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What is Vehicle Finance?

Vehicle Finance, car finance or a car loan, is a type of loan you get from a bank, vehicle dealer or specific vehicle finance company. Vehicle finance or a car loan is specifically tailored for individuals who cannot or do not want to take on the huge once-off expense of a car. This enables most individuals and families to enjoy a set of wheels to fulfil their needs or even a driving dream!

Vehicle finance is the quickest and simplest way to get access to a vehicle you can one day own. This is done with a lower interest rate compared to other personal loans and usually a much longer repayment period. The financial institution will own the vehicle until you have paid your very last monthly instalment and any outstanding debt (like a balloon payment).

Monthly instalments make it possible for many South Africans to have their own personal method of transport without using all their precious savings that can rather build an asset. Your monthly instalment will be an amount calculated using the cost of the vehicle, your available deposit amount, the interest rate and the time period over which you are able to pay it off.

Understanding basics like balloon payments, interest rates, deposits, and your capital balance

Interest Rates

The interest rate is effectively the cost of a loan. It is the interest you pay of top of the money you have to pay back and is the source of income a financial institution gets for lending you money. When you borrow money or finance a car, it will be financed over a certain time period at a certain interest rate. There are two types of interest rates.

Fixed interest rate

The vehicle finance agreement will have a locked in interest rate and cannot change during the loan repayment term.

Variable interest rate

A variable interest rate will be linked to the national prime rate and can move up and down as the prime rate goes up or down.

Balloon payments or residual purchase agreements

You can choose to only finance a certain percentage of the total cost of the vehicle and pay the remainder on the final settlement date when the car loan repayment term ends. This percentage usually ranges between 15% - 35% and is usually influenced by the age of the vehicle as well. The balloon amount usually results in a big chunk of money you have to cover at the end or you will not get ownership of the car.

Deposit

The deposit you pay on a car is the amount of savings or money you have available as a "starter amount" and reduces the capital amount you have to finance.

Capital balance versus contract balance

The capital balance is the amount you borrowed but it excludes the future interest rate you will pay in monthly instalments. It is the amount you will have to pay if you want to settle the contract. The contract balance is the amount you borrowed plus all the interest calculated onto that amount and it is what you will pay in total for the vehicle if you finance it for the full term.

What are the typical finance options?

Personal Loan used for vehicle purchase

You will borrow money as you usually do with a personal loan and then pay back specific amounts over a fixed term. This enables you to buy the car "cash" but it sometimes results in higher interest rates due to the unsecured nature of the loan.

Vehicle instalment agreement or personal contract purchase

In this case, you usually pay a deposit amount (not required) and finance the remaining cost of the vehicle. This results in a monthly vehicle instalment amount calculated using the capital amount, interest rate, repayment period and potential residual amount (balloon payment). The car you are financing will belong to the financier up until the end of repayment or contract period. Once all the debts are settled, you will become the new owner of the car. Vehicles older than 10 years cannot be financed.

Hire purchase or rent to own

In this agreement, you will pay an agreed minimum deposit or percentage of the car's value. This will be followed by fixed monthly finance instalments (or rent) which effectively results in hiring the vehicle until the final amount has been paid. There is no interest applicable and these companies usually only cover lower end vehicles due to the risky nature of the business. You can also get your car sooner by requesting a settlement amount.

Guarantor loan

A guarantor loan is a form of vehicle finance suited for people who have a poor credit history or score. A friend, family member or another third-party member agrees to stand as the guarantor that you will be making the monthly payments. If you should fail to do so, they are then forced to take financial responsibility for the outstanding loan amount.

Leasing agreement

A vehicle leasing agreement is not a vehicle finance solution but rather a leasing agreement similar to leasing a home. You will need to make an initial rental payment as a deposit and ongoing rental payments. This ensures access to a vehicle but not to a car you can own. This agreement is more suited for someone who either needs a vehicle for a short time period or someone who does not want to take on the responsibility of a loan on their name. It's a simple solution with few risks and no rewards apart from access to a car.

