

Graham Hill Training

PCP SCANDALS REVEALED



All You Need To Know About PCP



- * Credit Reference Agencies – Major Inconsistencies Revealed
- * Prepare Well In Advance - This Is Critical * How To Repair Errors
- * What Is PCP? Things You Don't Know Will Shock You
- * Beware Of Promises By Sales Staff * Affordability Income Test
- * Selecting Your Car To Get The Best Deal * No. Of Payments Scam
- * Voluntary Termination – The PCP Provider Scams
- * Making The Most Of Your Part Exchange * Cooling Off Periods
- * Dealer Upsells – Do You Need Them? * Warranty Revelations
- * The Sinister Secrets Of Free Short Term Insurance
- * Handing The Car Back At The End – All You Need To Know
- * How and Who To Complain To If Things Go Wrong
- * 190 Pages Of Essential Information For Anyone Taking Out PCP

How to use this report.

Before I explain what I mean let me thank you for downloading this report. If you follow my advice and note the items to be wary of there is no reason why the next car you finance doesn't turn out to be the best ever.

You may think that the heading is a rather strange thing to say and I appreciate that this is a lengthy document and may look intimidating, so let me break it down.

I've tried to make it as easy to read as possible but some areas are a little technical so may need reading a couple of times. Having said that you should try to read the whole document if you are to get the most out of your next PCP and avoid any nasty surprises during and at the end of the agreement.

The worst thing possible is for you to take out a PCP and immediately regret it after it's too late to cancel the agreement and the car. Too often I have spoken to people who have let their hearts rule their heads resulting in financial difficulty.

In time, I will create some videos, making it easier to absorb some of the more technical issues, rather than reading about them.

In the meantime, I suggest that you have a red pen, highlighter or felt tip for use as you go through the document. If you have a printer that is capable of printing individual pages, print out the pages that contain items that you feel are important or you're confused about and mark them up ready for your visit to the dealer.

Alternatively, you can download the document onto your mobile device and either mark up the pages containing the items you wish to query, if you have a markup tool, or simply jot down the pages and refer to them whilst in the dealership.

Either way, make sure that you ask all of your questions. Try to leave no stone unturned because once you've signed the agreement, and gone beyond the 14 days cooling off period, you are legally obligated to the terms and conditions.

Always work with the dealer to arrive at terms and conditions that you are both happy with. It's not a battle but if he offers something that you don't want, be firm and be prepared to say no. They are quite clever at getting you to say yes.

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Executive Summary

There is an unbelievable amount of nonsense written and spoken about Personal Contract Purchase, better known as PCP, in the press, on the radio and on TV.

It is for this reason I chose to write this definitive guide on the subject as miss-selling and misunderstandings are costing consumers a fortune.

In May 2016 I issued a warning to the PCP providers and to dealerships that if they didn't clean up their act the 'ambulance chasing' PPI claims industry would turn their attention to the newly introduced Financial Conduct Authority (FCA) rules and the way that some car dealerships seemed to be ignoring them.

Shortly after my announcement, the Government set a deadline for PPI claims – 29th August 2019. This should have focussed the attention of those involved in PCP's, but it didn't and new car sales using PCP hit an all-time high in 2016.

However, following a great deal of bad, and often ill-informed, publicity - 2017 saw a drop in new car registrations as consumers withdrew from the product. Not good for the industry and not good for consumers.

I'm not saying that the lack of confidence in PCP was the only reason why new car sales dropped but in my opinion, it was a major contributor. And for those dealers, PCP funders and trade bodies that ignored my warnings that there was a grave lack of transparency in the way that PCP's were being sold – they already have and will in the future pay the price.

Ignore me at your peril – and that includes consumers!

Let me first clear up a misunderstanding as to my attitude as I've been accused by many, including solicitors who act for car dealerships, of washing the industry's dirty linen in public.

Let me be very clear, there is nothing wrong with Personal Contract Purchase as a means to finance new and nearly new cars. It enables consumers to drive brand new and nearly new cars at an affordable monthly cost, often following a low, subsidised deposit.

By making new or nearly new cars more affordable it allows consumers to drive cars that are safer and more comfortable with access to the latest technology. Fuel consumption is much better and running costs are much less.

The environment also benefits from cleaner emissions from newer cars and possibly makes entering and parking in city centres cheaper, as towns and cities introduce more schemes and penalties to control air quality.

If, as a result of using a PCP, the customer can now drive a new or nearly new car he or she will also benefit from some, if not all, of the manufacturer's warranty.

However, contrary to the simplistic way that the product is sold, it can be very complicated with many choices, trip wires and techniques that can turn out to be very costly and upsetting for those caught out.

You only need to check the FAQ's at the end of this report and read the confusion over what happens if you die or are unable to drive part way through the agreement to see how desperately complicated it can get. Do you know what happens if you can't drive, as a result of illness or loss of your licence? You should!

Who is responsible if there is a fault with your car, whether new or used? Or if the salesman told you something about the car that wasn't true? You probably think that it's the dealer? The truth will shock you.

This guide will make clear everything you need to know about PCP but you must read the whole guide before you even consider taking out an agreement.

Am I washing the industry's dirty linen in public? I don't think so and that isn't my intention it's to simply make consumers more aware of the legally enforceable agreements they are entering into and to make the whole process much more transparent.

Let me put the main benefit of PCP into some perspective:

If you were to take out HP at 4.9% APR over 3 years and spent £300 per month you would be driving a £10,000 used car (assuming that you pay no deposit). I've seen PCP offers whereby, after heavily subsidised deposits along with bonuses and discounts from the manufacturer, finance provider and dealer, the customer has ended up driving a brand new £20,000+ car on the same APR of 4.9% for exactly the same monthly outlay.

It can be even better for you if the manufacturer throws in more subsidy allowing their finance arm to either subsidise the APR or even reduce it to zero %.

So one would think that I would applaud the product. Not as the best, as I don't believe it is, but certainly a product with a great deal of merit. Which I do.

My issue is, and always has been, the way that PCP is sold to gullible consumers, capitalising on their lack of knowledge. This could be the poor training of the sales and specialist finance staff. It could be undue pressure placed on the sales staff by the dealer, trying to increase margins, or possibly the manufacturer or lender encouraging dealers to hit sales targets. Or it could simply be salesmen being salesmen?

After all, they have a job to do, bills to pay and maybe families to support so selling you into a PCP, with an added financial incentive to make the sale, and getting you to take a few 'insurance extras' may just get him or her to their target for the month and a bonus. Something that the FCA is looking into as this could be perceived as not in the best interest of the customer.

This report will help you to make an informed decision and help you to understand the massive number of potential pitfalls. Please read ALL of the report before visiting the car showroom. Be as, if not better, prepared as they are.

My final comment is that not all car sales staff/dealerships are crooked. The crooked ones are generally in the minority and after all, they have to make a profit if they are to retain their jobs and the dealer survive. Be tough on them but be fair.

Who Is Graham Hill?

Graham Hill is, without doubt, the UK's most quoted and qualified, vehicle finance expert. 30 plus years experience in the industry dealing with consumers, SME's and large fleets means that he speaks with unrivalled authority.



He is the author of Car Finance – A Simple Guide, top-selling Car Finance book on Amazon and his blog, www.thebestcarfinanceblog.co.uk is number 1 on Google and Yahoo. He has served on an industry anti-fraud panel and been an expert witness for the police advising on fraud cases.

4 years of working as a consultant for Yes Car Credit, the UK's most successful sub-prime car finance provider, means that Graham has an in-depth understanding of those that are credit challenged and the importance of preparing for finance.

A champion of consumer and SME rights Graham was the founder chairman of the British Lease Brokers Association (BLBA) in 1991 then, following the amalgamation of the BLBA with the National Association of Commercial Finance Brokers (NACFB) he served on the board for many years as a director and president in 2002 and 2003.

Graham has appeared on Radio 4's Money Box Programme and BBC 1's Rip Off Britain as well as providing background information for Channel 4's Dispatches programme. He also writes a regular column for Business Money.

He has been quoted in over 40 National and International publications and won Innovator Of The Year for his Lease Comparison and Evaluation App. In 2015

As this report will show Graham Hill is certainly someone to listen to as he exposes some of the closest kept secrets, scams, scandals and rip-offs that have emerged over the last few years. A must read document.

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For details of training available to those providing vehicle finance information to consumers, businesses or staff, please contact Graham Hill at the email address shown below:

Published by:

GHAF Publishing

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Media Headlines

You may have seen some similar headlines yourself during 2017:

New car registrations hit an all-time high in 2016!

Consumers drive up new car registrations in 2016 to their highest level ever!

Personal Contract Purchase (PCP) responsible for 85% of consumer-funded new cars!

Consumers tempted into expensive new cars in their droves through the low cost of PCP's!

Consumers take new cars in record numbers thanks to PCP's but can they afford them?

Could the surge in PCP financed new cars lead to the collapse of lenders when they find that those taking out the finance can't afford their repayments?

These are the sorts of headlines we saw in 2017 from a hysterical press.

Whilst many stoked the fires in order to create headlines, in the main, they were wrong and badly misled the public. Yes between 80% and 85% of all new cars, funded by consumers, were financed on PCP's but the impression that this resulted in a massive surge in consumers taking new cars, as never before seen, was miss-leading.

In addition, according to the press, the incredible increase in popularity of Personal Contract Purchase (PCP) has led to consumers being more financially vulnerable as they are tempted into new cars, as opposed to used cars, in their droves. Again misleading.

If you believed all you read on the subject of PCP you would think that people on minimum wages are now driving around in £20,000 - £25,000 cars at payments they can ill afford. As I will show this is not only totally untrue it is also misleading and could be stopping consumers, who could benefit from PCP, from considering this option.

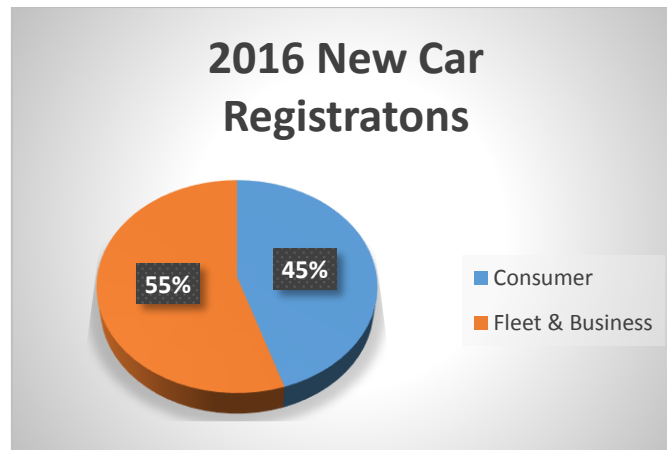
The Truth Behind The Headlines

2016 was a record year for new car registrations, a total of 2.69 million new cars were registered. According to the Society of Motor Manufacturers and Traders (SMMT), 1.21 million (45%) were private registrations with around 85% of that total (around a million cars) funded through PCP. 1.38 million cars were registered to fleet users whilst 100,00 were registered to business users – making up the total of 2.69 million.

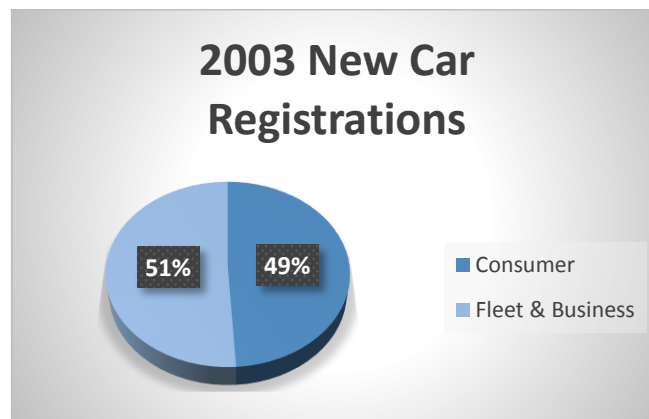
On the face of it, the reports would appear to be true.

But I'm about to reveal the truth about the 2016 peak and why new car sales dropped off in 2017.

The next highest year for new car registrations after 2016 was 2003. Had the press and so-called industry experts taken time out to check back through the SMMT reported figures, they would have found that new car registrations in 2003 stood at 2.57 million, slightly less than the 2.6 million of 2016.



But out of that total 1.25 million (49%) were attributable to private registrations. A higher number and therefore a higher proportion than in 2016. In 2003 PCP didn't feature as the main method of consumer funding so the high demand for new cars, by consumers, wasn't down to that method of finance.



Without this information the press and ill-advised 'experts' went into overdrive, suggesting a major overheating of new car registrations with private buyers responsible for the highest number of new cars being funded by this new 'dangerous' method.

The truth is that more consumers financed new cars in 2003 than in 2016 without the mass use of PCP. No one complained that consumers were at worryingly high risk as a result of the huge number of new cars financed, most on HP over longer periods than standard PCP's.

In 2017 we saw a small drop in new car registrations but this was mainly answered by the uncertainty surrounding diesel cars as there was no clarity coming out from the Government. Up until the end of March, new car sales were still running at a record high but the continued battering of diesel cars and PCP finance by the press slowed down confidence.

New cars sold to fleets dropped but not as much as sales to consumers and to small businesses who were either fearful of the finance product that they'd been using (PCP) in the case of consumers, or in the case of small businesses and fleet users, BREXIT and the ups and downs of negotiations and the uncertainty of their future trading. All three sectors shared the same fear of the future of diesel engines. These were the factors that I believe contributed to the drop in new car registrations.

I personally found that the sudden switch to petrol powered cars led to a demand that couldn't be met. In fact, some manufacturers had dropped petrol engines from some of their model lineups and now have to consider whether to re-introduce petrol into their ranges. This must lead to the question – how many petrol cars ordered towards the end of the year could have been included as sales but couldn't be counted as registrations as they were on 18-week deliveries?

In spring 2018 we are still waiting for some specific guidance from the Government regarding diesel cars. In the meantime, it has been reported that average CO2 emissions from new cars increased in 2017 for the first time since records began. In addition, Ford shook the industry by announcing the following as reported in one of my blog posts, dated 22nd March 2018:

Roelant De Waard, Ford Vice President of Europe, announced at the Geneva Motor Show that Ford is to continue its diesel push. Something that must have surprised a few. In the UK Ford's combined car and commercial vehicle sales in February made it the lead manufacturer with its highest vehicle sales for the month of February since 2004.

Roelant explained, 'We wouldn't find it the right decision to move away from diesel because it's best for CO2, we've got NOx under control, it's better economy wise, it has cheaper operating costs and it's therefore, by far the most efficient choice. We're basically putting it back on the map and allowing it to be the powertrain of choice for us.'

Their new Edge SUV is planned to have an 8-speed auto later this year and with an already fuel efficient engine, it is planned to have an even more environmentally friendly engine as it's planned to be Euro 6.2 compliant. From an NOx point of view, it will be comparable with a petrol engine but with lower CO2 emissions.

With the further planned downsizing of diesel engines from 2.0l to 1.5l, the fuel efficiency will continue to improve. So will this change of heart by the UK's leading car manufacturer bring diesel back into focus? Personally, I think it will and certainly may convince the Government that we need clearer direction rather than the petrol, diesel flip-flopping!

As I go to press I have just issued a report on my blog, www.thebestcarfinanceblog.co.uk, in which I explain the latest developments by Bosch that will reduce NOx gas emissions from diesel engines to just 13mg/km, lower than a petrol engine and about a tenth of the target set for 2020. The new Bosche system requires manufacturers to carry out some design changes so it may still be 2 years before we will see the Bosch design in production. Unfortunately, the modifications cannot be retrofitted.

It does, however, ask the question are we right to strongly pursue petrol when in 2 years time diesel will, by all accounts, be cleaner than petrol? Again we need more guidance from the Government.

How Many Cars Are On PCP Agreements?

Most journalists and ‘experts’ talk about the number of new cars financed on PCP agreements but little has been said about the number of used cars financed on this popular type of finance.

The truth will, in fact, shock many. We know that around 900,000 new cars were financed on PCP agreements in 2017 but let’s look at the number of used cars.

Here are the key statistics:

According to the Society of Motor Manufacturers and Traders (SMMT) 8.1 million used cars changed hands in 2017.

Statistical portal Statista provides statistics on the market share of used cars supplied by dealers. The latest published figures were for 2014 but as a guide, the latest 3 years were reported to be: 2012: 57.2%, 2013: 57.8% and 2014: 57%. So it wouldn’t be unrealistic to assume that 57% of all used cars are supplied by dealers.

So in 2017, the figure would be $8.1 \text{ million} \times 57\% = 4.6 \text{ million}$.

According to a special report by What Car in their January 2018 Car Of The Year edition they announced: Almost half (49%) of the used cars bought between September 2016 and September 2017 were financed on PCP. Only cars supplied by dealers can be financed on a PCP so it would be reasonable to assume that 49% of the 4.6 million cars supplied by dealers were on a PCP. This amounts to 2.3 million cars.

This gives us a total of 3.2 million new and used cars financed on PCP’s in 2017. I accept that the growth in used car PCP’s has been sharp over the last few years but I still believe that there are well over:

6 Million Active PCP Agreements!!

Is PCP A Good Way To Finance Cars?

As I've stated above - yes it is!

Unfortunately, the rapid increase in demand for PCP has meant that far too little is known about the product from both the perspective of those selling it as well as consumers who have signed up for it. By making monthly payments more affordable, selling the product is easier and for consumers more desirable.

Clever marketing has moved customers away from Hire Purchase (HP) to PCP with very little change to monthly cost if you compare a 5-year hire purchase agreement, settled after 3 years, as was generally done prior to PCP's, with a 3 year PCP arrangement with the customer covering, in each case, average mileage.

A PCP gives you much less flexibility than a Hire Purchase agreement as you must change your car at the end of the agreement term, whereas you can change your car beyond the end of an HP agreement if the car is still serving you well and you have covered low mileage.

On the other hand with a PCP you are not exposed to risk if used car prices fall dramatically. You simply return the car at the end of the agreement and pass across any losses to the lender.

A good example of the way that you can benefit from a PCP agreement appeared after the resultant huge drop in used VW prices following their self-imposed emissions debacle. Any losses were passed over to the finance company by simply handing back the car.

In one example sent to me - a used, 3-year-old VW Passat, dropped in value by £4,000 overnight. If the owner had financed the car on a PCP he would have simply handed the car back to the lender and passed the loss over to him. The situation was made worse for the customer when the dealer explained that despite giving him a purchase price he wouldn't buy it anyway.

The manufacturers like PCP agreements as they entice consumers, who would normally buy a used car, into new cars with a known replacement cycle. A PCP generates more in interest charges over 3 years than a 3 year HP agreement, so manufacturers and their 'captive' PCP providers work together to increase new car sales.

As a result, customers are provided with a wide range of discounts, bonuses and incentives that make a new car on a PCP very attractive. You can expect to receive a mix of manufacturer's contribution to deposit, finance company contribution, dealer discount and dealer contribution and finally a subsidised or even zero rate APR.

All very good but you must be wary of the confusing messages that so-called experts tout via the press, radio and TV programmes. They are often inaccurate and misleading.

In a recent Radio 4, Money Box programme, experts compared a current PCP deal with the same deal a year ago on the same Audi A3. The point was that, as a result of various factors, monthly payments had increased by over £100 per month following the same deposit being paid by the customer as had been paid on the previous car. Which means that at the end of the agreement, with the same monthly budget, you couldn't replace your old car with a new equivalent.

What a surprise!

Upon checking the figures the programme found that the dealer contribution had dropped as had the final balloon (GMFV) payment with a variety of reasons given. Frankly, it was a nonsense. First of all, it has to be understood that manufacturers 'push' different cars at different times. A year ago the car in question, an Audi A3, was coming to the end of its current style with a facelift due out in 2017.

In order to motivate sales of the outgoing model Audi clearly did all they could to get the monthly payments below £200 per month. Orchestrated and discounted sales of the old model meant that when the facelifted 2017 cars were launched the manufacturer and their dealers weren't carrying excess stocks of parts or finished cars.

Demand for new or facelifted models always causes a sales spike so why give away more money than they need to? It doesn't make commercial sense. So it wasn't surprising to see a price increase of £1,000 to pay for the improved design and equipment. The deposit contribution dropped from £2,300 to £1,500, not helping the monthly repayment and the final balloon payment dropped from £10,000 last year to £8,700 for the new model.

Again the wrong reason was given for this fall. One expert stated 'Used car prices have been dropping for some time'. This is wrong according to British Car Auctions (BCA) and many trader contacts that I have. According to the Society of Motor Manufacturers and Traders (SMMT) used car sales have been down all year in 2017 – this is accurate. But the volume of cars sold has been interpreted by many to be a drop in used car values – that is wrong.

According to BCA, used car prices had been increasing consistently in 2017 with the November Pulse Report showing that average prices in October had reached a new high of £9,364 up 2.7%. Fleet and lease cars (which includes returned PCP cars) had hit record levels for the 3rd month running.

According to BCA the average age of cars sold in October 2017 compared to October 2016 reduced from 56.73 months to 53.36 months, which means that the average age of used cars on our roads is lower than 12 months ago. Average mileage reduced from 51,176 to 48,145 with the all-important price increasing from £8,591 to £9,364 so where the 'experts' got their information from mystifies me.

So-called 'experts' shouldn't be quoted if they are basing what they say on guesswork!

I would suggest that a more feasible reason for GMFV balloon payments dropping has little to do with the current used car values, after all, we're not talking about current values but expected values in 3 or 4 years time. More likely it has more to do with the ongoing Financial Conduct Authority investigation into the alleged miss-selling of PCP's by dealerships.

