SAF
Specialist Automotive Finance

SAF ESSENTIALS

Introduction to Motor Finance

What is motor finance?

Motor finance helps individuals and businesses to spread the cost of owning or using a vehicle over an agreed period of time ('term').

Over 91% of all private new car registrations in 2018 in the UK were financed by **FLA members.**

There are a range of different types of finance products available, depending on the customer's preferences and needs.

Motor retailers that sell finance act as 'brokers' for motor finance providers. Most work with a number of finance providers to obtain finance for the range of customers they serve.

How does motor finance work?

- Most motor **finance agreements** are provided under a **tripartite structure**. This means there are three parties involved in order to set up the finance:

The customer	The retailer	The finance provider
• May pay a deposit or make advance payments. • Signs the credit agreement. • Takes away and uses the vehicle. • Makes monthly payments to the finance provider over the term of the agreement.	• Sells the vehicle and the finance at the point of sale. • Invoices the finance provider.	• Pays the retailer for the vehicle and takes ownership ('takes title'). • Takes monthly payments from the customer over the term of the agreement.

- The amount the customer repays to the finance provider will include **interest** and, sometimes, **fees**. These elements are often referred to as the cost of borrowing – what the customer pays the finance provider in order to obtain the finance.
- The rate of interest paid by the customer will vary and may depend on how '**creditworthy**' the customer is i.e. how likely they are to repay the credit.
- Business customers also purchase or lease vehicles on finance and are also assessed to see how creditworthy they are. Businesses will often obtain finance for one or more vehicles at a time.