How the vehicle finance process typically works

1. You will need to fill out an online application of a financier
2. The online application will have to go through a pre-approval process
3. A seller will then need to agree to a sale of a vehicle based on your online application and do the necessary technical inspections of the vehicle
4. You will provide the necessary documents
5. You will then enter into a buyer and seller agreement where you sign a sales agreement or contract
6. The financier will complete any remaining steps with you and will pay the seller the amount
7. You will then need to do the necessary vehicle licensing and registration (if a dealer does not do it for you)
8. You now pay back the financier according to the financing agreement

Important Documents

- Application for certification of roadworthiness
- Application for licensing of motor vehicle
- Application for registration and licensing of motor vehicle
- Application for licence number of motor vehicle
- Application for the notification of change of owner or sale of a motor vehicle

Personal documents you will need:

- Green barcoded ID
- Valid driver's licence
- Proof of income
- Proof of address
- Vehicle roadworthy certificate (once you sign the contract)

NATIS

According to Wesbank, "A NaTIS document is a vehicle registration certificate or log-book, which is produced when a vehicle is registered with the licensing authorities. (NaTIS stands for National Traffic Information System.) All vehicles have to be registered with the licencing authorities. About 20 years ago, a vehicle`s registration document (or, in some provinces, log-book) was simply handed to the vehicle owner or purchaser when the vehicle was registered - it didn`t matter whether the vehicle was being financed or not. Due to an increase in criminal activities like fraud, however, South Africa decided to create a new licensing system and to implement it in stages throughout the country. Gauteng went onto the new system in 1996. Now, if a vehicle is financed, the registration document is handed to the financial institution providing the finance. In the new system, the registration document reflects not only the vehicle owner's name, it includes the name of the finance house or bank that is financing the vehicle and refers to this institution as the vehicle`s titleholder. The NaTIS or registration document remains in the titleholder`s safekeeping while the vehicle is being financed. Without the document, no further change of ownership would be possible."

Will you need vehicle insurance when you are financing a car?

South Africa does not have legislation requiring car owners to take out insurance. Therefore, it is not compulsory for people who buy their cars cash. It is, however, compulsory if you are financing your car. The financial institution who finances your vehicle will either insure the car themselves (at your expense) or require proof of insurance.

Even though the monthly premium could be a burden at times and you would want to spend the money elsewhere, there is always a risk that your car could be damaged, stolen or hijacked or damage to a third party. If this happens and you do not have car insurance, you will be liable to cover all the costs from your own pocket. These costs are usually large and can be financially devastating. Therefore, it is a wise choice to choose the right insurance that fits into your monthly budget, but that also covers you for all unforeseen events.

What you need to get vehicle insurance in South Africa

- Basic identity documents.
- Necessary banking documents, such as three-month bank statements

- Take note that when applying for insurance, the insurer will run a credit check
- Details relating to your car, such is as make, model number and year of registration
- Information relating to the factors mentioned above, such as location, security measures and the age of registered drivers

Learn more about vehicle insurance here.

Make a better vehicle finance decision with these tips

1. Avoid unnecessary debt when building your personal finance

It's very unlikely for any person at a young age to be able to buy their first car cash. Even if it is possible, buying your car cash means you will be depleting a big chunk of your savings which could have gone into an investment opportunity. Many experts will advise to not lose out on unique investment opportunities by trying to avoid debt that is actually "manageable". It is important to get time on your side for the sake of compound interest. BUT, this does not mean going full out with the vehicle cost you need to finance! Instead of getting the latest and sleekest car, rather choose an affordable option which doesn't break your cash flow. Remember, cash flow = opportunities.

2. Keep cash flow available for costs associated with buying a car

Your vehicle finance agreement is only one part of the total sum when buying a car. For most purchasing agreements, there are costs included like admin fees, vehicle insurance, fuel and car services. It's important to keep all of those in mind when you are budgeting for a car purchase. Once again, it helps to make a more modest decision with your vehicle type so that you have enough cash flow for all the other costs (expected and unexpected).