Dealers often promise customers that they will have equity in the car at the end of the PCP agreement but if the finance companies have been setting the GMFV's too high there is less chance of there being any equity at the time of change, leading to customer complaints and

dissatisfaction with accusations that dealers misled them. Hence the reason, I believe, for the final balloon payment to have dropped in this and many other examples.

Moving back to the example if you take the total paid a year ago on the PCP for the A3 costing, according to the show, £19,500 it amounted to £20,950, which includes interest and charges of £1,450. The current total cost is, according to the show, £23,595 which means that interest and charges amount to £3,095 against a cost of £20,500.

This wasn't mentioned during the programme but it shows that interest and charges have more than doubled, probably because the APR was subsidised a year ago. Not surprising that the monthly cost increased by so much.

So in summary, the point that should have been made in the programme is to keep an open mind when it comes to changing your car at the end of its PCP agreement. If the same deal isn't available on the Audi A3 that you are currently driving you'll find that there is likely to be an equivalent deal on say a VW Golf, BMW 1 Series or a Mercedes A-Class. And also consider other finance products such as Personal Contract Hire (PCH).

I'm not being critical of Moneybox, it's a brilliant programme and not because I've appeared on it. It gives out great advice but sometimes it has to rely upon the competence of so-called experts. My advice is, therefore, if commentators want to promote themselves as experts – please make sure that the information that you provide is accurate and proportionate and not misleading and confusing!

PCP vs Outright Purchase

When I was a kid and buying my early cars you would rock up to the dealer with a pile of cash in your pocket and when you saw the car you wanted you made an offer 'for cash' and you were guaranteed to have some of the cost knocked off. None of that messing about with finance forms etc., just a pile of readies, sign an order form, receive the log book and you were on your way.

How times have changed. Suggest that you want to pay cash and the money laundering bells start ringing in the head of the dealer as you are now being considered to be some sort of

crook. Their welcoming smile turns to a frown as they hear the dreaded word 'cash' mentioned and they see some of their income about to disappear. Their enthusiasm for your business drops. But here's the thing, I've seen instances where the total financed cost of a car has been less than the cash price.

If you offer to buy the car you've seen for cash and you are offered a dealer discount of say 5% - 10% you may feel that you have a good deal. However, if the car is being pushed by the dealer or the manufacturer, on a promotion, you may find that along with the dealer discount the manufacturer has thrown in another lump of money and the finance company has contributed even more towards the deposit and even better offered 0% APR.

Add it all together and you may find that, even after paying the final payment, the car has actually cost you less than the cash price. Worth playing around with the figures.

Finally, in this section, the question I'm constantly asked - is PCP the best way to end up driving a new car? In my opinion, no, there is a much better way called personal contract hire (PCH). A similar method to that used by the vast majority of fleet and business users. However, this will be the subject of another report and not for inclusion here.

All I would say is that you don't contractually have the ability to own the car at the end of a PCH in the way that you do with a PCP but as 80% of those who take out a PCP hand the car back at the end of their agreement you may as well have saved yourself money and opted for a PCH.

Prepare For Finance

These rules will apply whatever finance you choose to use. From personal loan to HP and PCP, you should always prepare for finance. If you can't manage your credit status and achieve a high score you won't be offered credit – full stop!

It is important that, if you are to be successful with your application, you prepare well in advance, don't leave this until the last minute. **Start to check your credit files early. I would say at least 6 months before you expect to apply for finance.**

Mortgage vs PCP

Before we get into your credit files a quick word of warning. I recently had a case whereby a husband had two cars on PCP in his own name, his own and the family car that was driven mainly by his wife (she was a housewife). He did quite well for himself so had no problem with the repayments. The two cars had a total capital cost of around £80,000.

Shortly after taking out the agreements he and his wife decided to invest in a buy-to-let property but were declined the mortgage because they were 'overcommitted.' The problem was that the total monthly PCP outlay was just over £800 per month but the credit file showed him as having a debt of over £75,000 after a few monthly payments had been made. The property was only costing £150,000 but the £75,000 of car debt caused the mortgage provider to say no.

The problem is that his initial debt was nothing like £80,000. If he handed both cars back at the end of each agreement his total debt, calculated at just over £800 per month, was less than £35,000 after he'd already made a few monthly payments. But the way that PCP finance is shown on the credit file means that, in my opinion, the debt was overstated.

This was a buy to let and the customer was quite wealthy, but supposing you are a first-time buyer, or you are moving in order to accommodate a growing family, the house is very important to you. So you don't want to apply for the mortgage just after you've taken out a PCP as you may not receive the mortgage offer or, because of your existing financial

commitment, you may receive a reduced mortgage offer possibly losing you the house. This could be a disaster so you need to prioritise your applications.

If the mortgage is most important then make that application first followed by the PCP application. Bear in mind that PCP lenders are more flexible than mortgage lenders as it is easier for them to liquidate the asset, if you default on your payments, than to convince a judge to agree to throw you and your family out of your home, in order to sell it to repay the mortgage, following a default.

Just a word of warning to get your priorities right.

Credit – A Misleading Dealer Statement

On the subject of credit availability, and an example of what I consider to be a misleading statement by a dealer group that should know better, I have seen a document headed Why You Should Consider Dealer Finance.

It states Funding your new car through HP or PCP is secured directly on the asset, like a mortgage, keeping your personal non-car orientated borrowing credit line free.

That is misleading rubbish. It suggests that when you enter into a PCP or HP agreement, whereby the finance is linked to a car, it won't be taken into account when applying for a loan, overdraft or other type of finance for say a new kitchen, holiday etc.

All lenders are obliged to assess affordability when approving any consumer finance so extending yourself to a high repayment on a car, eating up a large portion of your net income, will most definitely restrict the amount of finance you can take out for other purposes.

In simple terms, if you take home £2,000 a month, that is all you have to spend. If you choose to spend £500 per month on a PCP in addition to a mortgage of £750 per month, clearly you have less available to spend on a loan for your holiday or new computer etc. To suggest that your 'non-car oriented borrowing credit line' is left free when taking out HP or PCP on a car is ridiculous.

The question is – can this statement in the sales literature be construed as misleading or miss-selling? You take out your car finance in the belief that it will have no effect on your ability to raise credit. You then apply for a loan to pay for your holiday and get declined because the lender says that you are over-committed and have failed their affordability test. But you wouldn't have been declined if you had not taken out the car finance.

I, therefore, suggest that you take this into account very carefully when calculating your available income. Don't be misled into thinking that because the lender retains ownership of the car that he has removed the risk. The two main concerns of the FCA is that consumers have freedom of choice and can afford their repayments.

Income & Expenditure

Keep notes regarding your regular income, after tax, along with a breakdown of your expenditure. It is unlikely you will be asked for this by the lender (until the law changes) but in order to set a monthly budget for your car, you should know what your outgoings are.

If you have applied for a mortgage you would have already done this and you can use their template to calculate your net available income.

How Much Should You Spend?

As a guide, you should spend no more than 20% of your net income (gross income less tax, NI and other deductions) on your vehicle. That is a general rule. However, some drivers are enthusiasts and it is not only a means of transport it is a passion and a pastime. In those circumstances, and with low outgoings, you could allow up to 40% of net income.

Bank Statements

Check the condition of your bank account. Make sure that at the time you apply for credit you can provide 3 months bank statements. Also if you have a returned item (e.g. bounced cheque, DD or standing order) you should wait until that item no longer appears on the last 3 months bank statements before applying for finance.

Returned items, through lack of funds, can mean instant decline by the lender. It could, of course, be the result of a bank error and not your fault at all but rather than explain the problem and risk the lender not believing you it would be easier to wait until the item has flushed through your account.

Some people have a savings account that they move their excess funds into each month. With automated underwriting, there is a fear that the system may not assess you properly as you are not showing a healthy balance in your current account, so I would suggest one of two courses of action.

The first would be to leave some of your savings in your current account to show a healthy balance for at least 3 months before you make your application.

The second would be more complicated but could demonstrate to a lender that you are a very responsible person (who saves) and therefore a low-risk customer. When making your application your not so healthy looking current account would benefit from the support of a healthy savings account.

However, the chances are that the dealer won't ask you for both accounts but a broker's advice would be to provide both sets of statements to the dealer and insist that he provides both sets to the lender in order to paint a better picture of your creditworthiness.

Even then the dealer is unlikely to submit both sets of bank statements so to make sure that an underwriter is aware of your savings you should do something more.

You should create a 'Notice Of Correction' in your file, held at the credit reference agencies, saying something like 'Note to underwriters: I maintain a good current account along with a healthy savings account – copy statements from each account are available upon request'.

As I will explain later when I cover Notice Of Corrections this will force an underwriter to review your application and if he hasn't already asked, he is more likely to request copies of your savings account statements that will add strength to your application.

Don't forget to remove the Notice of Correction if your situation changes or if you don't want to leave it there as a permanent note.

Proof Of Address

You may be asked for proof of address. This is often in the form of one or more bills in your name at your current address (not your spouse, partner or parents) dated within the last 3 months. These will usually include utility bills, council tax bills, credit card and bank statements. Be prepared. It is not uncommon for all bills to be in the name of one partner when the other is the one who will be applying for finance.

You may need to consider having some utility bills moved across into the applicant's name or in joint names. They will normally accept, as a proof of address, a bill that is in joint names but not just in your partner or spouse's name, even if the bill was clearly in a wife's name, say Mrs S Hill, when the applicant is Mr G Hill. As always be prepared in plenty of time.

Financial Association

This is something that very few people are aware of and can result in an unexpected decline from the lender. Let's say you decide to apply for a loan, credit card or mortgage in joint names with your spouse, partner, relation or friend. Even if you don't go ahead with the application you have already created a financial link between both applicants, and that link will appear on each applicant's credit file.

Years ago finance companies would search your address for anyone with adverse (poor) credit living at the same address. This was clearly wrong as you could have several friends sharing a property but if one had poor credit no-one living there would be able to arrange finance.

These days the searches are only made on individuals UNLESS there is a financial link between the applicant and others. So if a husband applies for car finance he could still be approved, even if his wife has a terrible credit history and vice-versa, as long as there is no financial association.

The problem is that these associations remain on your credit file until you ask for them to be removed. So if you have split up with a partner, unless you still have joint bills to pay (say a mortgage or a loan) you should request each of the credit reference agencies to remove the links. Each has a standard way for you to apply to have the link removed – you can do it online. Experian refers to it as Financial Disassociation.

According to Experian one in ten partners are not honest about their debt when discussing with the other. You need to be honest because if there is a financial link and your partner has very poor credit that they haven't told you about, it may prevent you, with good credit, from being offered the finance you've applied for.

At best you may be offered finance but your partner's poor credit may cause the lender to increase the APR, thereby costing you more. Remember, this link between credit files can take some time to amend so again start looking at your credit report well in advance of applying for your car finance.

Proof Of Identity

You could also be asked for proof of ID which will normally be your photo card driving licence or passport. If you provide your driving licence make sure that it is showing your current address and that your signature is the same as the one that you use on the finance documents when you sign them.

If you have an old style driving licence the lender will want to see your passport as they need photo ID. They may not be too worried if your passport has expired, as long as you still appear to resemble your old photo, but that isn't a given, especially if the passport expired some time before your application.

Some lenders insist on seeing or having a copy of your current ID which means that whichever proof you provide it should be current or they can withdraw their offer of finance.

At the time of writing Mercedes Benz Finance were still insisting on seeing either your original driving licence or passport. This is fine if you've arranged the finance through the

dealer but may cause a problem if you have arranged the finance through a broker. They will insist on you sending your original proof of ID to the dealer in the post.

This is normally OK but be wary of times when you need your passport and/or driving licence for a trip or holiday abroad. You don't want to jeopardise your holiday because your ID was lost in the post.

Don't forget that if you have the wrong address on your licence you can be fined up to £1,000 if checked by the police. Keep it up to date – it's free but can take up to 6 weeks to change. Again be prepared.

A new digital licence, that can be downloaded onto your mobile phone, is set to launch in 2018. So watch out for instructions. You will still need to keep your address up to date or face a fine.

You should also be aware that the PCP provider won't usually accept a photo of your ID taken with your mobile phone, it has to be a scanned copy. Again, that's OK if you're dealing directly with the dealer, make sure you have your driving licence with you along with your passport when signing documents. They will be able to scan the copies for you.

However, if you're dealing with a broker, he may accept a scanned copy by email so if you haven't got a scanner but you have access to a friend's or work's scanner run them off and email them to yourself in preparation.

E Signature

Many finance providers are switching over to e-signatures from manual signatures as we're told that e-signatures are safer. Many people believe that an e-signature is what you produce when the postman calls and needs you to sign for a parcel or letter on his electronic device. It isn't.

If you are a techie and you would like to know how it works I've explained it below.

However, you don't need to know so you can skip it if you wish. Although you may like to scroll down to *My Concern* to see what I am worried about.

It's very complicated and all started with a European directive in 1999, so what we use now has actually taken nearly 20 years to develop. A new regulation, introduced by the EU in 2014, created a new legal framework in order to standardise the use of e-signatures.

When you "sign" a document, the electronic signature program creates a digital imprint through a process called "**hashing**". Like a "digital summary" of the document and composed of a sequence of letters and numbers, each hash is unique with the slightest change in the document producing a different hash value.

In order to verify the signature the hash is then encrypted (coded) using the private key for your digital certificate. Next, the encrypted hash and public key are combined to form your digital signature, which is then appended to the document.

When a signed document is opened (in Adobe Acrobat, Microsoft Word, etc.), the hash value is decrypted using the signer's public key. Next, the verification software recalculates the document's hash value, as long as it matches the decrypted hash value, that means the document has not been altered in any way. The program then displays a message certifying the document's integrity and the signer's name.

That probably sounds very confusing but if we believe what we are told by the banks and security experts it is almost impossible to forge the e-signature so whilst dealers may still require you to physically sign the documents at the moment it won't be long before you are simply presented with online documents for you to sign with an e-signature on your phone, tablet or computer.

My Concern: I will be talking about this again later but e-signatures make contracts for finance the same as software agreements or buying something on eBay or Amazon. When was the last time you read the terms and conditions online before ticking the box that said that you have read them before buying something or downloading software?

The chances are that you can't remember because very few actually read them and this is where I believe the problems will begin. It takes away any pressure to read the contract and instead do the simple thing like provide an online signature without sitting in front of someone and feeling the need to read the terms and conditions.

My argument is that all standard terms and conditions should be posted online so that you have plenty of time to consider them long before you even visit the dealership. More about this later.

Deposit

Try to keep as much money back as you can afford for your deposit, after allowing for insurance costs, that way you keep your monthly payments as low as possible and minimise interest charges. The more deposit paid, the less you borrow, the lower the monthly payments.

I have more to say about deposits further down. A BIG money saving tip and a way to avoid being scammed by the dealer.

Insurance Cost

If you have a car in mind check out the insurance costs before pursuing the finance. Some performance cars and even 4WD cars can carry a hefty premium so check what your outgoings will be before committing yourself to the new car by signing a purchase order.

If under 25 you could end up with insurance costs higher than your finance costs. If you're a young driver or if you have had an accident within the past 5 years it could save you money if you put a family member or friend on the policy as a named driver if they have a long history of no claims and no motoring convictions.

By doing this you could save a lot of money and don't worry if you have an accident it won't affect the person who is the named driver on your policy unless he or she was driving at the time. But always check the policy details.

Don't forget that if you take out any finance on a car check the terms of your finance agreement as it will normally insist on you taking out Fully Comprehensive insurance.

Also be aware that whilst you may be covered to drive any car your insurance will only cover you for 3rd party when driving someone else's car, even though you are covered fully comprehensive on your own car.

You also need to tell the insurance company that you are not the owner of the car and that it is on a PCP agreement. You don't own the car until you have made all the payments including the final balloon payment and the Option To Purchase Fee.

Insurance Quotes

When obtaining insurance quotes, to be paid monthly, the insurance provider, or comparison site, may access your credit file. This is known as a search and if several are recorded on your credit file it can adversely affect your credit score.

However, provided the company carrying out the search records it as a '**Soft or a Quotation Search**' it is still recorded on your file but other than you no other company can see the searches so they won't affect your credit score. So when obtaining quotes insist that the insurance provider is only carrying out '**Quotation Searches**'.

Credit File Searches & Your Credit Score

You shouldn't be paranoid about searches but several searches carried out over a short period of time puts lenders on alert. It could indicate that you may be arranging finance on several cars at the same time.

It could also indicate that others may have declined your application, for reasons not obvious to the company you want the finance through, resulting in additional applications and searches. It's a safeguard. So whilst several searches should only add a few points to your credit score that could be enough to turn what would have been an acceptance into a decline.

As I've mentioned earlier in this report there is no link between the credit reference agency files so it is possible that having several searches recorded on one of the credit files, adversely affecting your credit score, will not affect another agency as those searches will not be showing, thereby resulting in a stronger credit score. A good reason why you should

maybe search all 3 files as well as find out which agency the PCP provider is using. If you ask the finance provider they should tell you.

Your Credit File

Correcting Errors

Your credit file must be checked for inaccuracies. Mobile phone companies are notorious for registering arrears and defaults on the wrong person's credit file. But which Credit Reference Agency files do you check?

The Credit Reference Agencies

There are three credit reference agencies that store credit information on you. Car finance companies can use one or all of the following platforms, Experian, Equifax and/or Call Credit. The thing to bear in mind is that there is a grave lack of consistent control over the platforms.

There is an obligation on the part of those filing information to ensure that the data is accurate under the rules of the Data Protection Act. But it is up to them if they don't record the same information on all three systems.

So, in theory, you should check all 3 systems to see what is being stored on you for a complete picture.

Agency Responsibility

The owners of each platform will be quick to point out that it isn't their responsibility to ensure that the information is correct. They are simply responsible for storage and presentation of your data.

So this is why I suggest you start checking your credit files 6 months before taking out finance because whilst you should report any errors to the credit agency they must then contact the data provider which can result in a dispute that can take months to resolve.

You can see a copy of your credit file held by each agency by going online. Some will allow you a free search provided you give them your credit or debit card details which will cause them to take a regular amount from your card monthly.

This will enable you to access your credit details any time in the future. If you don't want that facility, cancel the agreement as soon as you have seen your free credit report and the agency will stop any payments being taken in the future.

Certainly consider the monthly fee which not only gives you access to your credit file any time you want but they also set up alerts to let you know if any irregular activity takes place on your file, e.g. a new bank account being opened or a new credit card or loan being applied for.

If you don't want to give credit card details you can also obtain copies of your credit report by post by paying £2 to each of the credit reference agencies. Personally, I feel this should be free of charge as it is your data that they are storing and they earn money by providing the information to lenders for a fee.

Don't forget that no-one can access your personal information unless they have asked for your permission. This permission may be hidden away in the terms and conditions of an application that you may have signed originally or clicked the yes box of an application saying that you have read and understood the terms and conditions which could include credit searches.

Finding An Error

If you find an error on your credit file you should contact the company that has made the incorrect entry and ask for it to be changed. The law gives you a route under the Consumer Credit (Consumer Credit Reference Agency) Regulations 2000.

Advise the credit reference agency that an error is showing on your credit file, give them your full name and address and credit file number if you have it. Explain why you believe the entry is wrong and provide any proof or evidence that shows why it's incorrect.

Keep a copy of all correspondence and never send original documents, always send copies. They then have 28 days to tell you what action they have taken, e.g. removed the entry, changed the entry or done nothing.

If they have changed an entry they will send a copy of the changed entry. If the data provider won't change the entry, after being contacted by the agency, the agency is supposed to assist you to escalate to the Information Commissioner's Office (ICO), this Government department is responsible for policing data inaccuracies.

However, I have seen several complaints that credit reference agencies wash their hands of any complaints raised by consumers, recommending instead that you simply take up the issues with the data provider – even months after a complaint has been raised and rejected.

But even after escalating there is no guarantee that the data provider will respond quickly to questions asked by the ICO. The same applies if the credit reference agency has decided not to amend or remove what you consider to be an inaccurate entry. If you receive no help from the credit reference agency you can make an application yourself to the ICO.

Another reason why you should start checking your credit files early as getting to the point of involving the ICO can take months. Frankly, I find it a disgrace. There should be a fast track complaints procedure. Far too often I have seen errors left uncorrected on credit files either because the lender is lazy or ignorant. Or simply trying to be awkward. It is a very unfair system.

Maybe if the lenders were obliged to record everything about your credit arrangements across all three CRA's accurately, or face a fine, they may take more care. In addition, they should pay compensation to consumers if the information is stored incorrectly, causing them to be unfairly declined for credit.

Why should we put up with such a hit and miss system when the whole of the UK's consumer lending depends upon the accuracy of information held by the CRA's – it's appalling!

Notice Of Correction

This is very important as it is very powerful. This gives you the opportunity to explain any adverse information on your credit file as well as explain any errors. If you post a notice of correction it stops your finance application from going through the automated underwriting process. It forces an underwriter to review your application. An underwriter is a person who decides whether you will be offered finance or not.

Notice Of Correction Entry

We all have problems in our lives, some of which can result in a lack of attention to our finances. For example an accident, operation, redundancy, loss of a loved one, divorce etc. Each of these, along with various other reasons, can result in arrears and defaults. You may feel that if this happens it is game over for some time as adverse information can remain on your credit file for up to 6 years. Not so.

If something bad has happened, enter the details within the Notice of Correction. This is particularly important if something dire happened in your life, resulting in adverse credit, following which you quickly repaired your poor credit by bringing arrears completely up to date. Armed with your reasons the underwriter may sympathise and approve your application.

You have 200 words to explain your situation and you should make sure you post the same notice on all 3 credit reference platforms. Again there is no link between them so you have to make 3 separate entries. It's free and can help your application.

