It’s good to compare APR rates, but make sure you look at the total repayment amount as well.

**Things to remember before making a decision (H2)**

If you’re thinking of taking out a personal loan or car finance arrangement, make sure that you:

• will be able to afford the car’s running costs on top of your monthly payment. Check your budgetthen calculate the running costs – try the tools on the tools on the [CAP](http://www.cap.co.uk/consumer/total-cost-of-motoring) or [Parkers](http://parkers.car-costs.co.uk/) websites <http://www.cap.co.uk/consumer/total-cost-of-motoring> <http://parkers.car-costs.co.uk/> *[ first link - How to find the right car for your budget]*

• compare interest rates by looking at the annual percentage rate (APR), which includes the interest rate plus all other lender’s charges. The larger your deposit, the lower the interest rate is likely to be.

• compare the total cost of borrowing, including interest and all charges over the term of the loan.

• think carefully before buying payment protection insurance or GAP insurance cover that pays out if your car is stolen or a total write-off. Both can be expensive and may give limited cover. [Embedded links above to: https://www.moneyadviceservice.org.uk/en/articles/do-you-need-payment-protection-insurance-ppi

tps://www.moneyadviceservice.org.uk/en/articles/do-you-need-gap-insurance]

• remember that with personal contract purchase plans and leasing, you’re charged a fee if you repay early or exceed the forecast mileage.

TOP TIP

Make sure you get the most for your existing car, whether you’re part-exchanging at the dealership or selling privately. The more you make on it, the less money you’ll need to raise for your new car.

Link to 3.4 – negotiating when selling your car

**YOUR NEXT STEP –** Making sure you can meet your car payments *[Link to 1.3]*