

Personal Contract Purchase

Car leasing has numerous advantages over buying a car outright, but it also has one major drawback – the car is never yours. So what if you could combine all the advantages of a regular car leasing deal, but also have the option to own the vehicle outright?

Well you can, thanks to a process known as Personal Contract Purchase (PCP). Personal contract purchase agreements are growing in popularity and are actually a straightforward method of car finance as this guide to personal contract purchase will explain.

What is Personal Contract Purchase?

Broadly, personal contract purchase is the same as a personal contract hire agreement – but with one key difference.

At the end of the contract, there is an optional balloon payment that the individual can choose to pay in order to take ownership of the vehicle. This amount is determined at the outset and allows the driver to keep the vehicle if they are happy with it. However, it is not essential – on the contrary, as with a personal contract hire deal, you could choose to return the car to the leasing company and walk away – subject to fair wear and tear and mileage.

Monthly payments are based on the deposit amount and the difference between the retail value of the car and the residual value – i.e. the estimated future value of the vehicle after depreciation is taken into account. Therefore, the more the vehicle holds its value, the better your personal contract purchase deal will be as that will reduce your monthly payments.

A mileage limit will apply to all personal contract purchase deals. This is because the leasing company will use the mileage limit to determine the vehicle's depreciation and therefore its residual value. So it's important to be honest with the leasing company about how much travelling you are likely to do – exceeding the mileage limit will lead to financial penalties at the end of the agreement.

Personal contract purchase is seen as a direct alternative to the traditional Hire Purchase (HP) agreement and is subject to the protections set out in the Consumer Credit Act.

What are the pros and cons of Personal Contract Purchase?

There are many advantages to personal contract purchase including:

- Fixed prices – You know exactly what you have to pay each month, which can help you set and keep a budget.
- Initial down-payment – usually only a small deposit is required, typically lower than a HP agreement deposit.
- Refinance – If you prefer, you can refinance the balloon payment at the end of the term.
- Flexibility – for drivers looking to change vehicle every two to three years, PCP provides an easy way to do so.
- Maintenance packages – Most personal contract purchase agreements will include maintenance packages that can range from basic servicing to total vehicle management.
- Driving a new car has many benefits. The newer the car the more fuel efficient the engine is and the car will come with the latest safety features. CO2 emissions are also likely to be lower the more modern the car.
- No depreciation concerns – It's not necessary to buy the car at the end of the term and so you can still choose to walk away without re-sale concerns.
- Access to more 'upmarket' vehicles – One of the key elements of a personal contract purchase deal is that it gives you access to previously unaffordable vehicles due to the low deposit and low monthly payments.

Personal Contract Purchase agreements have several disadvantages, these include ensuring the vehicle is meticulously maintained - if the driver hands the car back at the end of the agreement in a condition worse than acceptable wear and tear, the driver will be liable for all repairs. All PCP deals contain a strict mileage limit, cars with higher than the agreement limit will be charged an additional fee. It's also worth remembering that you will have to arrange comprehensive car insurance as the car will not be yours until the balloon payment is made. The road fund licence does not come built in to PCP agreements.

Who is personal contract purchase right for?

Generally, personal contract purchase is seen as the 'best of both worlds' in that you can choose to walk away from a deal, or exercise the option to buy.

Overall, personal contract purchase will generally be more expensive than traditional contract hire and hire purchase deals, but monthly payments remain low and affordable. If you travel fixed distances and have a stable lifestyle, the mileage issue should not be a problem.

Consequently, personal contract purchase deals are well-suited to people who want to drive a car that would otherwise be unaffordable, like to regularly change their car, and who want to keep their options open with the right to buy.