You can either send your notice of correction by post or you can go online and advise the CRA by completing an online form on their website. If the CRA is unhappy with your notice they will advise you the reasons why they are unhappy and give you an opportunity to change it. Otherwise, the notice will be forwarded to the Information Commissioner for arbitration.

It is therefore important that you keep whatever you say civil. If your partner managed to max out your credit cards before leaving you and left you with a pile of unaffordable debt, don't post a string of expletives describing your relationship. You will be ignored and the

post will be taken down. Keep to the facts. Oh, and a tug at the heartstrings can get the underwriter sympathising with your situation.

County Court Judgements (CCJ's)

You want to avoid county court judgements at all costs as they can often be the cause of an instant finance decline. If you find yourself in financial difficulty always try to resolve with the lender before the debt is passed out to a debt collection agency then finally to court. If your problem is temporary you can possibly negotiate a payment plan that may not find its way onto your credit files. I have always found that dealing with the lender is the best route and the least painful.

By the time the debt is passed to a debt collector you are normally in arrears and/or default. This is not so good and can have a serious effect on your credit score. If you are unable to come to an arrangement with the debt collector you will normally find yourself in court for the judge to agree on a payment plan. This is the worst possible situation. Made worse by the fact that the judgement will stay on your file for 6 years and will affect your ability to obtain credit.

Provided you settle the CCJ within a month the CCJ will not be posted on your credit file although any arrears or defaults will remain. What is more confusing is when you receive a CCJ for a non-finance related disagreement and then get declined for finance. For example, a client of mine ended up with a £15,000 CCJ because he ordered a custom built 3 piece suite that turned up nothing like the order. He disputed and refused to pay.

Whilst he was away on a 3-month trade mission for the UK the supplier sued and was awarded a CCJ in the client's absence. This meant that when he returned and applied for some finance for a car he was instantly declined as a result of the CCJ.

I appealed the decision, provided all the documentary proof and got the client to post a Notice of Correction. We managed to get the finance approved, however, the point is that even with a CCJ that was not issued as a result of arrears or a default of a finance agreement, you can still be declined for finance. Make use of a Notice of Correction.

Credit Score

This is very important to you, not quite so important to the lender. You need to try your hardest to maximise your credit score but a high credit score is no guarantee that you will be offered any and all finance you apply for. You will be limited by your affordability along with other factors included in what is known as the lender's scorecard.

Credit Score – The Secrets

You may not fully appreciate how and what is recorded on your credit file. For example, many believe that utility bills such as gas, electricity, sewerage and water don't appear on your credit file but they do according to Experian. It's the providers who decide whether to post their accounts on your credit file. If they do they will affect your credit score.

There are obvious items such as your mortgage, loans, credit cards, car finance, current accounts and mobile phones but you should also be aware that home entertainment packages can find their way onto your credit file, e.g. broadband, TV and home phone accounts. Which puts even more pressure on you to keep on top of your payments. And another opportunity for mistakes to be made.

The credit providers don't update your file immediately any action takes place. According to Experian, your files are only updated every 4-6 weeks. That's when they report new accounts, closed accounts and payments made or missed.

Credit Score – More Secrets

Should you close unused credit accounts? There is no simple answer. There are 15 different 'factors' that affect your credit score on Experian. Your credit score will decrease if the average age of your credit accounts lowers. So if the accounts you no longer use are the oldest, if you close them the average age will decrease as will your credit score.

Use fewer credit accounts and your score will increase, increasing your chances of obtaining credit. If you have 4 credit cards that are in constant use, this will give the impression that

you could be over-reliant on credit. Pay off and close one of your credit cards and your credit score could increase.

However, just to prove how poor the whole system of credit scoring is if you have the same 4 credit cards, each with a limit of £1,000 your total credit is £4,000 (assuming you have no loans or overdrafts etc.). If you pay off and close one of your credit cards your total credit limit drops to £3,000 and according to Experian your Experian credit score would drop.

Having worked with underwriters in the past, whilst Experian may drop your credit score this may have a positive effect on the underwriter's scorecard. We really need more clarity on credit assessment – in my opinion, it's about time that the Government intervened to introduce consistency across the platforms and clarity regarding the way that data is stored, how to read your credit file and how the scores are calculated.

You have no way of checking your credit score and that is wrong. If the credit reference agency miss-calculates your credit score you have no way of knowing or checking. It's ridiculous.

It is also very worrying that a Credit Reference Agency has moved from being a data recorder to a Finance Broker. Based on their credit score, that only they know how it's calculated, they will offer you credit cards, loans, mortgages, car finance etc. OK, so they are not in a position to offer you the credit card or loan that they propose, they will act as a broker taking a finance application from you that will then be forwarded to the finance provider to approve and no doubt earn a commission.

But consider this. Let's say that the CRA has arrived at a low credit score that doesn't accurately reflect your true score which is higher. They recommend a sub-prime or near prime product which of course you will be approved for because your credit is actually stronger than you are told. You end up paying more in interest charges than you should do.

In my opinion, the whole situation stinks. All lenders are forced to use the credit reference agencies with one of them effectively in competition with them by offering various finance products.

Score Card

Lenders use a 'scorecard' to assess each application, not your credit score. This not only incorporates all the items included in your credit score calculation but also other factors such as your type of employment, how long you have been in your current job, whether you are married, how many dependents you have along with your all-important net income. Most of which is provided by you on your credit application.

Unlike your credit score, which I believe should be totally transparent, the lender's scorecard is a commercial creation that is personal to them. They must justify to the FCA that they have sufficient checks and balances in place to ensure that clients are treated fairly and pass affordability tests before being approved for finance.

The problem I see when assessing a client's suitability for finance is firstly the data stored which is reliant on other lenders being consistent with their entries. I believe that an independent review of the credit reference agencies is required. All too often I have seen information stored on one system and not another. I also disagree with the level of exposure shown on say a PCP or PCH. They do not reflect the indebtedness of the customer.

Examples I have seen, in the case of a PCP, show the total amount owed on the car less the deposit, with the balance reducing by the monthly payments until you get to the final balloon payment. In most cases, the car is handed back but if you have a final balloon payment of say £10,000, which you don't have to pay, it will be shown as a debt until the car is paid for or returned and suddenly you are shown as having a debt of £10,000 then nil. This is wrong in my opinion.

The case is even worse with a PCH. Let's say you pay 6 x £200 upfront followed by 35 payments of £200 then hand the car back. That is the contract. The car could be £15,000 or more but in my opinion, the cost of the car is irrelevant. It is a rental agreement with an exposure of $35 \times £200 = £7,000$ after the deposit has been paid. Simple as that but on credit reports it shows the total cost of the car reducing by the monthly payment until in month 36 the balance is wiped out when you hand the car back.

Note to FCA and Government: you need to carry out a full review of the credit reference procedures. Billions of pounds of consumer debt is, in my opinion, based on inaccurate and uncontrolled data!

New Job

You need to exercise great care when taking on the commitment of a 3 year PCP if you are changing jobs. This often happens when an employee moves from a job with a company car to one with a car allowance, no car allowance or indeed no car at all. Whilst you still need a car, if you don't survive the 3-month probation with your new employer you could still be locked into the 3-year agreement.

In turn, this may cause difficulties if you then find a replacement job with a company car provided.

It might be better to invest in a small runaround till you know that the job is secure. On the other hand, if you must have a new car for the new job and you aren't concerned about your ability to make repayments, some find it more successful to apply for finance whilst still employed in their old job than after they have started a new position. Your scorecard (see above) will suffer if you are a new starter.

There are some specialist short-term hire companies that will provide you with a rental car for say a 3 month period on a fairly competitive rental. You may end up driving a rather modest car for the 3 month period to fit into your monthly budget but that would be better than finding yourself stuck in a 3-year agreement and a car that you don't need after 3 months.

Finance Application

When completing your finance application don't lie. Much depends on your honesty and don't forget that lenders are able to share information so there is a high chance that you will be found out if you lie or even simply make an error.

This is very dangerous as, if found out, it can lead to criminal charges for fraud. Lying about your salary is the most common lie on applications and yet it is one of the easiest to check by requesting bank statements as well as payslips. If you are caught lying it will be recorded under the Credit Industry Fraud Avoidance System (CIFAS) entry on your credit file. This will not affect your credit score and shouldn't affect your ability to obtain finance but it alerts funders to be extra vigilant when assessing your application.

Defaults – YOU MUST READ THIS!

The reason for mentioning this and insisting you read it is because it's one of the most misunderstood areas and it all revolves around your car breaking down, your rights and the responsibility of the PCP provider.

Let me take you through the very common sequence of events.

You've spent some time deciding on your next car, new or used, researched the Internet, been on several test drives, spoken to numerous car sales staff, obtained many PCP quotes and finally decided upon your next car. Having negotiated the final terms, i.e. deposit, annual mileage, monthly payment etc. you are presented with 2 documents. One is the car order and the other a set of documents for the PCP – the Agreement.

You'll receive other blurb such as various notices and pre-contract information but they are the two most important documents.

Why the two documents? Because as you're aware you have 14 days to pull out of the finance agreement but you must still go ahead with the purchase of the car, using any other payment method you choose, if you have signed a purchase order with the dealer.

All good so far.

You take delivery of the car and 3 months after delivery the car jumps out of gear. Once the car is beyond 30 days old but under 6 months the law takes your side and assumes that the fault was there before you bought it and it is up to the dealer to prove that it wasn't (Consumer Rights Act 2015). You must also give him one chance to fix the fault.

You take the car to the dealer from whom you took the car and the finance. He keeps the car for a week and gives you the smallest car you have ever driven as a loan car. You put up with it as they promised to fix the fault quickly, even though you are paying for a decent quality car on your PCP.

Another 3 months go by and the fault re-appears, you take the car back and the dealer agrees to fix the fault and you are given the loan car back. Two months later the car is still off the road and you are now getting angry.

You call the finance company and complain but you're told that if the car is being worked on by the dealer there is little they can do. So angry that you're paying £400 a month on your PCP for the privilege of driving around in a tiny loan car - you cancel your direct debit in the hope that the finance company will do something about it.

4 months later the car is finally returned with a new gearbox and the problem therefore resolved. You re-instate the direct debit and all seems fine till you make an application for a mortgage and get declined. You check your credit file only to find that your PCP account is displaying a default. You know a little about the law and know that according to the Consumer Credit Act 2006 you must be sent a Default Notice before action can be taken so how has this appeared on your file without your knowledge?

Here is what appears on the Information Commissioner's Office website in answer to a question:

The bank didn't send me a default notice under the Consumer Credit Act 2006; can they still list a default on my credit file?

In most cases, the answer is likely to be yes, provided that the default recorded is an accurate reflection of events and that when you opened the account you were told (probably in the terms and conditions of the credit agreement) that this may happen. It is unlikely that recording the default, even if you don't recall receiving a default notice, would breach the DPA.

A 'default' on your credit file simply means that the lender considers that the relationship between you has broken down. Therefore, while it may be a requirement of the Consumer Credit Act to issue a default notice, there is no DPA obligation on a lender to issue a default notice to individuals before marking an account as being in default on their credit file.

If you're like me you won't have believed what you have just read! So the law insists that the lender issues a Default Notice before you are considered to be in default, giving you the opportunity to either pay off the debt or negotiate a settlement, but the ICO will allow a default to be posted on your credit file because "the lender considers that the relationship between you has broken down".

As you can imagine I've had many rows with lenders over the years and to say that my relationship with the lender has broken down is a massive understatement but does that give them the right to record a default on my file as I'm refusing to pay them a penny more? According to the above – yes!

That alone is a disgrace because you will not get credit if you have a default filed. I have worked close enough with underwriters over the years to know that a 'default' registered on your credit file means just one thing – You 'Aint Going To Get Credit!! End of!!!

But let's wind the story back. Who is actually responsible for the faulty car? The immediate response from most consumers is usually – the dealer. And they would be spot on if they had bought the car for cash or taken out a personal loan to pay for it. Some might say the manufacturer, if the car is under warranty, but this is just a little added protection, faulty goods are the responsibility of he who 'touched' it last. Not in the physical sense but in the legal sense.

But is it the dealer? No, it isn't. You may have negotiated everything with the dealer, been for test drives, been given brochures and decided on the spec. of the car with him and even placed an order with him but he was out trumped by the PCP provider.

You see the dealer didn't invoice you for the car he invoiced the PCP provider. So he now owns the car. As mentioned elsewhere you will only become the owner when you make the final balloon payment and pay the option to purchase fee. It isn't your car, you are paying to

use it so when a fault appears your grievance isn't with the dealer, it's with the PCP provider. By buying the vehicle and providing it to you he takes over all Consumer Rights Act 2015 responsibilities.

Now in real life, if you have a small problem with the car, it's convenient for all if you return to the dealer and he makes a small adjustment to maybe fix the windscreen wipers or repair a faulty indicator. But make no mistake, the person responsible for all faults is the person you have financed the car with, the owner – the PCP provider.

Now, going back to the story, had you gone directly to the finance company the onus would have been on them to fix the problem and you would have been in a stronger negotiating position to stop your payments if they did not meet their obligations under the terms of the agreement. You're paying for a car so you expect to be driving it.

You will also have a stronger case when you take it to the Financial Ombudsman Service. They take a pretty dim view when lenders try to fob off customers by saying something like 'take the car to the dealer and sort it out with them', and don't accept their responsibilities to you their client.

Whatever you do, don't get a default registered against you on your credit file, it can stay on there for up to 6 years and for most lenders it makes you too high risk for them to accept on finance.

Any 'adverse' on your credit file is not good news but a default is pretty serious. You can register a Notice Of Correction to explain that this is as a result of a dispute over a faulty car that you refused to pay for, making sure that you keep all your notes and state that notes are available for inspection.

You should also write to the Credit Reference Agencies and point out that you are disputing the default with the lender. They are obliged to take up the dispute with the lender and mark the entry 'Notice Of Dispute'. Even this isn't consistent as I recently saw a note from a CRA referring to an entry showing the account in default, explaining that the entry would be suppressed but pointed out that the lender could remove the suppression at any time as they are responsible for the entry and had control over it.

In this particular case, the high street bank concerned had received numerous emails and phone calls (recorded) from their customer but continually ignored their client. Even after being told this, the advice from the CRA was to contact the bank to see if they couldn't sort the problem out – unbelievable.

In a dispute, I believe that either you or the CRA's, after a request from you, can refer it to the Information Commissioner's Office(ICO) but as they point out they cannot get involved in a financial dispute between the lender and their customer. You can refer your complaint to the Financial Ombudsman but this can take years to resolve, not helpful if you are applying for car finance or a mortgage.

Again the system lets down consumers. If a genuine error has been made you contact the CRA's and they, in turn, contact the lender. They check the complaint, see an error has been made and immediately correct it. That is fine and I'm sure happens in many instances but there is no clear path if the entry is disputed. That is what really concerns me. The individuals who are simply dismissed by the lenders and doesn't know which way to turn.

There should be a simple process available if parties can't agree on what the customer believes is an incorrect entry affecting their credit and their lives.

Selecting a car

This isn't something I'm going to spend a lot of time on as it is really outside the scope of the report but there are a couple of tips I feel I should pass on to help you obtain the best deal.

Colour

When the computer at the dealership calculates the final balloon payment or GMFV it doesn't take into account the colour of the car, which can actually affect its resale value at the end of the agreement.

If you like the colour and intend paying the balloon payment to own the car, not a problem, but if you want to sell it or use it as a part exchange to realise some equity it may be worth avoiding any outrageous colours that some manufacturers throw into the mix from time to time. And be careful of white – it can look amazing on some cars but absolute rubbish on others.

Model Vs Options

If you are paying cash for the car it may make sense to take a base model car and add in factory fitted options like a panoramic sunroof, parking sensors, bigger alloys and sat. nav. But when you come to sell it, or use it as a part exchange, after 3 years the extras fitted may make a slight, if any, difference in the resale value. At worst the extras may just make the car easier to sell adding no cash value whatsoever.

However, if you move up to the next model, that may have all or most of the options you want, fitted as standard, possibly with some options that you weren't worried about, you may still get a better deal and a lower monthly cost because of the higher resale value and therefore higher GMFV. In the Nissan range, you may find that adding extras to an Acenta to bring it up to N-Connecta spec. may cost a little less but the much higher resale value of the N-Connecta in 3 years compared to the Acenta will make your monthly payments less. Worth considering.

Taking Out A PCP

What Is PCP?

This may sound like a strange question as so many so-called ‘experts’ explain what a PCP is on a regular basis. On radio, TV and in the press they all tell you what a PCP is but in most instances they’re wrong.

A PCP, which stands for Personal Contract Purchase has no legal status. It is an expression that has been used to explain a certain type of Hire Purchase agreement – which does have legal status under the Consumer Credit Act.

Putting it simply the finance provider takes a proportion of the cost of the car, based on your annual mileage, and moves it to the end of the agreement, often 3 or 4 years down the line. This means that you pay for the depreciation of the car over the period that you are driving it plus interest charges and fees.

At the end of the agreement the pre-set final balloon payment, also called the Guaranteed Minimum Future Value (GMFV), can be either paid by you to own the car (you could take out additional finance to pay it, e.g. a personal loan), you can hand it back to the finance company or you can use the car in part exchange against a new car if there is equity in it.

Guaranteed Minimum Future Value (GMFV)

Years ago, when PCP first emerged, you entered into two completely distinct agreements. The first was a Hire Purchase agreement with a balloon payment that had to be paid at the end of the contract. This was done to reduce the monthly payments when compared to a standard ‘full payout’ Hire Purchase agreement whilst increasing the interest charges.

The final balloon payment was based on the annual mileage that you would cover, agreed with a 3rd party company, should you wish to hand the car to the 3rd party company at the end of the agreement. They, in turn, would pay the final payment to the HP company to clear your debt. Of course, if you covered a higher mileage the car wouldn’t be worth as much as the

final balloon payment so to offset this loss the 3rd party company would charge for excess mileage as well as any damage that would also decrease the value of the car below the final payment.

On the other hand, if the car was worth more than the GMFV the third party company would either give the customer the difference or split the 'profit' between them and the customer. That's why it was called the Guaranteed Minimum Future Value, it meant you could receive more than the final balloon payment, then use the difference towards the deposit on the new car.

These days, of course, this 'profit' is provided by the dealer to encourage you back to the dealer and into one of their cars. The dealer can pay off the final balloon payment and if the car is worth more provide the difference as a contribution towards the deposit on the new car.

Incidentally, I should clarify the word 'profit' as it's a word that dealers often use and it's incorrect. It's effectively a refund of some of the money you paid. Let's say your agreement required you to pay 36 payments x £200 with a final balloon of £5,000. The dealer allows £6,000 for the car, paying off the £5,000 balloon and giving you £1,000. Had the balloon been set at £6,000 and the dealer simply pay off what you owe, you would have paid roughly £170 per month so in fact, the £1,000 is a refund of payments – not profit.

Going back to the basic principles, this system still exists but instead of a third party company taking responsibility for paying off the balloon payment with adjustments for excess mileage and condition, it is all handled by the main finance provider without the involvement of a third party. Oh, and if you hand the car back, they will effectively pay off the final balloon and pocket any profit. More about this later – lots of scams here.

Contractually, this is why the expression Guaranteed Minimum Future Value is still used, because the finance provider now acts as your selling agent guaranteeing to make the final balloon payment out of their proceeds of sale, on your behalf, but subject to excess mileage charges and charges for excess damage caused by you beyond 'fair wear and tear'.

I feel this is unfair as you will find that should you cover less mileage than the contract total there is a good chance that the car will be worth more than the final balloon payment. It

would be fair to pass back to the customer any profit made by the lender following the sale or, an amount equal to the under mileage at a rebate rate per mile. What they will say in the contract is that any profit made on the sale of the car is retained by the lender as a 'commission'. Maybe the expression should change to 'Guaranteed Future Value' as they will never give you more than what is required to pay the balloon.

Of course there is nothing to stop you from selling the car to a third party by advertising privately, selling to one of the online buyers such as webuyanycar.com or possibly approaching the dealer who has serviced the car, he may be prepared to pay over trade value to have a car on his forecourt that he has serviced from new.

Much more of this later. Check out the section on Voluntary Termination (VT).

Interest Charges

These are high on a PCP compared to an HP agreement when using the same APR over the same period.

Some ill-informed 'experts' will tell you that you simply defer part of the cost of the car to the end of the agreement so you only pay the depreciation of the car. What a load of nonsense. Take a £20,000 car with a final payment of £8,000. The loan is split into two.

The depreciation is £12,000 (£20,000 - £8,000) which you pay over say 3 years plus interest charges, the same as taking out a personal loan for £12,000. But you don't get the £8,000 for free over 3 years. It acts as an interest-only loan. So you simply pay the interest which is then added to the £12,000 depreciation plus interest.

Think in terms of the balloon payment being similar to an interest-only mortgage.

One of the advantages of a PCP, especially when funding a new car, is that manufacturers often give money to their finance provider (to assist with the sale of new cars) to enable them to subsidise the APR and on some occasions, provided you pay a substantial amount up front, an extremely low rate or even zero percent APR.

Even though you will pay less per month on a PCP than you would pay monthly for an HP agreement over the same period on the same APR – you will still pay more in interest charges as explained above. This is why PCP is so attractive to lenders and dealers who earn commission from the sale of this product, paid out of interest charges or paid as an incentive by the finance provider and/or the car manufacturer.

To illustrate the point, take a £20,000 car financed over 3 years on an APR of 5.9%. With an £8,000 balloon the PCP interest would be £2,540 whereas a fully paid up (no balloon) HP would attract interest of £1,870. However, the HP would cost you £200 per month more which is why PCP is so popular.

If you would like to see how the calculation works (skip this bit if you aren't that concerned) let's break the calculation down as explained above.