3. Work the system but don't break your budget system

There is a fine line between making use of things like longer repayment periods and balloon payments and getting greedy. But, don't break your long-term budget or net worth by paying chunks of interest and residual capital amounts on your car which could have been avoided. We know many of us need a set of wheels to make a work opportunity possible, but in the end it is only a method of getting from A to B. Your friends will appreciate it much more if you can join them for weekend adventures, trips, fun evenings, and other events than not being able to afford anything due to your long-term vehicle costs. If they don't, maybe you need new friends ;-) Ultimately, work the system so you can afford a vehicle, but don't get greedy because you want flashy for the sake of public opinion.

4. Make a long-term decision

Your vehicle can either only cater to your needs now or it can cater for the long-term as well. Keep your dreams, vision and 5-year plan in mind when buying a car. A sporty hatchback is a dream for a young employee, but it's not going to support a small family.

5. Car payments require integrity

Reality happens to everyone when it comes to personal finance. But, it doesn't mean you have to lose your character in the process. Sure, we all feel the corporate giants are just trying to take us for a ride and make money off us, but the vehicle finance company still made it possible for you to get a car. So, if you're not going to make a payment on time, give them a call and arrange an alternative date. You will be surprised at how accommodating they can be.

6. Keep your credit history in mind

If reality does end up knocking at your cash flow, remember that every missed payment and "no-show attitude" will reflect as a negative notch on your credit history. And it will stay there for a long time. Prioritise your vehicle payments so that your credit history gets a boost instead of a dunk.

7. Don't stress it so much

In the end, do your research and make a fun decision! We all need to go through a learning curve and there is no use in stressing over it like your world will end if you make the wrong decision. In the long run, a wrong decision will only add to the wisdom you offer others.

Can you use a personal loan for vehicle finance?

If you’re just about tired of sweating it out in your old “skedonk” of a car, perhaps you’re contemplating the thought of trading it in for some shiny new, though affordable, set of wheels.

You probably know that buying a car is no simple decision. From buying cash to buying a car on finance, there are many options. You also have to remember to factor in running costs. In fact, it is probably the second most expensive resource you'll buy after a home. Thus, it's important to ensure that you're getting the best deal possible.

If you're reading this, chances are that you're not the offspring of the Rockefellers, and you most likely need a personal loan or vehicle finance to get that car you want.

If you've been wondering about the difference between getting a personal loan or vehicle financing, you're in the right place. Personal loans and car loans represent two of the most common financing options.

Let's glance at the differences:

Using a Personal loan.

You can use a personal loan for almost any purpose. Whether you need to cover medical costs, unforeseen bills, improve your home, or in this case, purchase a car. Personal loans are usually the cheapest way of financing a car deal, provided you have a good credit rating. Always look at your APR (annual percentage rate) to know what exactly you'll pay as it factors in all fees and other costs associated with the loan. You can apply for a secured (provide collateral as security) or an unsecured personal loan. If you have great confidence in your ability to make repayment, you can consider a secured loan as this can get a lower interest rate. Though, if you're not so comfortable with the thought of leveraging against the roof over your head, apply for an unsecured personal loan.

To sum up a personal loan:

Pros:

- No restrictions on how funds are spent
- Flexibility in payment structure

Cons:

- Interest rates are a bit higher
- Strict lending requirements
- Consumers with lower credit scores won't qualify as easily

Using Vehicle Finance

A car loan is a form of a personal loan, but as the name states, it's designed strictly for the purchase of a car. It's secured against the car you want to purchase, so if you default on your payments, it's goodbye shiny new wheels. A car loan has a fixed interest rate and thus fixed monthly repayments over the course of your repayment schedule. Also, the debt of a car loan is deemed as lower risk, thus resulting in a lower interest rate.

To sum up a car loan:

Pros:

- Easier to obtain
- Often a convenient 'on the spot' finance solution

Cons:

- You don't have title to the car until the final repayment is made
- A deposit is generally required to secure the loan

It's a big step in deciding what type of loan you're going to apply to purchase a car, we hope this provides you with more clarity in your decision-making process. Feel free to make use of the Fincheck Personal loan comparison page.

Apply Now