Car finance: Understanding PCP plans

Financial Wellbeing and literacy expert Frank Conway from Moneywhizz explains how PCP car finance works and how you can drive away with a good deal.

The Competition and Consumer Protection Commission has previously published detailed data on the cost of using Personal Contract Plans (PCPs) to finance the purchase of a new car as opposed to using a standard car finance loan to make the purchase.

PCP is a form of hire purchase that become popular in the car finance market in recent years. A primary driver was the great recession where the attraction of a low monthly repayment was a major factor for families whose household finances were squeezed to little or nothing after essential bills were paid.

Many car dealers now relay on PCP as their primary method of finance. The CCPC study examined the level of consumer understanding of PCP contracts, while also assessing the information given at the point of sale along with the overall experience of consumers. As can be the case with many financial products, the level of detailed understanding of how PCPs really operated was a big mystery to many of the people that used them… until they came to the end of the PCP.

PCP balloon payments of thousands of Euro can come as a big shock to a lot of people. Some may not have the means of making those payments.

How PCPs actually work

What most people are surprised to find out is there are 3 parts to a standard PCP, those are:

- The deposit
- The monthly repayments
- The final lump-sum payment which is called the Guaranteed Minimum Future Value (GMFV)

The deposit: This can typically vary between 10pc and 30pc of the value of the car. The deposit can be paid in cash or, if one already owns a car, they can trade it in as a deposit …provided the car is worth that much!

Monthly repayments: PCPs generally last for three or more years and they can have low monthly repayments. This can make them seem more affordable compared to other forms of finance. The reason the monthly repayments are low is because a large portion of the cost of the car is not paid until the end of the agreement.

GMFV (lump-sum or balloon payment): This large, final payment is how much it will cost the user to own the car at the end of the agreement. This figure is set at the beginning of the agreement by the finance company. This balloon payment can be vary from €2,000, €3,000, €5,000 or more.

Comparing a PCP with a loan

The main difference between a PCP and a personal loan is that with a personal loan you borrow the money, pay for your car, and own it immediately. With a PCP you don’t own the car: basically, the person is hiring the car for an agreed period of time. They only own the car AFTER they pay the GMFV. This is important because if you run into financial difficulty during your agreement you wouldn’t be able to sell the car unless you had permission from the finance company – who is still the legal owner of the car.

In this respect, PCPs can be a really inflexible form of car finance. One can’t usually increase their monthly repayments and if they want to extend the term, they may be charged a rescheduling fee. There are often other limitations, such as not going over a certain mileage limit, and commitments around wear and tear and servicing the car that you must agree to.

Watch your personal credit history

As with other types of credit, when you take out a PCP, your finance company will send details of the repayments you make to a credit reference agency. There are two distinct personal credit reporting firms in Ireland; the Central Credit Register (CCR) and the Irish Credit Bureau (ICB). You can receive one FREE copy of your personal credit report from the CCR annually. The ICB charges a small fee.

If you go as guarantor

If you agree to act as a guarantor for a family member or friend taking out a PCP, remember that you will be treated as a hirer. Missed payments will impact your personal credit history.

Do the maths

Thoroughly investigate what the mileage limits and what are the financial penalties if you go over them? This is often a big concern for people and in some rare occasions, MoneyWhizz has encountered people that stop driving for long periods of time before their PCP comes to and end. They do this on order to avoid hefty balloon payments.

Understand any rules concerning ongoing servicing of the car! It is important to continue to service the car as not doing so can lead to bigger repair costs later.

Enquire if there are any clauses in respect to the type of insurance cover required. For example, according to the Competition & Consumer Protection Commission (CCPC), most PCP agreements highly recommend that you take out comprehensive insurance.

Investigate if at the end of the existing PCP if you will have sufficient funds to pay the GMFV.

Frank Conway collaborates with Bank of Ireland on [Financial Wellbeing](#) and promoting financial literacy. He is a qualified financial adviser, founder of [MoneyWhizz](#) and chair of the Price Monitoring Group at the Department of Communications, Climate Action and Environment.

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