Part a) is the depreciation of £12,000 + interest at 5.9% APR. Using a loan calculator (some may vary slightly). Your monthly payment will be 36 x £364.52. You pay £1,122.72 in interest charges.

Part b) is the interest only charge on the final balloon payment of £8,000 based on an APR of 5.9%. Your monthly payment will be 36 x £39.33 which is all interest i.e. £1,415.88.

So in this example you pay £364.52 + £39.33 per month = £403.85 but a total interest charge of £1,122.72 + £1,415.88 = £2,540.

Had you taken a Hire Purchase agreement, based on an APR of 5.9%, with no final payment you would have paid 36 payments x £607.53, around £200 per month more. But the interest would work out at £607.53 x 36 = £21,871.08. Less the £20,000 cost = £1,870.

So when experts try to explain PCP in any other way – you now know the truth behind the figures. You pay less per month which helps the manufacturers and car dealers to sell more new cars but you pay more in interest charges which is good for the lender and the dealer who is paid a commission.

Always Negotiate

Especially the case with a new car. So often I have seen PCP quotes whereby the deposit has been paid on behalf of the customer leaving him or her with nothing more to pay upfront.

This is good news for the customer but could he or she have reduced the cost of the car further? I have seen quotes with a finance contribution (from the finance company), a deposit contribution (from the manufacturer) but no dealer discount.

Why not? Just because the manufacturer and the finance provider have helped the dealer to charge full retail, by contributing towards the customer's deposit, there's no reason why you shouldn't push for extra dealer discount. So push for some discount – they can always go a little further. But they also need to make a profit so don't get carried away.

Comparing Rates

I can never understand why so few people compare rates from different dealerships. If you have set your mind on a particular make and model of car and you have a part exchange visit at least two dealers and go through the quotation process with each. Depending on who is the keenest for your business will dictate which will offer you the best terms. They may offer more for your part exchange car, throw in some extra discount and even offer a lower APR. They often have more flexibility than they admit to.

Once everything has been calculated simply work out the total cost to you over the lease period. Also, consider the monthly payment compared to the final balloon payment. If one quote has a higher final payment with lower monthlies and you are only interested in handing the car back at the end then that would probably be the better choice.

Some would argue that if you had a lower balloon payment you could have some equity in the car that you could use as a down payment on the next car. But that isn't guaranteed, it's a gamble, so if there isn't any equity you would have been paying more per month unnecessarily.

Bear in mind that according to themoneysavingexpert.com 80% of cars on PCP are handed back at the end of the agreement so I would work on that assumption (that you will be handing the car back) and pay less per month with a higher balloon payment.

Paying A Deposit

This is a great piece of advice. When you place an order for a car on a PCP agreement you will be expected to sign a purchase order for the car and a finance agreement. The first rule is to pay as little as you can to secure the car. The dealer will ask for as much as possible. The more you pay the more you risk.

If you have paid cash and the dealership goes bust the chances of getting your money back are low. It is also high risk if you have to wait 12 – 18 weeks for delivery of a new car on factory order. Pay on a credit card and you'll get all the money back if anything happens to the dealer in the meantime as well as opening up more legal rights under the Consumer Credit Act 1974 and others.

I would take this warning very seriously as predictions are running high that car dealers will be shutting at an alarming rate if new car sales continue to drop in 2018 and buyers use other methods of buying new and used cars than traditional forecourts. In June 2017 Credit Suisse was reportedly suggesting that a fifth of car forecourts could go out of business.

If you have sold an old car already and have a substantial sum, say £5,000, to pay as a deposit, don't hand the money over till the last minute, keep most of it in your bank account, it's far less risky.

Whatever deposit you pay, make it clear, and put it in writing, that the deposit is on the finance, not against the car purchase in case you want to cancel the finance agreement within the 14 days cooling off period. That way you will have your deposit refunded in total.

If circumstances change and you want to finance the car through another method, say a bank loan or cash you must have all the money returned including the deposit to put you back to the position you were in before you signed the finance agreement.

If you cancel both the car and the finance within the 14 day cooling off period, whilst the finance company is obliged to refund all money paid on the finance agreement (less interest charges for the few days before cancellation) he can legally retain all or part of the deposit paid against the purchase of the car as you are in breach of contract and he can recover his costs of administration, selling costs, advertising etc. out of the deposit.

He cannot make a profit out of the retained portion of the deposit, just recover his costs, but if you paid £5,000, thereby reducing the cost of the car, he will try to hold on to as much of that deposit as he can for as long as possible.

Not the case if the deposit was paid towards the finance arrangement, the dealer can retain nothing and would have to try to recover his costs from you separately. If you cancel the finance within the 14 days cooling off period, and the dealer holds back any money paid, go straight to the Financial Ombudsman and make a formal complaint

The Best Time To Cancel The Finance

Let's say you want to buy your new car for cash. You call into the dealer and having got to the point of paying, you now talk about discounts. As we know dealers don't like you to pay cash as they make no finance commission, they want you to take out a PCP. They begin by offering you say 5% off the car for cash but in order to encourage you to take out the finance, they offer all sorts of contributions as mentioned above. A deposit contribution, a finance contribution etc.

Now if you exercise your right to cancel the finance within the 14 day cooling off period you could find that all or most of the discount is withdrawn. To illustrate, let's say the car costs £20,000. You receive a discount of 5%, i.e. £1,000. You sign an order for the car which shows the cost of the car, £20,000 less discount of £1,000 = balance to pay £19,000. The finance agreement may include a deposit contribution of say £1,000 plus a finance contribution of a further £1,000. So the total amount funded = £17,000.

Here's the twist. Let's say you cancel the finance within the 14 day cooling off period, the dealer will argue that the additional discounts were only available if you took the finance. As

you cancelled the PCP agreement you must pay what was shown on the order, i.e. £19,000. And he would have a very strong legal position.

However, if you said that you wanted to terminate the agreement just beyond the 14 day cooling off period, the finance provider must give you a settlement which is the total amount outstanding (which was calculated after applying all the discounts) less a rebate for the interest that didn't become due as a result of the early termination. That's the law!

The net result is that you receive all the discounts and bonuses for the cost of a few pounds in interest charges that you will owe for the few days that you had the finance. The law allows you to terminate a finance agreement at any time after taking it out, as long as you pay all of the money owed less a rebate for interest that hasn't become due

I personally see no reason why you can't 'early terminate' your finance agreement within the first 14 days. You need to make it clear that you're not exercising your right to cancel within the first 14 days but you are early terminating and want an early termination figure. Make sure you do this with the PCP company, not the dealer.

Executed Agreement

This is very very important and follows on from the above. When you are at the dealership the dealer will get you to sign a purchase order. Once you have signed this you are committed to buying the car.

If you then sign a PCP finance agreement you can cancel it at any time before the other party has signed it as it is not 'executed' (enforceable) until both parties have signed. Bear in mind that in some cases the dealer is authorised to sign documents on behalf of the lender or the documents are presented to you pre-signed by the finance company.

Once you have received a copy of the contract, with both sets of signatures, you still have a 14 day cooling off period to withdraw from the finance arrangement. However, this cooling off period does not allow you to withdraw from the purchase commitment - unless you have been misled or you have been subjected to aggressive selling techniques.

Assuming this isn't the case you must now wrestle with areas of total confusion. Incidentally, if this was the case and you felt you were misled or miss-sold you need to refer your complaint to Trading Standards via the Citizens Advice Bureau and the Financial Ombudsman Service.

Executed Agreement – Confusion

- a) The law is very clear, an agreement is executed once both parties have signed and you have a copy of either the executed agreement (both parties signed) or you have a copy that you have signed and the funder advises that he has signed the agreement that already contains your signature.

If you don't have a copy showing both signatures you can request a copy of the executed agreement and if this is not provided, the agreement isn't considered properly executed.

But what if the car is on 3 months delivery and you have signed the agreement on the day you signed the order? It would seem that you can't remove yourself from the agreement although legal opinions differ. It would have to be a tough lender who insists on you taking the finance prior to delivery of the car.

Check the conditions in the contract and if you need to withdraw from the agreement and the funder refuses – take the matter up with the Financial Ombudsman Service (FOS). The law may be on the side of the lender but the FOS is on the side of 'reasonableness'. You may find sympathy from the FOS, allowing you to cancel the finance agreement, even though you are beyond the 14 days cooling off period but you won't be able to cancel the purchase agreement without having to pay something to the dealer.

- b) Delivery Date: very few dealers will be specific about the delivery date because this forms part of the contract of sale and can often be difficult to successfully predict if the car has to be factory ordered. Failure to meet the specified delivery date is a breach of contract. However, if you have a car going back to the PCP company, it is

important that you coincide the delivery of the new car with the return of the old car. So a late delivery can not only be inconvenient it can be costly.

If you are replacing a like for like car i.e. a Vauxhall with a Vauxhall or BMW with a BMW the lender, provided it is the manufacturer's own, will normally be reasonably flexible and allow you to hold on to the old car until the new car arrives. But check upfront, when placing the order, if this is a possibility. Also, beware of the rate they charge for any extension period. Some may charge an astronomical rate to retain the car and you need to know the way they will handle mileage for the extended period.

However, this may not be suitable as you may have already sold your old car, which would leave you without a car, and if you are using your old car as a part exchange you need to know that the dealer will stand on the agreed price even though the car will be older and potentially have a higher recorded mileage.

An alternative would be to provide you with a loan car to use between the due delivery date and the actual delivery. The important thing here is to establish exactly what the policy is regarding the late delivery of a car on order. If you are provided with a loan car what is it likely to be and will you be responsible for insuring it?

There is a further twist, let's say that you have signed the finance agreement and it has been executed (both parties have signed and you have a copy). You have been given a specific delivery date by the dealer several months away but there is a production delay and delivery has been delayed. The dealer advises that the delivery has been put back by 2 months. Who is responsible?

In my opinion, it is the finance company. Had the contract not been executed they could argue that the issue is with the supplying dealer but once the contract has been executed the finance company assumes all the supply responsibilities under the Consumer Rights Act 2015, including the terms of the contract of sale.

In my opinion, you have a case against the finance company for the breach in the same way that you would have a claim against the finance provider if the vehicle wasn't fit for purpose, as described etc. In the circumstances, I would expect them

(not the dealer) to provide a loan car. If they kick up a fuss go to the Financial Ombudsman Service or use the arbitration service offered by the dealer or the courts.

- c) Part Exchange: If the dealer is taking your old car in part exchange as a deposit for your PCP it would be wise for them to keep the car until the 14 days cooling off period has expired, especially if he has over offered on the car. For example, if the car has a value of £1,000 and the dealer has allowed £2,000 as part exchange, if you cancel the finance agreement he must either return your part exchange car or the money allowed.

Of course, as already mentioned, if you cancel the finance agreement during the cooling off period, you still have to take the car. The problem here is that whilst the dealer may have agreed to a higher part exchange value it may be dependent on you taking his finance.

However, unless this has been made clear to you before entering into the finance agreement and he has disposed of your car, he may be obliged to give you back the full amount allowed for the part exchange. As you can see all these things need to be desperately clear when you sign up the finance agreement.

Number Of Payments Scam

This is, in my opinion, often the source of a rip-off. Let's say that you enter into a 4-year agreement. All will quote a deposit followed by a number of payments times a fixed monthly figure, ending up with an optional final payment. The independent providers (not linked to the manufacturer) tend to quote a deposit followed by 47 monthly payments then a final balloon payment. Makes logical sense.

However, the manufacturer's finance company agreements can show a deposit followed by 48 payments and one that I saw recently showed 49 payments followed by the balloon. I have often seen a deposit followed by one payment of the fixed monthly payment then 47 or 48 payments of the fixed monthly payment. This can be because the first payment is an arrangement fee and not part of the finance repayment – check the small print.

The point is that if you are comparing quotes you need to check like with like, extra payments will reduce the monthly figure on the same APR so don't just consider the headline (monthly) rate or the APR. Consider the total payable.

Annual Mileage

Be realistic. If you under-estimate your annual mileage you will have an excess mileage charge to pay at the end of the agreement, if you hand the car back. If you overestimate your annual mileage you will pay more than you need to each month but all may not be lost because the final balloon figure should be set lower than the expected value based on the actual mileage.

You may, therefore, be able to recover your overpayment if you use the car as a part exchange. If you cover less than the contract mileage you should end up with more equity in the car which you can use towards the deposit on your next car or you can sell the car and pocket the difference between what you sell the car for and the balloon payment.

One of the reasons why I suggest that you prepare 6 months in advance is that this gives you an opportunity to assess your current mileage. Too often customers have looked at mileage they have covered in their current car over the last 3 years, say 36,000 miles and therefore used 12,000 miles per annum for their contract. But that average over 3 years may hide a more recent change in circumstances such as a change in job from a couple of miles each day to 30 miles each way. Take your time and get it as accurate as you can.

The Annual Mileage Scam

Some dealers have been known to miss-state the annual mileage when preparing a quote for a customer in order to get the monthly cost down to a budget figure. So whilst you may tell him that you will be travelling 15,000 miles per annum he may adjust it to 10,000 miles per annum either with or without your knowledge.

Check the documents carefully to make sure that the annual mileage shown is as you requested. You don't want an unexpected excess mileage charge at the end of the agreement.

On the other hand, he may suggest that you take out a contract on a lower mileage that will reduce your monthly payments but before you get to the end of the agreement exercise your right to Voluntarily Terminate (VT) the agreement with no excess mileage charges to pay.

He is, in fact, correct and, having asked solicitors, whilst views differ about making false declarations, it is, after all, a best guess. It could be argued that you would prefer to keep your monthly cost down and take the pain for the excess mileage at the end of the agreement. The option is legally part of the agreement. And to VT the agreement is a legal entitlement.

However, if you go down this route with the intention of VT'ing the agreement expect life to become very uncomfortable. I have seen the tone of some of the letters sent to customers who refuse to pay pro-rata excess mileage charges, even worse if the finance company passes the 'debt' over to a debt collection agency.

Read all about this in the **Voluntary Termination** section below.

VAT & PCP's

You will often see on TV beautiful advertisements on great cars showing amazingly cheap monthly rates. Some are PCP's but if you are able to read the terms and conditions that flash across the bottom of the screen you will see, in many instances, that the rates relate to a 'lease' or 'Personal Contract Hire (PCH)'. These cheap rates are clearly teasers to get you to visit the dealerships to discuss your requirements and hopefully talk you into a new car.

If the rates are PCP rates they can be incredibly low because you are expected to pay a large sum upfront. If you're quick enough you'll actually see the amount at the bottom of the screen. However, in most cases, the low rates are as a result of exceptional discounts provided by the manufacturer and built into a contract hire rate. In some cases, the total discount and bonus, given away in a new car, can be as much as 45 – 50% with 25 - 30% being very common.

But when you turn up at the dealership you are likely to be pushed in the direction of PCP because that makes the dealer much more money than a contract hire agreement, sometimes referred to as a lease agreement. So to try to talk you out of the Contract Hire agreement they

will use the VAT argument, explaining that contract hire is aimed at business users because the rentals attract VAT, something that doesn't happen with PCP.

Whilst this is true, monthly PCP repayments don't attract VAT, whilst Personal Contract Hire (PCH) payments, known as rentals, do, the VAT man isn't daft, he doesn't give money away. Let me explain as simply as I can..

A new car costs £20,000 + VAT. If the car is financed on a purchase scheme (HP or PCP) the lender cannot claim back the VAT so the total cost of the car is £24,000. When calculating your monthly payments on a PCP interest will be calculated, not on the £20,000 but the total cost of the car including the unrecoverable £4,000 VAT. So, in fact, you are paying interest on the VAT content. But quite correctly you don't pay VAT on the monthly payments as it has already been paid across to the VAT man when the PCP lender pays for the car.

In the case of PCH the leasing company can reclaim all the VAT when he buys the car, so when he calculates the interest it is calculated on the £20,000 net cost and not the gross cost including VAT. Of course, as the dealer points out, you pay VAT on the monthly payment, but the PCH monthly payment will be less than the PCP payment even when the VAT is added. This is because you don't pay interest on the VAT content as you do with a PCP.

So don't be fooled by the argument that contract hire is for VAT registered business users only, This will be explained more fully in a separate report on contract hire, due out later in 2018

VAT & Excess Mileage

Something that often causes even more pain at the end of a PCP agreement is the addition of VAT to the excess mileage charge. It seems rather strange that the agreement shows all calculations effectively VAT inclusive but the excess mileage charge has VAT added to it. Check the small print.

Stepped Excess Mileage Charge

When you take out the agreement you will be told the excess mileage charge, say 10 pence per mile + VAT, if you hand the car back at the end of the agreement. However, some lenders charge an increased mileage rate if you exceed the contract mileage by more than 10% or over a specific excess mileage figure of say 9,999 miles.

To illustrate what I mean, let's say you take out an agreement on 10,000 miles per annum with an excess mileage of 10.0 pence per mile + VAT for the first 10% then 20.0 pence + VAT per mile thereafter, your allowance will, therefore, be 30,000 over the 3-year contract. For the next 3,000 miles (10%) you will be charged 10.0 pence per mile. Above that, the rate will increase to 20 pence + VAT.

So let's say you cover 37,000 miles over the 3 years. Your contract was for 30,000 miles. The first 10%, i.e. 3,000 miles is charged at 10 pence per mile + VAT. The next 4,000 miles, taking you up to the total of 37,000 miles is charged at 20 pence per mile + VAT.

So 3,000 miles x £0.10 per mile = £300 plus 4,000 miles x £0.20 = £800. This comes to a total of £1,100 + VAT = £1,320.

Whilst the majority of contracts have a fixed rate irrespective of the number of miles you cover, read the contract very carefully. You don't want to be stung with a shocking excess mileage charge at the end of the agreement after handing back the car.

Using Your Own Finance Provider

This is a very important section because it is subject to some very serious abuse by dealerships and could cost you a lot of money. In time I will be naming and shaming those that I believe are acting illegally by ignoring FCA regulations and restricting customers' choice.

For the moment I have other actions in hand including engaging the FCA.

Cooling Off Period

I have already mentioned that you have 14 days, during which, following the execution of the documents, you can cancel the finance and make your own arrangements to pay for the car. Let me be clear, you aren't able to cancel the order for the car, just the finance. So you are left having to pay for the car. If you use your own money or a loan, that isn't a problem, you simply pay for the car. But supposing you have arranged a PCP or HP with another lender? That's where it can start to get nasty.

3rd Party Invoicing

This won't mean much to most people but it is very important. If you arrange for finance through someone other than the dealer, unless it is a loan, you may need the dealer to invoice the finance provider, known as invoicing a 3rd Party funder. They, in turn, have a finance agreement with you but as they have bought the car they are the owners.

However, some dealers, including some of the largest dealer groups in the country, have abused, manipulated and miss-interpreted the FCA regulations in order to refuse to raise a 3rd party invoice, insisting that you use their own finance or the finance provided by an authorised lender. The argument seems to revolve around who is responsible and for which part of the customer journey?

The argument put forward by dealers is that as they are now regulated by the FCA, having applied for, and received, the necessary permission to provide consumers with finance, they now have increased responsibilities within the customer journey.

They suggest that the section that prevents them from invoicing 3rd party lenders in the FCA rulebook, known as CONC, is section CONC 1.2.2(2) that states that a firm must 'take reasonable steps to ensure its employees, agents, or any person acting on its behalf are complying with CONC.'

They suggest that as the 3rd party lender is neither their own lender nor one that has been approved, they could be seen as not acting responsibly and not acting in their customers' best interests. It's a load of nonsense as lenders and brokers involved in the 'customer journey' also need FCA permissions and therefore are responsible for their part of the journey.

From all the evidence I've seen it is very clear that this is manipulation of the FCA rules by the dealers in order to increase their return on each transaction by earning a commission out of the finance provided alongside the vehicle. Clearly, if a 3rd party lender is invoiced they earn no finance commission. This can sometimes be more than the profit in the vehicle so their stance is understandable even if it's not legal.

There is also, in my opinion, a more sinister reason, brought about by the Consumer Rights Act 2015. Under the new act, consumers now have the right to return goods (new or used), if faulty, within 30 days for a full refund of their money. In the case of a cash purchase, any dispute is simply between the consumer and the dealer and the dealer will do everything possible to avoid the return of the car.

Even more so if the car is new and has therefore suffered substantial depreciation the moment the car was registered. However, if the car is financed on say an HP or PCP agreement the rules of the Consumer Credit Act come into play which makes the finance provider, not the dealer, liable for the faulty car and I'm aware that whilst a dealer may reject a claim under the 30 day rule lenders have 'rolled over' without an argument, then turned to the dealers to recover their money.

The lender will normally arrange for an independent inspection of the car and if found to be faulty they refund the customer his payments and seek to recover the cost of the car from the dealer after returning it. So it would seem that dealers would much rather be in control of the transaction, which they would be if the customer used their captive provider or a lender approved by the dealer. They are likely to work together in order to avoid the rejection from you the customer.

My solution, which has worked in the past, is to write to the dealer who is refusing to raise a 3rd Party Invoice. After they suggest that you pay cash or arrange finance through one of their approved providers, you point out that cash is not an option and that you want to use your own HP or PCP provider.

You then draw their attention to the following:

1. Outcome 6 of the Financial Conduct Authority's treating customer's fairly outcomes as follows:

“Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.”

2. CONC 2.5.8 (13) which states an authorised firm cannot:

“give preference to the credit products of a particular lender where the object of doing so is for, or can reasonably be concluded as having been for, the personal gain of the firm or of a person acting on its behalf, rather than in the best interests of the customer;”

You then go on to state that by refusing to supply the car using your preferred finance provider, not only is outcome 6 not being met but there is also a breach of CONC 2.5.8(13).

