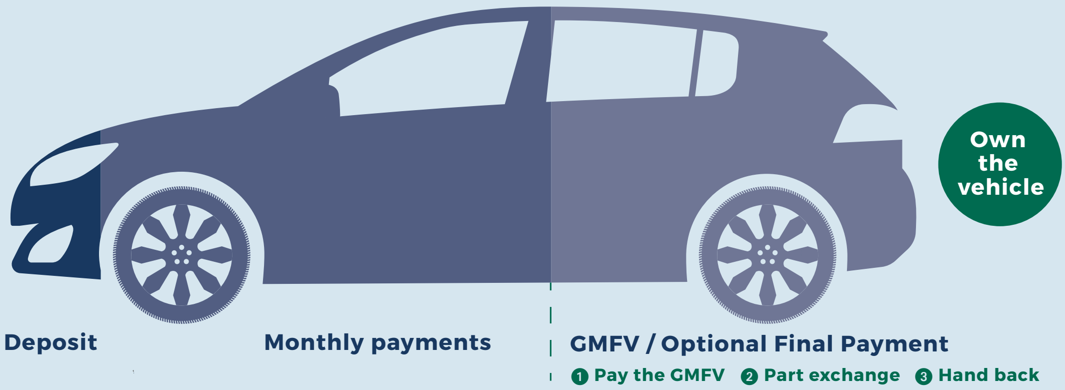
SAF
Specialist Automotive Finance

SAF Specialist Automotive Finance ESSENTIALS

Personal Contract Purchase (PCP)



What is PCP

PCP is the most popular form of motor finance because it gives the customer flexibility at the end of the agreement and a lower monthly payment compared to alternative products like Hire Purchase, or Conditional Sale.

Who is the product suitable for?

- ✓ Customers who would like to have **options at the end** of the term, and a lower monthly payment.
- ✓ The product can be made available to both **consumers and business customers**.

What is the process for the customer?

The customer will:

1. Usually pay a cash deposit or part exchange their old vehicle as a deposit (or both).
2. Agree a mileage allowance and term over which the repayments are made. This will determine the monthly repayment. The more the customer uses the vehicle the higher the monthly payment will be.
3. Be informed by the retailer how much the **Guaranteed Minimum Future Value (GMFV)** of the vehicle will be. This is often called the optional 'balloon' payment or optional final payment.
4. Sign the credit agreement and take delivery of the vehicle. The agreement will outline any fees or charges that are payable.
5. Make all of their monthly payments – typically payments will be structured between 2 years (24 months) and 4 years (48 months) depending on the customer's preferences and circumstances.

Continued overleaf

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6 Before the end of the agreement the customer will be asked by the finance provider whether or not they would like to own the vehicle by paying the GMFV. The customer might also have to pay an Option to Purchase fee, depending on what is set out in the credit agreement.

7 The customer has three options at this point:

Pay the GMFV (and any Option to Purchase fee due) and take ownership of the vehicle.	**Hand the vehicle back** and make no further payments, subject to mileage and vehicle condition, ('wear and tear').	**Part exchange for a replacement vehicle** by using any proceeds ('**equity**') gained if the amount the retailer is prepared to pay for the part exchange is more than the GMFV payment due.

What else does the customer need to know?

- The finance provider owns the vehicle until the point the customer has made all necessary payments, including the GMFV and Option to Purchase fee. The customer is therefore not entitled to sell the vehicle before this time.
- As the GMFV is deferred to the end of the agreement, the monthly repayment is lower for a PCP because the customer is only paying back a proportion of the total amount of credit as part of their monthly repayments. Effectively the customer is therefore initially only paying to use but not own the vehicle.
- If the customer opts to hand the vehicle back at the end of the term, or earlier in the agreement, they might be required to pay charges set out under the credit agreement:

If the mileage allowance is exceeded - the customer will be required to pay a pence per mile charge.	If the vehicle is damaged beyond 'reasonable wear and tear' - the customer will be required to pay a damage charge.

- The customer can 'voluntarily terminate' their credit agreement before the final payment is due but (as set out in the credit agreement) will be required to:

Hand back the vehicle to the finance company.	Pay, or have paid, at least half of the total amount owed.

- The customer is not guaranteed to have any 'equity' in the vehicle at the end of the agreement.