Added to which the fact that they are promoting their own preferred finance provider means they are acting on their finance provider's behalf. Under CONC 1.2.2, an authorised firm has a regulatory obligation to **“take reasonable steps to ensure that other persons acting on its behalf comply with CONC.”**

You then conclude with something like:

I believe that your recommended finance company needs to be aware of the stance you have taken, namely refusing to allow me to choose through whom I wish to fund the car and that this could be a breach of as CONC 2.5.8(13).

If you really want to go to town you can do a bit of research via the FCA website, check out the approved person's name and email address and add the following:

The FCA register shows the approved person for [insert the finance company name] is [insert name]. I have therefore copied [Mr/Mrs [insert name]] into this email so he/she can give a view on these issues.

3rd Party Invoice And 14-day Cooling Off Period

This follows on from the above and the law is very clear, if you want to withdraw from the finance agreement you have 14 days from the date of execution of the contract to cancel the finance agreement. But what if you have done so because you have found cheaper finance elsewhere?

Cancelling the finance doesn't mean that the car purchase has been cancelled. You are still legally obligated to take the car but you may have found an HP or PCP provider able to offer you a better deal. That doesn't always mean lower monthly payments because customer service plays a large part in determining who to obtain your finance through.

You may be very uncomfortable if the finance provider and the manufacturer are all linked and could 'gang up' on you in the event of a warranty claim or faults found with the car after delivery. So a third party funder may be more attractive to you.

But what happens when you legally cancel the finance within 14 days and ask that the dealer invoices your new finance provider and he refuses? That is in clear breach of the FCA

regulations. The whole reason for providing the 14-day cooling off period was to allow customers time to shop around.

You must, therefore, report the dealer to the FCA, lodge a complaint with the Financial Ombudsman Service, advise Trading Standards via the Citizens Advice Bureau, complain to the Competition and Markets Authority and contact the finance company as per my notes in the section above. Also, contact the Which whistleblowers helpline and of course me if they refuse to invoice your preferred funder.

Cooling Off Period & Invoice Scam

Let me take you back to when you first negotiated the deal. You would normally go through the process of selecting the car and be told the price. If you're canny and negotiate the price with the dealer he may give you 10% off the list price of the car.

You then move into top gear by showing that you are prepared to walk away from the deal unless there is some more 'give' on the price. The dealer finds maybe another £1,000 available from the manufacturer if the car is ordered before the end of the month or something similar.

Into overdrive and you now want to take out finance and the dealer starts to see pound notes before his eyes. He works out the figures, sees your eyes roll so finally to clinch the deal he offers an extra £2,000 off the car as a deposit contribution from the finance provider (it actually isn't it comes from the manufacturer) and finally you can have the PCP on a subsidised APR of 2.5%. Another cost to the manufacturer.

Now, the last thing the dealer wants is for you to find another funder so let's say you're car is £20,000. Watch out for an order that simply shows the price of the car at £20,000 with no discount. Because if you cancel the finance within 14 days you still have to buy the car using alternative finance.

The dealer may argue that because you signed an order for the car showing £20,000 that is the agreement you entered into and that is what you will have to pay or finance. Any

discounts or bonuses were linked to the finance provided via the dealer. It wasn't of course but this is where it could get rather ugly.

Having to pay full price for the car could negate any savings you may achieve by using your own finance or even cash!

So, in order to keep your options open you should get a quote to buy for cash and it is those figures that should appear on the order that you sign. The retail price less dealer discount and any contribution from the manufacturer as an incentive for you to order the car in the current month. You cannot, of course, expect to receive the deposit contribution from the finance provider as you're not using them to finance the car.

Part Exchange

This can cause confusion if you decide to finance the car yourself. Again the dealer may have offered you more for your part exchange car on the basis that you will be taking out the finance through them. As a result, he may not show the part exchange on the order but include it in the finance quote, pre-contract finance information and within the PCP agreement.

If you cancel the finance agreement they have to put you back to the position you were at before you took the finance (less any interest for the period the dealer had the money from the PCP provider) which means handing back the old car leaving you to dispose of it elsewhere at probably less than the car was bought from you for by the dealer.

As you must take the new car anyway you don't want the old car back, especially if you have been allowed more than the car is worth. So have the part exchange shown on the Sales Order that you sign. That ensures they keep the old car and you keep the high allowance.

A Final Twist

As I've mentioned, during the 14 day cooling off period you can cancel the finance agreement but you still have to take the car and either pay cash or find some alternative method of finance.

However, I understand from some car dealers that when they sign a contract with the lender, the agreement can include something along the following lines:

‘If the consumer fails to accept or take possession of the vehicle or if he or she cancels their agreement with us within 14 days from the date of taking delivery, you as a trader/dealer agree to take back possession of the vehicle and rescind the agreement.’

If you take the literal meaning of the above this hangs the trader/dealer out to dry as it means that they have to take back the car simply because you’ve changed your mind.

Whilst this is unlikely to be the case where the finance provider, the manufacturer and the dealer are all part of the same car make ‘family’ and therefore unlikely to be the case when financing a new car. If a used car is being financed by an independent PCP funder you may find yourself in a position where you CAN not only cancel the finance but also the car purchase.

However, this isn’t a given and I would suggest that you work on the basis that you must still take the car even though you have cancelled the finance agreement within the 14 days cooling off period. You can still cancel the car purchase but be prepared to pay the expenses incurred by the supplying dealer/trader.

Voluntary Termination (VT)

I'll cover this now as it is one of the big advantages to PCP but often, by far the most confusing. It is also being abused by some dealers to help customers avoid paying excess mileage charges and/or to get them into another car before the end of the agreement.

No one seems to know the exact reason why VT was introduced but the one most feasible was explained to me by an old friend who had been in finance far longer than me.

Apparently, in the early days of the Hire Purchase boom consumers used it, pretty much for the first time, to finance their cars. Most consumers didn't own their houses and very few had any debt whatsoever. So HP was totally new to them and a big step.

However, not being used to taking on long-term financial commitments, many customers found themselves in debt with repayments they couldn't afford. With no debt collection regulations in place, customers were either feeling threatened by burly debt collectors knocking on their doors or threatening letters advising them that they were being sued.

As a result, suicides increased massively as consumers saw this as their only way out of the pressures of arrears and defaults. The Government felt the need to intervene and introduced what we refer to as the 50% rule. This allowed customers to withdraw from a finance agreement once they had repaid 50% of the total owed, without it affecting their credit status. At the time, with higher deposits being paid and HP terms being relatively short, by the time 50% of the total owed had been reached the cars were generally at a break even point so neither party was seriously out of pocket but the customer no longer had to attend court or suffer embarrassment.

This was fine until dealers found that they could use what was meant to be protection for the vulnerable as a way to get customers into a new or replacement car earlier. More recently the rules have been used to get people out of their PCP's early without suffering excess mileage charges.

Technically Voluntary Termination is covered by sections 99, 100 and 173 of the Consumer Credit Act, used to terminate your HP or Conditional Sale agreement, once you have paid

50% of the total amount owed (including interest, fees and charges). So provided your PCP is hire purchase based (as most are) you can extract yourself from the agreement by handing the car back to the finance provider with nothing further to pay once you've reached the 50% figure.

Voluntary Termination is worrying the industry as most VT's result in a loss to the PCP provider. As an example as to how bad the situation is becoming, I have checked the accounts of PSA Finance Ltd. On page 38 of their 2016 accounts, they declare that they have made an allowance for estimated irrecoverable amounts (bad debt) of £11,995,000 (2015: £12,352,000) whilst their allowance for Voluntary Termination losses is £18,019,000 (2015: £15,778,000).

Whilst the amounts are relatively small compared to turnover, the point is that they have had to allow for a much bigger loss due to VT than bad debt. Insiders have explained to me that this isn't so much of a problem and is manageable given the current scale of VT.

In fact arrangements between the manufacturer and its finance arm suggest that the manufacturer will pick up any shortfalls due to VT and pay the money over to the finance arm, as a VT, carried out in the way described above, invariably ends up with a new car sale.

The problem here is that it isn't sustainable, especially if it's being used to avoid excess mileage charges, which would increase losses further. And once a dealer starts to use this method to register more cars they are highly unlikely to stop the practice unless there is a change in the law.

This could result in a far more aggressive approach by the funder when dealing with pro-rata excess mileage charges and damage if you VT your car. And when you've VT'd your car you may find it extremely difficult to take out PCP on a new car in the future as loss-making customers, to some funders (who may not have the same support from the manufacturer as others do), are not desirable. Especially if the pattern changes and customers VT their current car and instead of changing their old model for a new one, sticking with the same manufacturer, replace it with a different make altogether.

VT Example

“Once you’ve paid 50% of the total amount owed” doesn’t mean 50% of the way into the agreement, i.e. 18 months into a 3-year agreement, as the balloon payment pulls you towards the end of the agreement before you reach the 50% figure and can VT it and hand the car back. For example, if you took out a PCP on a 20,000 car, paid £2,000 deposit with a balloon of £8,000 on an APR of 4.9% you would make 36 payments of £331.93. So the total payable is $£2,000 + 36 \times £331.93 + £8,000 = £21,949.48 \times 50\% = £10,974.74$. So to find out how many monthly payments you need to make, take away the deposit of £2,000 = £8,974.74 then divide by the monthly payment of £331.93 = 27 payments. So anytime after 27 months, you can VT your agreement. That’s exactly three quarters (75%) of the way into the agreement.

Often the dealer knows when you have reached this point in the contract. In fact, his computer system may well alert him as to when you reach that position to prompt him to contact you and invite you into the dealership to review ‘the latest model’ that he can ‘do a deal on.’

So either you can use the VT process to change your car earlier. This could save you having to have the car serviced before the car is returned as well as avoiding an MOT test. As I’ll also show, if you are exceeding your contract mileage, you can avoid the excess mileage charge by VT’ing the car. The PCP provider doesn’t like this so will try to charge you excess mileage on a pro-rata basis.

My opinion is that he can’t charge excess mileage if you VT the car within the terms of the Consumer Credit Act – I’ll explain all.

VT & Excess Mileage

You need to read this section in conjunction with the sections ‘What Is PCP’ and the sub-title ‘Guaranteed Minimum Future Value’

The VT process was set up before PCP came into existence and, as explained above, was created to help vulnerable people to extract themselves from their HP agreement without further payments and without damage to their credit status.

However, as there is no mileage restriction in a Hire Purchase agreement if you VT a PCP agreement you cannot be charged any excess mileage. Some dealers have used this to arrange PCP's on mileages less than the customer knows he or she will be travelling, in order to bring the monthly payment down. Suggesting that the customer can hand the car back early under the VT rules and avoid the excess mileage charge.

Beware, because if you do this and VT the car, the finance provider is highly likely to come after you for any pro-rata excess mileage charge because when you VT a vehicle the lender is extremely likely to be out of pocket so the excess mileage charge could be a way to recoup some of his loss.

So you may have to be prepared to fight the finance company. This may take you all the way to a court summons. Don't forget you signed an agreement that states you will cover a fixed annual mileage, it doesn't matter what the dealer may have said. And you can't rely on the Financial Ombudsman Service (FOS) to fight your corner. In a case already heard by the FOS, quite incorrectly, in my opinion, they ruled in favour of the lender. See FOS case Ref: DRN4586868. More about the FOS later.

Now here is the twist and the evidence I would provide as an expert witness should this ever go to court. Whilst you have entered into an agreement which includes an annual mileage the annual mileage plays no part in the agreement until the very end when you hand the car back.

A standard Hire Purchase agreement with a stated number of payments of a stated amount is not tied to the mileage allowance. The mileage restriction only forms part of the agreement should you hand the car back at the end of the contract and those terms come into force.

If the mileage restriction applied throughout the agreement there's a fairly good chance that the lender would ask for annual returns and charge excess mileage at the end of each year or even monthly – he doesn't, proving, in my opinion, that there is no excess mileage entitlement until you exercise your right to return the car at the end of the agreement.

The mileage restriction, which you've agreed to, only applies to the end of lease disposal, it cannot apply to the rest of the agreement which is a standard Hire Purchase agreement.

If you read the section on Warranties, this situation is not dissimilar. Most manufacturers offer a 3 year 60,000-mile warranty which, as I'm sure you are aware, means that you are covered for 3 years or 60,000 miles, whichever comes first. However, for the first year, or in many cases first 2 years, the warranty is unlimited mileage (See warranty conditions on the websites of Peugeot, Renault, VW etc.). So towards the end of the second year, even though you may have covered 90,000 miles, the car will be covered by the warranty. As soon as you hit the second anniversary of the car's registration the limit drops to 60,000 miles and you're out of warranty!

See what I mean? The mileage restriction only applies in the 3rd year. So using the same argument the mileage restriction on a PCP only comes into play if you hand the car back at the end of the agreement. Up to that point, the HP rules apply, i.e. no mileage restriction.

In an attempt to impose a pro-rata excess mileage charge at the time you VT the agreement I have read threads on the Internet whereby the leasing company has attempted to use mileage under 'reasonable condition' (the same reason was used in the FOS case mentioned above) suggesting that a high mileage means that the car isn't in reasonable condition.

That is ridiculous. I've looked back through as many cases as I can find to see if anyone who had returned a car, financed on a standard HP agreement, under the VT rules, has been charged a fee after the lender had claimed that the high mileage travelled warranted a charge for 'unreasonable condition'.

Provided the car has been serviced to manufacturer's recommendations, and there is nobody damage, beyond normal wear and tear, the lender has no right to charge excess mileage if you Voluntarily Terminate the agreement.

If the finance company tries to impose a pro-rata excess mileage charge you can get advice from a firm of lawyers who specialise in PPI claims, amongst other consumer issues, and actually advertise on their website that they will take up your case if you have paid an excess mileage charge after VT'ing your car within the last 6 years.

The lenders should accept the Consumer Credit Act rules regarding VT and stop trying to manipulate them to penalise consumers. If they don't like the rules get them changed by lobbying the Government and the FCA or stop offering the product. But STOP giving consumers grief for exercising their legal rights.

How To Legally VT Your Car

If you wish to VT your PCP agreement you need to send a letter or email to the finance company, a sample of which can be found on the Legal Beagles website:

<http://legalbeagles.info/forums/showthread.php?100962-Voluntary-Termination-Letter-Templates>

DO NOT UNDER ANY CIRCUMSTANCES SIGN ANYTHING FROM THE LENDER OR THE DEALER.

This may be an attempt to get you to opt into paying excess mileage charges as well as agree to return the vehicle to them. They are not entitled to charge excess mileage under the VT rules (see above) and they are responsible for the collection of the car from you. It wouldn't be unreasonable to ask you to drop off the car at a local dealer but anything more than that is simply wrong and chargeable by you to the lender.

Whilst signing the form does not replace your legal rights under Act of Parliament it may be provided as evidence in a court and a judge may have some sympathy with the lender's position. More likely to be taken into account by the FOS should you make a complaint.

Some lenders send out a VT Form, as mentioned above, stipulating that you must sign the form before they will allow you to VT the car. They aren't entitled to do this and you can refuse to do so. Frankly, the lenders should stop trying to deprive you of your legal rights and if found to be doing so should be penalised by the FCA

Lender Scam To Avoid VT

When you VT your car a note will be placed on your credit file to that effect. As you are exercising your legal rights this will not affect your credit score. However, this may be

included in the lender's scorecard (see above) because whenever you VT your car the lender invariably makes a loss when he sells it at auction compared with the value the car stands in his accounts.

So if you've VT'd your car in the past, their view is that you may well do it again so they may be reluctant to take you on as a customer as you are likely to create a loss. In the eyes of a lender, a VT can be as bad as having a poor payment record.

However, some lenders, whilst not wishing to lose the opportunity to provide you with another car will push you into a different sort of PCP, now referred to as a Fixed Sum Loan PCP. Santander offers this type of "PCP" and clearly, this is being done to avoid your right to VT your agreement.

The agreement will look identical to a PCP agreement with an agreed annual mileage, final optional balloon payment with the ability to return the car to the lender at the end of the contract and an excess mileage charge is provided. But because the "PCP" is a loan and not a form of HP a whole new set of rules apply.

Whilst you can't VT the agreement you own the car the day you take delivery. As long as you continue to the end of the agreement you will know no difference but not having the VT benefit could be a very large disincentive to many.

Your legal rights also change. With an HP or Hire Purchase PCP the lender owns the car so any issues, whether car or finance, should always be taken up with the finance company. With a fixed sum loan you own the car immediately, as you would do if you paid cash or took out a personal loan, so car issues must be taken up with the supplying dealer. This means that you lose some of the legal rights that you have under the Consumer Credit Act.

If you have received a Pre-Contract Information Form from the dealer suggesting that you are entering into an HP type PCP you could use this to extract yourself from a 'PCP' agreement that turns out to be a Fixed Sum Loan PCP.

According to the FCA, the finance provider is required to conform to the following

(1) Before making a regulated credit agreement the firm must:

1. (a) provide the customer with an adequate explanation of the matters referred to in (2) in order to place the customer in a position to assess whether the agreement is adapted to the customer's needs and financial situation;

So if the customer was expecting to be able to VT the agreement, as per the pre-contract information, he has been treated unfairly. If this happens to you, you should take legal advice.

When Experts Give Wrong VT Advice

The theme throughout this report is the failure on the part of those giving advice and so-called experts providing false or misleading information. The problem is that a very small slip can have devastating consequences.

On one such 'Expert' sites they say in a write up on PCP Voluntary Termination the following (underlining is mine):

Any termination of a finance agreement will be noted on your credit record, but no details of why it was terminated will be displayed. This is not uncommon, despite what a car dealer or finance company may tell you in order to intimidate you.

Sometimes agreements are terminated by the finance company, which happens quite a lot with accommodation deals. If you reject your car under the Consumer Rights Act, the associated finance agreement will be terminated. There are many reasons why a finance agreement may be terminated, so it is not necessarily a problem that your credit record shows the termination.

Other finance companies will be able to see that the agreement was terminated early, but they won't know why. As a result, a voluntary termination should not affect future finance applications with other lenders. It should also have no effect any other form of credit application such as a mortgage, credit card or personal loan.

The finance company whose agreement you have just cancelled, however, may well decline any further finance applications. Obviously, their records will contain the details of your voluntary termination, so they are less likely to loan you money for another car.

As I have explained a VT will not affect your credit score (something that the finance companies don't see or need). However, by suggesting that a VT is not noted as such on your credit file is simply wrong and as lenders don't like you VT'ing your agreement, as it normally ends up in a loss, you could easily find yourself in a situation where you are unable to arrange another PCP as you have demonstrated that you know and may exercise your right to VT.

A great piece of advice is to put a note on your Notice of Correction on each of the Credit Reference Agency records if you have terminated early for non-financial reasons. For example if you have VT'd your current car to change to a larger car to accommodate a new baby or one more suited to your new job etc. As I've explained elsewhere a Notice of Correction forces an underwriter to review your file personally and a good story could gain her sympathy.

In the Expert article as mentioned above the writer points out that your current lender may refuse to provide you with a PCP for exactly the reasons stated, he is aware that you know the PCP VT rules. But as no other lender can see that your termination is as a result of VT they will probably approve a PCP. If you believe this I believe that you have been misled. Here is what appears on the credit reference agency Experian's website in answer to a question:

Ending a car finance agreement early using 'voluntary termination' is your legal right, as long as you've paid at least half of the total amount due and you hand the car back in satisfactory condition. You should then be left owing nothing and the lender should update your credit report to reflect this. The lender may also add a voluntary termination marker to the entry on your credit report which explains to other lenders why the finance was settled early.

Invariably a VT is marked on your file so be very careful if you take this option. It could prevent you from being approved for a PCP or even an HP agreement moving forward.

PCP Scam To Avoid Balloon Risk

In this scam, the lender tries to avoid their risk in the final optional balloon. As has been reported recently the lenders are exposed to any major drops in used car values when PCP drivers return their cars.

When VW suffered major problems, on the back of the emissions scandal, whilst PCP drivers of VW diesel cars were not happy about the fact that the car they were driving had no equity in it at the end of the agreement, they weren't the ones suffering the losses. The loss was passed over to the PCP provider who, for a short time at least, suffered some fairly substantial losses on VW diesels that were simply handed back.

To avoid this risk some lenders have introduced a simple Hire Purchase with a Balloon agreement. The dealer may ask for annual mileage, this helps the computer software to calculate a balloon payment and it also gives you the impression that you are entering into a PCP agreement with a mileage restriction.

In fact, what they are doing, is passing the responsibility to you for the final payment. If the final payment is made higher than it should be it will reduce the monthly payment. This might appear attractive until the end of the agreement when you have to make the final payment and find that you are in negative equity.

In this agreement, you have no option to hand the car back. It is at this stage, at the end of the agreement, that you find out that the car is worth considerably less leaving you out of pocket. This is the reason why you are sold into this agreement – it takes away the risk in the car that the lender would have suffered if it had been a PCP.

The giveaway is that there will be no excess mileage charge shown in the agreement. Jaguar Landrover dealers offer this type of agreement on their websites and Evans Halshaw, the largest dealership group in the UK, also offers this option on their website across a wide range of brands, as do Stratstone – both members of the Pendragon Group.

Remember, if you enter into this type of agreement you have no option to hand the car back at the end of the contract. The final balloon payment will simply be taken out of your bank

account by direct debit. However, you still have the option to VT the agreement once you've paid 50% of the total owed. Something that dealers have not missed and will use to get you into a new car.

The Dealer Upsells

The first thing a dealer wants to do is sell you into a car, the next thing is to maximise his profit so he needs to get you into some finance that earns both the dealer and the salesman more money. Finally, having captured you with the car and the finance he is now into ‘upsell mode’. This can often be where they can make the most money of all.

The first time I ever heard of an ‘upsell’ was sitting in a sales training room (many years ago) where the trainer used the burger chain McDonald's as an example of an upsell routine that made them a ton of profit (his words). You order your burger and the salesperson says, ‘Would you like fries with that?’, next question is ‘Would you like a Coke as well?’ Followed by another question, ‘Would you like an apple pie with that?’ And so on – you get the picture. Known as the upsell.

In the heat of the moment, you agree to buy things that maybe you don't even want or need but your £1.99 burger has now become a £4.99 meal. I'm not saying that you shouldn't take any of the upsells or add-ons but be prepared. Know what you want before you visit the showroom and test the market online. You can often arrange a better and cheaper deal.

Service & Maintenance

A source of total confusion for many and often incredibly poorly explained is the ability to include service and maintenance packages within your PCP agreement. Before I explain the options let's assume you decide to arrange and pay for the service and maintenance yourself as and when it becomes due, as you generally do when you take out an HP agreement or buy a car for cash.

First of all, if you intend to pay for and arrange the service and maintenance of your car yourself, not as part of the agreement, it would be wise to check out the likely cost during the life of the lease. You can do this by accessing the manufacturer's website which should also explain when the car will need to be serviced.

This is especially important if you are tempted to PCP a prestige or performance car because of a low monthly payment. The additional cost of service and maintenance can be very high.

And don't forget, when you own your car you can let a service slip a little. But if you don't have a car serviced on time, when financed on a PCP, the lender could charge you for not having the car serviced in line with the manufacturer's recommendations, in the event that you return it to them at the end of the agreement.

The problem here is that when it comes to the warranty, you can have the car serviced anywhere, as long as it is serviced to manufacturer's recommendations with original or equivalent replacement parts that meet manufacturer's standards – this way you retain full warranty cover.

However, different rules may be imposed in the contract if you return the car to the lender at the end of the agreement. They may insist on the car being serviced at main dealers only and if you don't, you will be charged by the lender for anticipated losses as a result of not having the car serviced at a main dealer.

Mercedes are quite famous for doing this. They even issue a list of charges if the car isn't serviced by a main dealer and it can be over £1,000.

Another source of confusion is where you believe you can get the car serviced as a result of EU competition legislation in this area, known as the Block Exemption Rules that came into force in 2003. These rules allow you to have your new car serviced anywhere, provided it is a recognised service agent and he services the car in accordance with the manufacturer's recommendations using parts that are either manufacturer parts or meet manufacturer's recommendations.

If that is done the car warranty remains in force and manufacturers cannot refuse a warranty claim unless they can show that either the work or parts repaired or replaced, that led to the claim, were not up to the Manufacturer's recommended standard.

If they weren't you have a claim against the service/repair agent that carried out the original work. Most fast fit service centres will give you an assurance that the car has been serviced to manufacturer's recommendations. However, with a PCP, you don't own the car and as the lender has a risk in the resale value, if you return the car, as stated above, he can set down any rules he feels are reasonable to protect his interest and the resale value.

This is where it gets interesting because had you taken the car on an HP agreement you still don't own the car but there is no stipulation in an HP agreement, certainly none that I have seen, that tells you where to have your car serviced. And yet throughout the HP agreement term, the finance company owns the car. You only become the owner when you make a final option to purchase payment.

The assumption is that you will pay the £10 option to purchase fee and own the car and as you aren't worried where the car is serviced, as long as you can keep the warranty running, you choose to save some money (the purpose of the Block Exemption rules) and have the car serviced at Halfords or KwikFit or another recognised garage.

But here's the rub. Let's say you call into the dealer and negotiate a PCP deal on a new car. You know how the scheme works and as the dealer says that there will be some equity in the car at the end of the agreement you decide to take the car with every intention of paying the balloon and option to purchase fee in order to own the car at the end of the agreement.

As with a hire purchase agreement, as you intend owning the car at the end of the contract you feel that it is up to you as to where you have the car serviced. An HP agreement will insist that you take 'reasonable care' of the car in the event that you hand the car back after refusing to pay the option to purchase fee.

As that is highly unlikely, you choose where to have the car serviced. However, with every intention of buying the car at the end of the PCP agreement, as you were told that there would be equity in the vehicle at the end of the term, you find out that there isn't any equity so you choose to hand the car back.

Is it right to charge for not having the car serviced at a main dealer as they were at fault because you based your service decision on the projected equity suggested by the dealer? I'm sure the Financial Ombudsman would like to hear about that one.

Insurance Add-On's

This is a big source of income for the dealership, so look into the various products before you visit the dealership and decide whether you want them. In my opinion, you can either live without them or find them cheaper online.

But like the finance providers each insurance provider has a completely different set of terms and conditions so whichever route you choose, make sure that you fully understand the policy, what you are covered for and the exclusions.

Make sure that the savings are not as a result of lost benefits that you need. I saw a recent finance agreement in which the year old car cost £8,500 with add-on policies totalling over £1,500. Very worrying and in the main unnecessary.

Sadly the customer was a lady and my feeling, as a result of anecdotal stories I've heard from many women, suggests that there is still a feeling in the motor industry that women are a soft touch.

GAP Insurance

This is short for General Asset Protection but the word GAP nicely describes its purpose, it fills various gaps as I'll explain in a moment. There are huge margins here for the dealer so think twice before you take out a policy through them. Research on the Internet.

Statistically, there are over a million policies in operation, according to the FCA, who also found that around 10% have a claim registered. Frankly, I was a little surprised by that so it is certainly a product worth considering.

The FCA has researched this product more than any other insurance product offered at the time you take out your finance. As a result, they have ruled that you need two clear days between being offered the product and signing up for it at the dealership.

This gives you the opportunity to do some research and decide if you can obtain the same product cheaper elsewhere. In one case I reviewed recently, I saw GAP being sold by the

dealer for £499 but was found online, with exactly the same cover, for £129 so you really should look around but make sure you are comparing like with like products with the same level of cover.

In terms of timescales, this has been set down in the regulations. You visit the dealer on day one, you are offered GAP insurance and given a full description of the product and told that you may be able to find alternatives elsewhere. During days 2 and 3 you can research the alternatives. If you wish to go ahead you now visit the dealer on day 4 (or later) and sign the agreement. This can either be a separate agreement or it can be included in the finance agreement.

If you haven't been given the 4 days and wish to withdraw from the GAP agreement you should take it up with the lender and if they won't remove the cost from the finance agreement take it up with the Financial Ombudsman Service.

There is another option. You can, if you wish, waive your rights to the cooling off period once you have read the full description of the product. But don't simply sign a waiver without reading the full description and understanding what is included in the policy. If you've not had the product and the option to purchase elsewhere explained, before accepting their offer, the dealer has acted illegally.

Some lenders have allowed the cancellation of the GAP insurance agreement, included in the finance and simply refunded the cost of the insurance while you continue to make the monthly PCP payments which include the GAP. This is wrong because you still end up paying the interest on the GAP insurance cost. They should either provide a fresh agreement for just the car or refund the total cost, including the interest charges, in which case you continue to pay for the GAP.

One last point, even if you pay cash for your car you can still take out GAP insurance to protect your investment, see examples below. The dealer is obliged to explain GAP to you and that you could find alternatives elsewhere. He must also provide you with the two days between explaining the insurance and the day you sign up for it. If he didn't that could be construed as miss-selling.

Gap Insurance - The Options

There are various types of GAP insurance, some are given different names according to the provider but they generally fall into the following groups. The first is known as **Financial GAP**. This comes into play in the event you have a total write off. The normal car insurance will pay out the value of the car based on age and mileage.

However, if you are early into the agreement this payout may fall short of the settlement figure required by the finance provider. This difference can run into several thousands of pounds. For example, let's say you take a £20,000 car on a PCP and after 3 months you have an accident and your car is written off or stolen.

The insurance company values the car at £16,000 but your finance provider is looking for £19,000 as you have hardly paid off any of the capital cost of the car so early into the agreement. This is especially the case with a PCP compared to an HP agreement, where little or no deposit is paid on the PCP – effectively contributing very little towards the early depreciation. The Financial Gap would pay out the difference of £3,000 in this case.

The next is **Return To Invoice GAP**. This is useful if you have paid a large deposit or used an old car as part exchange. A word of warning, some 'experts' recommend that you ignore GAP if you have paid a substantial deposit as the car value at the time of the write off will always be higher than the financial settlement.

Whilst this may be true it ignores the loss of your deposit, which could also have been your part exchange. This GAP gets you round this situation. The **Return To Invoice GAP** insurance takes you back to the price you paid. In the above example that is £20,000, so whilst your insurance pays out £16,000 they will pay you £4,000.

However, in the above example you paid no deposit but let's say you paid out of your savings £5,000 as a deposit, this could also have been a part exchange, so you only funded £15,000 on the PCP. When you had the accident the insurance company still paid out £16,000 but the finance company only wanted £14,200 in settlement of the finance agreement.

Financial GAP would pay nothing as the insurance payout at £16,000 would be more than the finance settlement at £14,200. Whilst you would receive a cheque from the insurance company for $£16,000 - £14,200 = £1,800$ you have still lost your £5,000 deposit. However, **Return To Invoice GAP** would pay out £20,000 (original invoice) – £16,000 (insurance payout) = £4,000, plus the difference between your car insurance payout of £16,000 - £14,200 = £1,800. effectively returning your deposit to you and a little bit more towards the money you've paid on finance.

These are just guidance figures depending on how far you are into the agreement, just showing how you can end up with the invoice price of the car. You can also take out back to invoice GAP even if you don't have finance that will protect your deposit.

Not everyone takes out their GAP Insurance policy at the time of taking out their PCP. Most GAP providers will take you on even though you are part way through your agreement. However, they will cap the payment to the value of the car when you took out the insurance. This is known as **Return To Value Gap**.

Finally, there is **Vehicle Replacement GAP**. As the name suggests the GAP payment will allow you to replace your written off car with a brand new car even if the list price has increased. There are normally restrictions applied to this type of GAP as it is only available on new cars. So the insurance may only be taken out if the car is under 500 miles or less than 3 months old – check the policy.

One well-known consumer website recommends that you don't need GAP if your comprehensive insurance policy replaces your car with a new car if it is written off in the first year, assuming that you took the car from new. That's OK if you bought the car for cash but you could be caught up in the middle of disputes between the PCP provider, who is looking for a settlement payment, and the insurance company so check the policy before taking it out.

Cosmetic Insurance

Sometimes called Scratch & Dent insurance, Smart Insurance, Body Repair Insurance and a variety of other names. It covers you for minor body repairs throughout the term of the

insurance. You can be offered it by the dealer, again at a price higher than you could obtain online.

There is no immediate cooling off period as there is with GAP so you can sign for the Insurance on the day you sign the finance agreement. However, by law, you are able to cancel the agreement within 14 days. That is a minimum you need to check the policy as some allow a cooling off period of 30 days.

As I mentioned with GAP if you cancel the policy you must request a new finance agreement and not simply accept a refund of the policy cost as you will still end up paying interest on the premium. Unless of course you paid cash for the policy and didn't have it rolled into the finance.

Alloy Wheel & Tyre Protection

The most common accidental damage sustained by drivers is alloy wheel damage. Scuffs, scratches and gouges are relatively easy to repair by either body shops or the generally cheaper smart repairers so Alloy Wheel Protection may not be a bad thing to have.

However, there are things you must consider. First is to check that the insurance covers your type of alloy wheels. Some will only cover standard alloys not laser or diamond cut. If you have laser or diamond cut alloys when you make a claim they won't pay out so check your wheels and the policy.

Secondly, check the exclusions and excesses, there is often a call out charge and a restriction to the number of claims per annum, the maximum amount of each claim and/or the maximum amount you can claim throughout the life of the policy. There may also be an excess charge if the wheel can't be repaired and needs to be replaced.

Tyre protection can be part of the same policy or completely separate. This insurance will cover you for accidental damage and punctures. Some go further and include replacement tyres when worn.

This type of policy can be useful if you run a BMW or any other car with 'Run-flat tyres' fitted. Whilst it's possible to have punctured run flats repaired it's not recommended, you need to replace them making a puncture very expensive.

Most tyre policies will cover run flats and allow for replacements in the event you have a puncture as this is what is recommended by the manufacturers. But check the terms and conditions. If you are covered for tyre replacements due to wear and tear do some research before taking out the policy.

There are many online tyre providers who are able to provide premium brands of run flats at low prices so compare the cost of likely repairs and replacements with the insurance cost. It's a good way of spreading costs but may not always be cost-effective.

Note On Tyres

You should check the terms and conditions of your PCP contract with regard to replacement tyres when they become worn. Most policies don't specify replacing worn tyres with premium brands so you can fit cheap budget tyres as long as they match with the specification of the tyres fitted.

But if they specify that only premium brands are to be fitted and you fit budget tyres you could receive a bill to change the tyres when the car is returned.

This can be part of the service and maintenance agreement if you take one out. Either way, check the maximum tread allowable when it comes to changing tyres. If you are the sort of person who likes to change tyres early, for safety reasons, it may be better not to include tyres so that you can change them as frequently as you like.

Paint & Fabric Protection

Not an insurance but a common add-on offered by dealers. Very few pundits recommend this as a must-have product. How often do you see 10-year-old cars looking shabby these days, let alone 3-year-old cars? Paint finishes, provided you clean the car regularly, can remain like new for many years.

So paying for extra paint protection can rarely be justified. Even if it's your intention to keep the car for many years (which you probably won't with a car on PCP) the cost is rarely justified.

The fabric protection part of the policy may have some justification, if you have young children or animals in the car, but watch out for exclusions. With proprietary cleaners, that you can buy online or at Halfords, capable of dealing with most stains, you can either do it yourself or, for a relatively small cost, have the interior valeted should you end up with a bad stain to the upholstery. Again there are independent insurance companies that can provide this if you want to have it for less.

Extended Warranty

Not often believed to be an insurance product, in most cases it is. New car warranties are believed to be provided by the car manufacturer, in fact in most cases they are provided by the manufacturer for the first year with the supplying dealer topping up for years 2 or 3 onwards.

Most warranties are transferable when you buy a used car but you need to check the terms and conditions. This is a massive subject so I'll just cover off a few important points. The most important thing is to check the terms and conditions carefully before taking out the insurance.

Some extended warranties will cover wear and tear items, something that most new car warranties don't even cover. Here are some things to look out for:

Age and mileage limit – most policies will only cover up to a maximum mileage or maximum age, whichever comes first.

Excess: How much of the claim will you have to pay? In some policies, the excess increases with the increased mileage.

Claim Limit: This can be up to the total value of the car – but not always,

Betterment: If the repair makes the car more valuable you may be expected to foot some of the repair bill. For example, if a new engine is fitted to a 7-year-old car, covered by an extended warranty, it could be seen to improve the value of the car so you may be asked to contribute. Check the terms and conditions.

Read the section on 2 Year European Guarantee below. If you bought a used car from a dealer and the repair became necessary within 2 years of taking delivery. Whilst covered by an extended warranty you may be asked to contribute but as this is covered by the EU 2 year guarantee they have no allowance that I can find for betterment.

You will be asked to prove that the part was faulty before you bought the car but if an engineer can show that it was, you would be entitled to have the faulty item repaired or replaced with co 'betterment' contribution from you.

Consequential Loss: If one failed part causes another part to fail you may not be covered for the second failed part, especially if the first failed part was not reported quickly or if you continued to use the car once the fault became known.

There is normally a clause in the terms and conditions obliging you to keep the cost of repairs to a minimum by not driving the car once you are aware of a fault. In a recent case a lady continued to drive a car, following a problem with her clutch, that resulted in a failed clutch and a damaged flywheel through overheating.

The manufacturer refused to pay out for the relaced flywheel. I reversed this decision as I felt the clutch was faulty and it was unfair to expect the lady to suffer as a result of the faulty manufacture of the clutch – but it was touch and go.

Garage Choice: Some policies insist that you use 'Approved Garages'. If you use a garage outside those approved you could end up paying part of the labour cost.

Mileage: There may be an annual mileage or mileage limit applied to the policy.

Labour Rate: Some policies will not cover main dealer rates or have a maximum hourly rate they will pay, you will be expected to make up the difference. Again check your policy.

Pre-Existing Faults: Most policies will not cover repairs to an item that was faulty before the policy was taken out. It's therefore important to retain any inspection reports from when you bought the car and took the extended warranty.

Servicing Schedule: Some policies insist that you have the car serviced as per the manufacturer's service schedule. Make sure you can prove that it has been serviced per the schedule and that you have all the paperwork and bills. Failure to do so can invalidate the warranty.

Regulated Provider: Make sure that the provider of the extended warranty is regulated by the Financial Conduct Authority and you have been provided with a 14 day cooling off period.

Time Limits: Some policies won't pay out on claims within anything from 30 days to 90 days from inception. Check the policy,

Warning Lights: If you ignore a warning light your insurance may refuse to pay out. This is especially the case if you have ignored red warning lights. Red warning lights – stop immediately and call a main dealer. Amber or yellow warning lights are advisory, something needs attention imminently. Green (sometimes blue) indicate something is working like headlights.

Wear & Tear: I have covered this earlier but check your policy because even if the policy covers wear and tear it may not cover certain items such as tyres or brake pads.

MOT Test Insurance

If you took out a PCP on a new car, even if you only took out a three-year contract, as the car will have been registered before you took delivery you will need to have the car MOT tested before the car is returned.

In this case, MOT test insurance may be useful. You normally have a repair limit set of say £500 or £750 to cover the cost of getting you through the MOT. If you have a 4-year PCP contract the car will need 2 MOT tests or if you take a used car on a PCP you may need 2 or more so you will need to adjust the policy accordingly.

Check what is covered as some may omit obvious items such as replacement tyres. Since the introduction of new MOT rules as of May 2018, I have noticed some inconsistencies regarding emissions. If smoke is seen emitting from the exhaust the examiner is obliged to fail your car. As this was only being introduced as I wrote this report we are yet to see if emissions are fully covered under these policies, following the new regulations, as a fix could be very expensive.

New MOT Test – May 2018

It should be noted that as of May 2018 new, EU wide, MOT tests come into force with new bandings. The top 2, which will result in an instant fail, are Dangerous and Major. The 3rd which replaces the old Advisory note is called Minor and will not result in a fail but you must get the fault rectified. The two things worth noting when deciding whether to take out MOT Insurance are:

1. If you have a diesel car fitted with a particulate filter (all new cars must have one) and the inspector sees any smoke of any colour coming out of the exhaust he is to fail the car as having a major fault. The examiner must refuse to test a car if he finds evidence that the particulate filter canister has been cut open or welded unless the owner has proof that this was done to clean the filter.
2. It's illegal to drive a car on the public highway in a dangerous condition so whilst I read that the examiner has some discretion the recommendation is that if the vehicle fails the MOT, the examiner should stop the driver from taking the car out of the test station other than on a trailer. The fear expressed by examiners is that if the driver has an accident driving the car after it has failed the test he could be held liable so there's a good chance that he will refuse to allow the driver to drive the car.

Given the above, it may be worth considering MOT cover but check to see what you are covered for and the limits per claim.

Refuelling Cover: Third party roadside assistance may include this as standard whilst others will allow it as an 'add-on'. However, if you buy a new car that is covered by roadside assistance, as part of the manufacturer's warranty, there may be no mention of it.

You could then take out a refuel policy as a stand-alone policy from a third party provider or you may even be offered it by the dealer as another source of revenue when taking out your PCP. Before taking out this cover make sure that you are not already covered elsewhere, no point in paying twice for the same cover.

The insurance will normally cover draining, flushing and replenishing the fuel but be very careful not to drive the car if you have accidentally refuelled with the wrong fuel.

Missfuelling is becoming common again at the moment as many drivers that have been driving diesels for years have now reverted back to petrol under pressure by the Government and local authorities.

The roadside assistance providers need to have a Safety Pass Alliance (SPA) passport to enable them to carry out the draining and refuelling exercise in a safe and responsible way.

If they have to carry out the exercise at the side of the road the technician needs ADR qualifications to allow them to carry fuel to your broken down vehicle and to dispose of the drained fuel responsibly.

With this in mind and the likely high cost of needing a qualified fuel technician, if you are fearful of accidentally refuelling incorrectly, it may be worth the cover as this can be a very expensive exercise. The problem arises if you drive your car after accidentally refuelling with the wrong fuel.

This is where it gets interesting. You may be covered by your normal insurance policy but if you make a claim you could lose all your no-claims discount so it would be better to have the refuelling covered elsewhere.

This is fine if you realise whilst on the forecourt or you've only driven say 100 metres down the road before you realise. At best you should avoid even starting the engine or if you have

and have set off, avoid driving to a pull off area, simply stop and wait for the breakdown recovery truck and get them to tow you.

But what happens if you don't realise what you've done and drive the car and end up damaging the engine to the point where it may need to be replaced? This can set you back north of £5,000 depending on the car you drive.

A few years ago the Guardian carried a report by the British Insurance Brokers Association (BIBA) in which they found that only 7 out of 32 insurance companies made specific mention of misfuelling in their policies and in all cases it was to say that they would not cover damage as a result of misfueling the vehicle.

BIBA then found that 40% of those that didn't mention refuelling would also refuse to pay out if you claimed for accidental damage as a result of misfuelling.

The interesting advice from BIBA was that if no mention was made in your insurance policy regarding misfuelling that you should assume that it was covered and to take your case to the Financial Ombudsman Service (FOS) since the exclusion was not brought to your attention at the point of sale.

Some insurers will cover misfuelling as 'accidental damage' but may restrict claims to the cost of draining, flushing and refuelling with the correct fuel. Any consequential damage claims may be refused as some insurers say that driving with contaminated fuel 'could be considered as intentional damage'.

In the circumstances, the FOS has the last say. Here is a direct quote from the Guardian piece: **'You cannot be expected to know what you are and are not covered for in your insurance if your policy doesn't tell you,'** an FOS spokesperson says. **'Unless there was an exclusion in the policy that clearly stated that it did not cover damage caused by the wrong type of fuel being put into the car, we would expect the insurer to meet the claim.'**

Another quote from the article: **'More than 150,000 cars either break down or suffer serious engine damage every year in the UK as a result of misfuelling - putting petrol**

into a diesel car, or vice versa - and it is on the up as the number of cars on the road rises, according to the AA'. I would say that this figure is about to increase as diesel drivers move back to petrol engines.

Finally, you may be asking the question - is it worse to fill a diesel car with petrol or a petrol car with diesel? I can answer this. It is much worse to fill a diesel with petrol. It is more likely to result in engine damage if you do that than fill a petrol car with diesel.

Key Cover

You may simply want this cover if you have a habit of losing your keys but before you accept the dealer product, first of all, check your car and household insurance policy because lost or stolen car keys may already be covered. Check the excess and make sure that if it's either included or available as an add-on to your car insurance policy that a claim won't affect your no-claims discount.

There are independent key cover providers who will not only cover you for replacement lost or stolen keys but also a hire car if you lose your keys whilst out and can't get home. Always check your policy as, according to Confused.com some policies won't allow a claim until the keys have been lost for a minimum period of time.

As always don't simply take the add on from the dealer, check to see if you haven't already got cover and if not shop around.

Warranty

THIS IS VERY VERY IMPORTANT – A MUST READ IF YOU TAKE OUT A PCP ON A NEW CAR

I have already covered extended/used car warranties but as warranties and warranty claims are the most frequent complaints you read about in the trade press I thought I would explain a little more and maybe reveal a few things you probably don't know about new car warranties.

First of all, what is a warranty? Many see this as your only protection against faulty parts or faulty construction that lead to breakdowns within the first few years of the car's life, restricted by the number of miles driven.

This simply isn't true. You have more than adequate cover in law. Irrespective of the warranty terms and conditions you have legal cover up to and beyond the first 6 years of the life of your car under the terms and conditions of the Consumer Rights Act 2015.

The purpose of the warranty is to enhance your basic legal rights. The manufacturer as well as, on occasions, the supplying dealer, provide you with enhanced rights to make it as simple as possible to have your car repaired, as a result of faulty manufacture, as quickly as possible and without having to get involved in a legal claim. But even when making a warranty claim you should always be conscious of your legal rights, especially if you make a warranty claim that is rejected.

Revelation 1 – Mileage

Most warranties cover you for '3 years or 60,000 miles' whichever comes first. Do you know what that means and if there are variations? You probably don't.

Let's say you have a VW Golf, which is covered by a 60,000 mile, 3-year warranty. You have driven 65,000 miles in 20 months when you develop an engine fault. Are you covered by the warranty?

Having already covered 60,000 miles you may think that you aren't but most manufacturers selling cars in Europe (at the time of writing) provide 2 years of unlimited mileage warranty. So, in fact, you could cover say 100,000 miles within the first two years and still be covered.

The limitation only applies to year 3. Ford and Vauxhall only cover year 1 with an unlimited mileage clause whilst Renault offer a 4 year, 100,000-mile warranty, with the first two years being unlimited mileage.

Whilst many people find this unbelievable – it is a fact! Check the policy.

Revelation 2 – Warranty Provider

Following on from the above who do you think provides the manufacturer's warranty? You were probably thinking the manufacturer and you would be right in a few of the cases but many manufacturer's warranties only cover the first year or in some cases the first two years.

For example, Citroen cars come with a 2 year unlimited mileage manufacturer's warranty whilst the 3rd year is provided by the supplying dealer. In fact, in most instances, if you are being given a warranty that has an unlimited mileage portion it is most likely that portion that is provided by the manufacturer.

The balance is probably provided by the supplying dealer. This shouldn't concern you as all you need to do if you experience a fault is to take the car to the nearest dealer and they will deal with the claim, irrespective of who actually provides the 'manufacturer's warranty' – the manufacturer or the supplying dealer.

Warranty vs The Law

You should always keep in mind your legal position. When you experience a fault with your new car, that has been funded on a PCP, the dealer is NOT legally responsible to you for the fault.

Many experts will suggest that the person to take up the complaint with is the supplying dealer, after all, you ordered the car from them and they supplied it along with the warranty attached to the car.

Even some lenders suggest that you should take up your 'problem' with the dealer, explaining, 'We just supply the finance'.

That is wrong. If it is a matter of convenience and the problem is minor you can approach the supplying dealer, in the first instance, before approaching the PCP provider and have the fault rectified. But legally the responsibility rests fairly and squarely on the shoulders of the PCP provider.

No if's or but's that's the law. Some experts will suggest that the supplying dealer and the finance provider are jointly and severally liable under section 75 of the Consumer Credit Act.

Again this is untrue. The dealer invoices the finance provider with the cost of the car. Ownership then passes to the finance provider and he, in turn, enters into a finance agreement with you. At that stage, the funder takes overall responsibility for the car and its merchantable quality under the the *Supply of Goods (Implied Terms) Act 1973*. That is the law and not to be confused with the warranty.

Under the Consumer Rights Act 2015 regulations the car must be of satisfactory quality, fit for purpose and as described. And this is what confuses most people.

Let's say you explained to the dealer salesman you needed a 4WD car capable of towing a caravan weighing 2.5 tonnes. This was included in an email and he replied confirming that the car you were ordering was able to tow a caravan weighing 2.5 tonnes.

When you receive the car you find out that it can only tow 2.0 tonnes and is therefore neither fit for purpose nor as described. The lender wasn't involved in that discussion but legally the lender is responsible and must take the car back. It is up to him as to how he resolves the problem with the dealer. It's not your problem.

The same applies to any faults. Let's say you've had a new car for a year on a PCP and it starts jumping out of 4th gear whilst driving. A dangerous fault and one that needs to be resolved quickly. Legally, irrespective of the warranty, your recourse is via the PCP provider, not the dealer.

For the sake of expediency, and your safety, you could go back to the dealer and make your warranty claim through them. But if you end up in a dispute with the dealer because he can't replicate the problem and therefore disputes the claim or keeps the car for a longer than acceptable time you should claim off the PCP provider as he owns the car till you have made all your PCP payments, including the final balloon and the option to purchase fee.

And if you still get no joy, file a formal complaint with the Financial Ombudsman. Be in no doubt the PCP provider owns the car and therefore legally responsible if anything goes wrong with it. That's the law and if the PCP providers don't like it they shouldn't provide PCP finance, it's as simple as that.

Consumer Credit Act – Section 75A

Now this is where things start to get complicated. If you are confused contact Citizen's Advice or the Financial Ombudsman. Even talking to lawyers have left me a little confused myself. First of all this section was added to the Consumer Credit Act on the 1st February 2011 as a result of the related EU Consumer Credit Directive.

It supplements section 75 – it doesn't replace it. It applies to the purchase of goods or services from £30,000 to £60,260 so in the case of PCP's this will relate to cars costing from £30,000 to £60,260. It only comes into force if you enter into a 'linked transaction'. My interpretation of this is a PCP that has been arranged by the supplying dealer on a specific car.

It doesn't make sense to me that if the car, costing between £100 and £30,000, is financed on a PCP arranged by the dealer that this is not a linked transaction as described within section 75A. The Financial Ombudsman is very clear that section 75, making both the dealer and the funder jointly and severally liable does NOT apply to PCP or HP agreements.

However, under the rules of section 75A, provided the PCP was arranged through the supplying dealer, you must first make a claim against the supplying dealer and only if you cannot resolve your claim with the dealer can you enter into a claim against the finance company. It is at that point you can employ the services of the Financial Ombudsman Service.

So as I see it:

Cash Value: £100 to £30,000 Section 75 – Claim on the PCP provider

Cash Value: £30,000 to £60,260 Section 75A – Claim on the dealer first then the PCP provider.

Warranty Cover – What’s Included?

Another area of total confusion, especially if you have never owned a new car before or never had to make a warranty claim, is what is included in the terms of the warranty cover? The general feeling is that if you have a new car that comes with a 3-year warranty it covers everything on the car for the full 3 years.

This isn't true and nor is there any consistency between manufacturers. Wear and tear items such as brake pads and discs, clutches, wiper blades etc. will have limited cover. Whereas major components such as engines, gearboxes, differentials etc will be covered for the full term of the warranty (other than for accident, abuse or normal wear and tear through excessive mileage).

For example, Ford covers wear and tear items up to the car's first service whilst Kia's 7-year warranty covers wear and tear items up to 2 years, unlimited mileage (referred to as maintenance items) such as brake pads, wiper blades, clutch linings etc.

But remember that the warranty only covers manufacturing defects, not normal wear and tear. Other items start to fall off cover as the car ages. In the case of Kia, and they aren't out of sync with other manufacturers' cover, their cover limitations on a new car are as follows (correct at the time of writing):

Battery: 24 months

Air Con Refrigerant Charge: 24 months

Wheel Alignment & Balancing: 12 months or 1,000 miles

Exterior Glass Crack: 3 months or 1,000 miles

Audio & Navigation Units: 36 months or 60,000 miles

VW take a different view on wear and tear items limiting claims to 6 months or 6,500 miles whichever comes soonest and includes a wide range of items including

Brake pads/Linings

Clutch pressure plates/centre plates/bearings

Tyres

Shock absorbers

Batteries for key fobs and alarms

And several more

As you can see all manufacturers provide completely different levels of cover so you should go through this before you go ahead with the PCP. Remember, having the longest term or the highest mileage warranty doesn't make it the best. Exclusions and length of the cover of individual parts matter much more

Legal Position – Consumer Rights Act 2015

Don't forget that the warranty isn't the law. Legally there is a raft of Acts of Parliament that define your legal entitlement when buying any goods including cars. The main one is the Consumer Rights Act 2015 that combined a number of previous Acts into one, collecting together such things as advertising, unfair terms etc.

If you take your car on a PCP it also brings into play the Consumer Credit Act 1974 and its subsequent variants. So whilst you may be under the impression that your shiny new car falls over the edge of a cliff when the mileage reaches 60,000 miles or 3 years old – as per the warranty, this isn't true at all.

A fault that develops within the first 6 months of the car's life is considered, in law, to be a pre-existing fault so it is up to the dealer to prove that the fault didn't pre-exist if he is refusing to repair the fault. This applies equally to used cars and new cars. However, it doesn't cover purchases from a private individual but you may have some manufacturer or aftermarket warranty left on the car if it is transferable.

Whilst I think of it, this applies to cars sold by a company disposing of its company cars through say the local newspaper or other forms of advertising. They may advertise the car 'as seen' but this isn't the case. They are a business and even if the cars are high mileage your legal rights are exactly the same as those if you bought the car from a car dealer or trader.

The only way around this is if the seller explains that the car has a fault that may be reflected in the price you pay and marked as such on the invoice. You cannot return the car for a repair to rectify a fault that you already know exists.

Back to your legal rights when buying from a dealer/trader

Beyond 6 months and up to 6 years, under the terms of the Consumer Rights Act 2015, you must prove that the fault pre-existed by having the fault inspected by a recognised technician.

In any case, if you find yourself in a dispute over a fault on a car you should take it up with your local Trading Standards office via the Citizens Advice Bureau (CAB) in the first instance. If you have no joy you can make a formal complaint to the Financial Ombudsman Service (assuming, of course, the car is on finance).

In the circumstances, up to the end of the warranty period, you may receive better results by relying on your warranty, rather than exercising your legal rights, and taking up the issue with the finance provider.

But if you get nowhere with the dealership or the manufacturer take up the problem with the finance provider and don't be fobbed off, **THEY ARE RESPONSIBLE!!** You don't have to take up the issue with the dealer or the manufacturer.

Under the Consumer Rights Act, you can opt to return the faulty car in the first 30 days of ownership without giving the dealer (or the finance provider) the right to repair or replace the car.

If you return the car you are entitled to a full refund with no deductions being made for use. Between 30 days and 6 months, under the Consumer Rights Act, you must give the supplying dealer ONE opportunity to repair the car. If they don't repair the fault you can return the car for a full refund without any deduction for use.

In the case of a PCP, the return is to the finance provider, not the dealership.

The Warranty Scam

I have been forwarded a note sent to dealer clients by a dodgy firm of solicitors advising how to scam customers and give themselves more chances to repair a faulty car without using up their one legal opportunity to fix the car once the car is beyond 30 days old.

Within the first 30 days they advise that the customer must prove that the car has a fault (I agree with that), then prove that the fault was present at the time of sale (this is wrong the onus is on the dealer to prove that the fault wasn't present at the time of purchase with the law assuming that the fault existed at the time of purchase for the first 6 months of ownership – whether the car is new or used).

Under the old Sale Of Goods Act dealers had the right to attempt as many repairs as you were prepared to put up with before taking legal action but under the new Consumer Rights Act the dealer is only given one chance to repair (after the first 30 days) before he has to take the car back.

To con the customer the lawyers suggest that the dealer hands the car back in a safe condition but advise they say to the customer that 'the job card will be held open in case the problem comes back.' That is not legal, they had their chance to repair the car so if the problem returns you are entitled to all your money back (within the first 6 months).

The real scam surfaces when you return your car with a fault after 30 days. The dealer has just one opportunity to repair the fault but Dodgy & Co advise dealerships to explain to the customer that they will repair the car under their warranty.

Could be their own warranty, a 3rd party warranty or manufacturer's warranty, if the car is new or still covered by the manufacturer's warranty. If you agree this isn't seen to be the one statutory repair under the terms of the Consumer Rights Act.

So whilst you continue to allow for a warranty repair they keep their statutory repair in their back pocket. To protect themselves they will probably get you to sign a piece of paper authorising the repair under the warranty. It's a con!

European 2 Year Guarantee

This is unknown by the vast majority of consumers but it covers all goods that you buy anywhere in the EU, new or used. The same 6-month rule applies whereby any faults that are found within the first six months are assumed to have existed when you bought (took delivery of) the car and it is up to the dealer to prove otherwise.

Private sales are outside this guarantee. In the UK we also have the 30-day rule whereby you can return the car and ask for a full refund if the car is faulty, not as described or not fit for purpose.

According to the EU 2 year guarantee, after 6 months you have to prove that the fault existed at the time you bought the car, the same as our Consumer Rights Act, but our laws cover you for a period of 6 years whereas the EU law only covers you for a period of 2 years.

I believe that the 2-year unlimited mileage part of the new car warranty, provided by many EU new car manufacturers (see above) is provided because the EU 2 year Guarantee has no mileage restriction, which begs the question why Ford and Vauxhall have reduced the unlimited mileage portion of their warranty to just 1 year?

The 2 year period can only be reduced if agreed between the two parties. As neither Ford nor Vauxhall enter into such negotiations with customers I struggle to see how they can restrict the unlimited mileage portion of the warranty to just 12 months?

You are at liberty to make a claim under the EU 2 Year Guarantee scheme if you feel you are getting nowhere and the commercial guarantee or manufacturer's warranty isn't covering your rights as you would expect under the EU scheme.

I need to be clear here, according to Europa.eu your 2-year guarantee does not allow for wear and tear of the faulty item when it goes faulty and the dealer repairs or replaces the part. Let's say your gearbox fails after 20 months and you have covered 40,000 miles.

A dealer may say that he will repair the gearbox, which will cost £3,000, but as you have had 40,000 miles use out of the gearbox he will split the cost and you pay £1,500. This is in breach of the EU regulations.

If it can be shown that the fault existed when you bought the car he must repair or replace the faulty item free of charge or give you your money back. In the case of say a camera bought in Spain the postage costs must be refunded also.

Interestingly the same rules apply if the car you bought is a used car, you still have the 2-year guarantee provided the car has been bought from a dealer or trader.

If you have a dispute, either in the UK or abroad in an EU country you can contact your UK European Consumer Centre at the following address: <http://www.ukecc.net/>

European 2 Year Guarantee – April 2018 Update

There is an assumption that all EU laws will be adopted by the UK Government into UK law following final BREXIT as has already been stated by the Government. But some are suggesting that as we already have the Consumer Rights Act it won't be necessary to adopt the 2 year EU Guarantee, especially as any complaints need to be taken up with the local European Consumer Centre which will no longer exist after BREXIT.

However, whilst we are still part of the EU we are obliged to comply with any EU laws. In April 2018 'Your Europe' sent out an update to the old legislation. I can't see any major changes although the 12-month opt-out seems to have gone – so all purchases, new or used, other than private purchases, are covered by a minimum 2-year guarantee (legal guarantee).

Other wording has changed. You are not only covered for faulty goods the law also covers the way goods are advertised as follows, this is what they say to sellers:

*If the product you sold turns out to be **faulty** — or doesn't look or work as advertised — within the timeframe of the legal guarantee, you are responsible for this. In some countries this can also be the case if you are the manufacturer or importer.*

In a recent case a car was advertised as having extras fitted but when the car was delivered they were not there. A row broke out with the dealer arguing that there was an error in the advert – in fact they had breached EU law.

I have also reprinted the whole of your redress as a customer as there are some really interesting inclusions. Especially useful if you take a demonstrator on a test drive and the car you receive is not the same as the car you test drove, with equipment that you thought was standard but turned out to be an extra cost.

When can your customer claim redress?

*Be aware that you are legally bound by any **public statements** you make about your products, especially through advertisements or on labels.*

If you are a retailer, your customers can ask for redress under the legal guarantee provided by EU law - if an item:

- *doesn't **match the product description***
- *has **different qualities** from the model advertised or shown to the client*
- *is not **fit for purpose** - either its standard purpose or a specific purpose ordered by the customer which you accepted*
- *doesn't show the **quality and performance** normal in products of the same type*

- *wasn't installed correctly - either by you or by the customer, due to shortcomings in the instructions*

*If you inform your customer that the product you are going to sell has quality problems, they cannot then claim redress from you about **this particular defect**.*

There you have the updates to the EU 2 year guarantee.

Tricks Of The Trade

When dealers sell you used cars they are advised by lawyers to have a new MOT carried out on the car. This is not proof that the car has no faults but a lawyer would argue in court that a new MOT is proof of roadworthiness at the time of purchase, relying upon the naivety of judges.

A new MOT is not proof that the car is faultless it is a test of safety. I have seen an example where a used car has been fitted with new front tyres to apparently cover up the fact that there was a problem with the wheel alignment.

As wheel alignment isn't included in an MOT test and tyre wear was experienced within weeks of taking delivery the customer complained that the car was faulty. The dealer, on legal advice, argued that the car had a new MOT at the time of sale, and therefore was faultless.

The lawyers assumed that the customer would threaten court action. But the client got Trading Standards involved and they took the side of the customer against the dealer. Don't forget that if you have a PCP your claim is on the finance provider, not the dealer.

Where EU Law Conflicts With UK Law

EU Law uses the same premise that if your car, whether new or used, displays a fault within the first 6 months it is assumed the fault existed before you bought (or financed) it.

It is down to the supplying dealer to prove that the fault didn't exist at the time of purchase. After 6 months and up to 2 years, you are covered by the EU 2 Year Guarantee. At any point,

during this time (with no mileage restrictions) you can claim for a fault, once you have proven, through an independent inspection, that the fault existed at the time you took delivery, without any deduction for wear and tear. This is what the law states:

*If goods you bought anywhere [in the EU](#) turn out to be faulty or do not look or work as advertised, the seller must **repair or replace them free of charge** or give you a **price reduction or a full refund**.*

That means that you can accept a repair or replacement or, if you can live with the fault, you can accept a price reduction or partial refund but you can also have a total refund at any time during the two years you have the car.

According to Which, you have the right to return the faulty car within the first 30 days following delivery. In the first 6 months, if a fault comes to light and the dealer can't prove that the fault wasn't there when you bought the car, you can still accept a repair (they have one chance before you can reject the car).

However, according to Which, the dealer can deduct some money from the cost of repair for wear and tear or use of the car. This is what they say:

If you've owned the item for less than six months, the retailer must give you a full refund if an attempt at a repair or replacement is unsuccessful.

The only exception to this is motor vehicles, where the retailer can make a deduction for fair use after the first 30 days.

The same applies up to the statutory period of 6 years. But whilst Parliament has argued that our Consumer Rights Act gives consumers in the UK greater legal cover than EU laws it clearly doesn't in the first 2 years. If you wish to exercise your EU rights you must report any faults within 2 months of becoming aware of them.

In both instances, the law insists that consumers should not be inconvenienced as a result of faulty goods so you should not be responsible for return costs.

However, in order to con customers, solicitors advise their dealer clients to put something in their sales documents to say that in the event of a fault the dealer will only cover transport costs up to a maximum of 25 miles, suggesting that the dealer may get away with not paying for the return as it will then be up to a judge to decide if it gets that far.

Again take this up with the finance provider – it's their car!!

Consumer Rights – Returning The Car Due To Faults

I have mentioned above your rights within the Consumer Rights Act 2015. The car must be of satisfactory quality, fit for purpose and as described. Within the first 30 days, following delivery, if a fault is identified you can hand the car back for a full refund.

Between 30 days and 6 months, you must give the supplier one opportunity to repair the car before returning it for a full refund, if the car is still carrying the fault. This is quite clear. But other than complaints about warranty issues with dealers and manufacturers the next biggest complaint, according to much of the trade press, is against dealers and PCP providers who refuse to accept a car rejection.

Let me be very clear. The law says that after 30 days and up to 6 months the supplier has just one opportunity to repair the fault unless it can be proven that the fault didn't pre-exist before taking the car. If you buy the car for cash the supplier is the dealer but if you PCP the car the supplier is the PCP provider. So your first port of call should be the PCP company. Having said that, as long as you are happy to do so, the PCP provider would probably be happy enough for the dealer to be given the opportunity to repair the car by you.

Moving on. One of the problems is the degree of fault. For example, if you have a blown light bulb or an indicator isn't functioning properly a judge would not consider this to be sufficient grounds for a rejection. I would tend to agree if the car was a used car but if a bulb blows on a new car, this could be indicative of a serious electrical problem that may come to light (excuse the pun) at a later date.

As another example of how a fault can be incorrectly assessed by a dealer, finance company or judge, I had a new Mercedes. Within weeks of taking delivery, the little bulb behind the

speedo needle stopped working. I could see my speed during the day but had no idea at night so dropped into the dealer expecting an engineer to get behind the speedo, take out the old bulb and replace it with a new one costing a few pence.

The dealer immediately offered to repair the fault under the warranty. So no worries on that score. As it turned out it was nowhere near as simple as I expected. They kept the car for 5 days as they had to order a complete instrument pod from Germany. They could not simply replace the bulb they had to replace the complete instrument pod. In order to remove the pod, they had to remove the complete dashboard. I was told that the total cost including replacement parts, recalibration and labour would have been over £1,500.

The point is, had a buyer experienced this problem when the car was 2nd hand and rejected the car on the basis that the speedo needle bulb had blown, the dealer and the lender would have thrown out the rejection, as would a judge if it ever got to court. The problem is that there is no definition or helpful advice within the Act that determines when a car can be rejected and when not.

I've had so many examples of attempted rejections where the lender has referred the buyer to the dealer and the dealer has refused the rejection or, quite illegally, suggested he has the right to repair the fault. Neither has taken responsibility for the rejection and allow the customer to exercise his legal right. Customers end up with weeks, if not months of aggravation trying to resolve the issue.

Reporting to Trading Standards can take time with the Financial Ombudsman taking even longer. You can ask for referral to a Dispute Resolution Service who will look at the case and often come up with an answer much quicker than the Financial Ombudsman.

Remember your dispute is actually with the PCP provider, not the dealer, so if the funder is a member of a trade body he should provide you with details of a Dispute Resolution Service for you to contact or you can search one out yourself.

Legal Cover Insurance

I mentioned earlier in this report that you should consider adding Legal Cover to your car insurance policy, if not already included. That will cover you in the event you have an accident and you receive, in most cases, between £50,000 and £100,000 worth of legal expenses if fighting a personal injury claim, other uninsured losses, claims against you etc.

Check the terms and conditions as most will only take a case to court if they feel you have at least a 51% chance of winning. Having said that most will only cover you for costs relating to an accident.

So how does this benefit you in the event you want to reject the car? Whenever I, or others, have had a dispute with a garage or you have an unjustified parking ticket or speeding fine, we've found the 'legal help desk' very helpful and more than happy to assist. In the case of a rejection, as a result of a faulty car, they may be able to assist you to get a quick and favourable result. Always check your policy to see what your legal cover actually covers you for.

It might also be useful to check your household contents insurance to see if you have legal cover, as this can cover all sorts of strange things such as employment issues, tax issues and consumer issues that relate to the buying of goods and services.

I have to say that most policies that I have seen exclude motor vehicles but could be worth a check. They would most certainly give you some advice via their help desk. Don't forget that insurance companies must specifically exclude areas if they don't want to provide cover so if they don't exclude cars you could argue that you are covered.

Insurance

I have created a separate section for this as you could find yourself seriously out of pocket because you have innocently agreed to take what appears to be a benefit.

YOU MUST READ THIS SECTION

I've already covered the need to check insurance premiums before deciding on your next car. Some people have found that the insurance cost on their new car is much higher than their current car, even though the engine size and spec. is very similar. See the section on preparing for finance.

One of my bugbears is the way that some drivers are misled when taking out no claims discount protection. I've received complaints from drivers who have taken out no claims discount protection but following an own fault accident or the theft of their car, whilst their discount has remained at say 50%, the premium has more than doubled as a result of the claim.

So someone with a premium of £1,000 with a 50% discount (paying £500) has found that their premium has increased to £2,250 following the claim, increasing their payment to £1,125, even after their protected 50% discount. So their insurance cost has more than doubled even with their no-claims discount protected.

On a positive note, their payment in the above example would have leapt from £500 to £2,250 if they hadn't taken out no-claims discount protection. My real issue is that many insurers don't explain that the premium will increase anyway as a result of an accident so your no claims discount protection becomes even more valuable.

What many drivers don't know is that you can transfer the no claims discount protection between insurance companies. So if your premium skyrockets, as shown above, with your current insurer shop around and apply your protected no claims bonus, you could get closer to your old premium than you thought.

You should be aware of this situation as it's affected by what I have to say below.

Most, if not all, new car providers will give you insurance cover for a limited period, normally 5 – 7 days. The cover is free of charge and is apparently there to allow the dealer to register the car and pay for the 1st year's Road Fund Licence as simply as possible.

You complete a quick application along with details of any named drivers and cover starts a day or so before the new car is delivered. The insurance company raises a cover note which it sends directly to the supplying dealer by email. If there are any problems the dealer sorts them out directly with the insurance company.

So you may think that this is great. The alternative would be to arrange insurance before the car is registered via your own insurer. This can be complicated as the car isn't on the DVLA database before you apply for the insurance. You have to provide full details of the car and an 'on the road' value. I have to admit that the free insurance route is simple but it is fraught with dangers.

First of all the reason why the insurance company provides this free cover is because they get access to you and therefore hope that they can turn that free insurance into a 12-month policy. Or that's the reason they give.

So if you take out the free insurance expect a number of phone calls from the insurance company trying to convince you to take out a 12-month policy with them.

Many people take this free insurance then start their new policy through their own insurer commencing at the end of the free period. Doing that can be unbelievably dangerous. I'll explain it in a moment but first, there is a more dangerous reason why you should think very hard about taking out the free insurance.

This is most definitely an example of 'nothing in life is free'.

Data

Read how a simple action could result in your personal information being transferred around the world!

In the spring of 2018, the abuse of personal data hit the headlines with personal data, acquired through social media, being used to influence the result of elections and referendums.

Following on from this, questions are now being asked about the use of data harvested from online shopping, in-car data, search engines etc.

In my research for this report, I found some very sinister data harvesting activities.

PCP salesmen report that very few cars are now bought without taking out the free short-term insurance that allows you to drive away the car immediately without the need to take out a new policy yourself or transfer your old policy before delivery/collection.

This raises a number of issues (as mentioned above) but one that has come to light is the way that the free insurance is being used to harvest personal information. Bear in mind that you provide details of your full name, address, the job you do, whether you use your car for business, family etc. And if you have a named driver they can collect the same data for them also.

These very kind insurers, who offer you free insurance, can have a clause in their agreement that gives them rights over your details – here is just one extract:

“XXX will use the information collected about you (which may include some sensitive data) and anyone you chose to include in your policy to arrange, underwrite and administer your XXX 7-Day XXX Insurance policy”.

The same provider goes on to say:

“The information held about you may also be transferred outside the European Economic Area (EEA) and by submitting your information you agree to such a transfer”.

And then to top it off:

“Unless you have already informed us to the contrary, the XXX Company (manufacturer) and XXX (Insurer) would like to keep you informed, by telephone, post, text or email of selected products and services available from them and their carefully chosen suppliers. Please let us know if you would prefer not to receive this information”.

The assumption here is that as you haven't even got an opt-out tick box most people automatically find themselves included in the insurer's database.

So you are now added to their database unless you have asked not to be – but only for marketing purposes. You've already agreed to them sending out your data anywhere in the world. Unbelievable. By taking out the free insurance you have passed the insurance company personal details, of you and any named driver, to do with as they please – anywhere in the world.

This is all very worrying when you take into account the fact that nearly a million new cars are financed each year by dealerships. With 85% on PCP and nearly all of those taking the free insurance (why wouldn't you), that's around 800,000.

But it doesn't stop there because the free insurance isn't just offered to those taking out PCP finance, it's offered to anyone taking a new car, whether on finance or not, it makes registration and arranging first registration tax easier. You provide details to the insurer, they immediately send a cover note over to the dealer – job done and you've just freely handed over your personal data.

But there's more because even if you take a used car since the Road Fund Licence (Car Tax) rules changed, you can no longer sell a car with some car tax on it. The old owner receives a rebate for the tax unused when the car is sold. But you, the new owner, want to drive the car away from the dealer without the need to apply for the tax yourself, so those nice people at the insurance company provide used car buyers with free insurance also. This allows the dealer to get the car taxed ready for you to drive away when you call in.

Around 8 million used cars change hands each year and according to Buckingham University over half are sold through dealers. If a large number of these cars are sold with free insurance that's one hell of a lot of data!

Another serious concern is the fact that I found one policy, that stated at the beginning of the terms, that the insurance covered you throughout the UK, Europe and a few territories, such as the Channel Islands, Isle of Man and Gibraltar and yet they said towards the end of the terms and conditions:

The information held about you may also be transferred outside the European Economic Area (EEA) and by submitting your information you agree to such a transfer.

Why send the information about you to anyone outside the EU, and the few named countries, when you aren't covered by the insurance to drive there, unless it's for very suspicious reasons?

On the other hand, I have seen policy details stating that your personal information will not be used for marketing purposes. However, when referring to the sharing of data, one particular statement mentions three company names as follows, I've removed the names for legal reasons:

“Company A Assistance, Company B Assistance nor Company C Assistance will use your data for marketing purposes. All information provided is used to manage this section of Your XXX Motor Insurance Policy only.”

This is the only reference to marketing in the documentation but worryingly none of the companies mentioned is actually the insurance company listed earlier in their terms and conditions. In fact, the insurance company, used by this manufacturer, is the same as the company that included the statements shown above, about sharing data around the world, on other manufacturer's Free Insurance Policies where they have been the providers.

It's a little like me saying that my mate John, who has your personal information, won't share your data with anyone else then going on to say, “But I will!”

Finally, on the subject of data harvesting, one policy stated that they would be collecting data from credit reference agencies and possibly share this information with others around the world. Why do they need credit information if the insurance is free? After all, if you hire a car you receive insurance cover without the need to carry out any searches on your credit file. It's all a bit of a con.

Each policy is different but all those I've read harvest your personal information and use it. I urge you to read what they will do with your information and question where it is likely to end up! For this reason, alone I would recommend that you use your own insurance company and get them to send a cover note by email to your supplying dealer.

DON'T USE THE MANUFACTURER'S OWN FREE INSURANCE!!

Latest Data Update – Even More Worrying

If you were concerned that by innocently taking out free insurance you have given permission for yours and any named driver's personal data to be shared around the world I have now seen a new policy, post – GDPR (the new data protection regulations), which goes even further. One policy I have seen says that the insurer may access Social Media accounts. It says:

We may research, collect and use data about you from publically available sources including social media and networking sites. We may use this data for the purposes set out in this notice, including fraud detection and prevention.

As you can see the wording says 'we may' which in itself is worrying as it is too wide an expression. To me, it suggests that your data may be used for other reasons than those stated. I wouldn't feel so uncomfortable if they said 'We will ONLY use this data for the purposes of fraud detection etc.'

I have just come across another policy online post GDPR which says:

We also use a number of different sources to collect this information from, including:

- *Publicly available sources of information, such as social media and networking*
- *Third parties' databases that are available to the insurance industry, as well as where you have given your permission to share information with third parties like us*
- *Price comparison websites, if you have used them to obtain an insurance quotation.*

They also say:

We may contact you via post, email, SMS, telephone and/ or digital methods like social media and online advertising where you have given us your permission, in order to let you know about our products and/or services which may relate to your general insurance needs. To assist us with this, we may also use and/or share your information with carefully selected third party databases which, when combined with the information you have given us, helps us to know what products and/or services may be of interest to you. We may also use our carefully selected business partners to supply our promotional offers to you and manage those offers on our behalf.

Should you no longer want us to contact you about our other products and services, just let us know by:

- *writing to our Data Protection Officer at the address above,*

I'm not sure who you might have agreed to share information with that would be 'a third party company like us.' Somewhat open-ended but more worrying is the fact that they collect data from Price Comparison Websites, bearing in mind that this is insurance that is free and provided via the car dealership. It may be quite innocent and this term is a catchall for the free insurance as well as a full policy. But I for one feel very uncomfortable when terms like these are included.

Slick wording of insurance policies and privacy policies mean that you may be exposing your personal data to abuse. It also means that you could be checked out via Facebook, LinkedIn, Instagram and other social media websites. As I said above don't use the free insurance.

What Can Go Wrong With Free Insurance?

In my experience, very few customers who use the free insurance are aware of the dangers and can find themselves dreadfully exposed. In theory, all of the following information

should be explained to you but it is nearly always overlooked because if you take the free insurance it makes the dealer's life easier.

My strong recommendation is to compare the terms of the free insurance with your own insurance policy. You will probably find that there are many differences and the free insurance could end up being a total disaster if you have an accident. The free insurance will always be Fully Comprehensive but not necessarily with any "bells and whistles" included.

You may think that you don't need to worry too much about the cover provided by the free insurance, after all, what are the chances of you having an accident within your first week of driving a new car? In fact quite high. According to a report prepared by accident management company Accident Exchange in 2016, it was found that a third of motorists had an accident within 2 months of taking delivery of their new cars.

The report showed that the average cost of repair was £2,050 with the reasons given to include:

- Unfamiliar with the latest technology
- New layout of controls
- Often more powerful performance
- Testing controls whilst driving
- Unfamiliar driving position
- Turbo lag when driving a diesel for the first time
- Using a mobile phone whilst driving

So you see statistically, with a high chance of having an accident whilst on the free policy, you need to check out the following:

Excess

If you are the type of person who likes to keep your insurance excess to a minimum you need to check the manufacturer's free policy. Many that I've seen have been around £500 excess but I have heard from customers who have claimed that they have had an excess imposed of

over £1,000. That means that you have to pay the first £1,000 of accident repair costs before the insurer meets the balance of the cost.

GAP

I have explained the different types of GAP insurance policies above so I won't cover them again here but I have to say that I haven't seen this included in any of the free policies that I've looked at.

So if you have a prang the day after taking delivery of your new or nearly new car and write the car off the insurance company will pay out the market value of the vehicle.

This could be massively less than the settlement cost that the lender will require in order to settle the PCP contract. Especially if you have paid a very small deposit. If you have GAP insurance from the moment you take delivery of the car you have it covered but if your free policy doesn't and you intend activating your independent GAP when your own insurance kicks in you could be massively stung to the tune of thousands of pounds.

Glass

To be fair most free policies I've seen include cover for broken windscreens. However, most will only cover the windscreen whereas your own insurance may cover side screens, sunroofs and even glass headlamp covers. Check the excess which can be £150 or more which may be more than your own policy.

Let's say you have a crack or chip in the windscreen on the first day you receive the car. You claim for the chip but the insurer encourages you to have the chip repaired rather than have the screen replaced. This will usually be cheaper for you as the insurer will arrange to have the chip repaired free of charge with no excess.

Unfortunately, when you return the car at the end of the PCP agreement, if the repair was within the driver's eye line (the sweep of the windscreen wipers) the chances are that the repair will be visible and the PCP provider will insist upon a replacement screen.

After replacing, fitting and re-calibrating the cost could be astronomical and you can no longer claim on your insurance policy once you've handed the car back. You will have to fork out yourself. You won't have to pay anything if you decide to own the car or use it as a part exchange but you are hardly likely to know what you will do at the end of the agreement until you get there.

No Claims Discount Protection

Let's say that you've managed to collect maximum no claims discount of 60% but you had an accident in your last car and made a claim. Your 60% was protected which you can carry over to your next policy and cover yourself for one more claim by paying the extra premium.

But the temporary insurance may not cover you for protected no-claims discount and you didn't think to check. You have an accident within the period covered by the free insurance but you have no – no claims discount protection. This claim will now lose you all of your collected no claims discount as you were no longer protected.

Even if you stay with your same insurance provider when your insurance takes over at the end of the free period it will be too late. The claim without protection means you now lose all of your no claims discount.

That could turn out to be very costly!

Legal Protection

I always take out legal protection with my car insurance policy, which is actually a separate policy to the main car insurance. It's important and has allowed me to sue my own insurance company over a claim in the past.

It can also help you to get a quick result when making an insurance claim against another driver or his insurance company. You can use the helpline when it comes to parking, speeding or other road traffic prosecutions and it comes into its own in the event of an injury claim.

I wouldn't be without it but you could be if you take out the free insurance for a couple of days without legal protection included. Check the policy

Personal Injury

Some free policies don't actually cover you. Whilst others may cover you but with very little cover compared to your own policy. At the other extreme, I've seen policies that have incredibly good personal injury cover. The last thing you want is to have an accident and lose an eye with just £100 compensation.

Other Items Of Cover That Need Checking:

The following may have no or very restricted cover:

Medical Expenses: May or may not be covered.

Replacement Keys & Locks: Where the car or the keys have been stolen

Personal Belongings: Check for Exclusions, e.g. mobile phones, sat navs etc.

Audio & Navigation Equipment: Again may be covered but with limitations.

Overnight Accommodation: May be restricted to certain quality rooms and/or a number of nights. One policy states that the insurance company will arrange to get you to your destination or home. However, if that isn't possible, they will pay for overnight accommodation at the rate of £40 per night per person. I know of no hotel that just charges £40 per person.

Use In The EU: Currently, this is covered by all policies that I've read but make sure before attempting to take the car outside the country.

New Cars

If you take a new car on a PCP agreement the car must be registered, the first registration fee paid and the first year's Road Fund Licence paid. You don't have to worry too much about this as it is all handled by the dealer. I need to be clear – the car is owned by the finance provider until the end of the agreement. You only become the owner when you make the final balloon payment plus the Option To Purchase Fee, normally about £10.

Whilst you are not the owner you will be shown on the V5C (log book) as the keeper of the car making you responsible for it throughout the term of the agreement. In order to register the car in your name, the dealer will have to provide a proof of address and proof of ID for you.

He would have needed these for the finance application so he should already have those proofs. He will also need to show that the vehicle is insured in the name of the keeper. And this is where my warning comes in and where you could have a claim against the dealer if things go wrong and you end up out of pocket.

If you haven't been made aware of all the free policy inclusions and exclusions and you suffer as a result you have a claim against the dealer who will need to be regulated under the FCA Regulations. If you have no joy with the dealer or the insurance company you should refer your complaint to the Financial Ombudsman Service (FOS).

Used Cars

Since September 2014 you can no longer transfer the road fund licence (car tax) from one owner to another. Upon selling the car the previous owner advises the DVLA who will then receive a refund for any unused tax, to the nearest complete month.

This means that before you can drive a used car, that you may have financed on a PCP from a car dealer, the Road Fund Licence needs to be paid for. **THERE IS NO PERIOD OF GRACE!** To make life simple you can pay the tax online by using form V5C/2.

This allows you to arrange the road fund licence immediately. You still need the V5C (log book) which gives details of the car along with your details, provided you are the registered keeper.

To make sure that you drive away immediately from the dealer legally the used car dealer may also offer a limited time free temporary insurance cover and pay for a month's road fund licence saving you the time and effort and allowing the insurance company access to another potential client. See all the warnings above

Travelling Abroad

Check your PCP contract. You don't normally have to advise the finance provider that you are taking the car into Europe but they often place a limit on the time you can be out of the country in a single year, some allow 90 days whilst others restrict this to 60 days. This may change with BREXIT.

If you are travelling to non-EU countries make sure that you have discussed with the finance provider first. Don't forget that they are the owners of the car until you pay the final balloon amount and the option to purchase fee.

Also, make sure that you have checked that you have adequate insurance cover for taking your car into or through the various countries you will visit.

You may need to increase hospital cover for you and your passengers in the event you have an accident along with cover for repatriation costs, should your car break down and you need to arrange for its, yours and your passengers' return to the UK.

Obtain a free European Health Insurance card which can entitle you to low cost or free healthcare in EU countries.

Check all important telephone numbers needed whilst travelling in each country and put them on your phone. E.g. breakdown service, insurance company, DVLA etc.

If you have legal cover as part of your insurance policy (personally I wouldn't be without it) make sure that it covers you whilst driving abroad. You can be banged up for just about anything in some European countries, so make sure that you have adequate cover and a contact number.

Also, check the equipment needed when driving through various European countries. For example, in France, you need to display in your windscreen a clean air sticker, you could be fined without one. It can take up to 6 weeks to get one so order early by visiting their official Crit'Air website.

You will also need a GB sticker or a special number plate, a breathalyzer, a reflective jacket, spare bulbs and headlamp beam deflectors. You can check with the AA or RAC as to what you will need for each country you are driving through. You can also buy kits of equipment required in various countries online or Halfords can help to put a kit together.

Dual Insurance

If you still have your old policy running, that you had on your old car, at the same time as you have the free insurance you may find that the free insurance gives precedence to your old insurance in the event of a claim. So if you have an accident they may expect your old insurance to meet the claim and only meet any shortfalls in the payout.

In some cases drivers take out their new insurance on their car whilst the free insurance is still running in the belief that if they have an accident they can claim through the free insurance and therefore retain their no claims discount on their own insurance. It doesn't work like that. Check the policy carefully before taking the 7 days free insurance. Know who will be responsible for what in the event you have to make a claim.

End Of Lease

There are several ways for you to be ripped off at the end of the agreement and not just when you return the car. If you are to avoid them you need to prepare yourself well in advance. I will be revealing some of the scandalous ways that you can be ripped off. Tricks that you should be aware of if you are to avoid being out of pocket.

Remember, everything you do is part of a negotiation and don't believe that the car salesman is working in your best interest. He is negotiating on behalf of his employer and his family, both of which benefit from him negotiating a deal that benefits him and not you.

This doesn't make a salesman a bad person because as long as you feel comfortable with the outcome then both of you are happy. What upsets me is when a salesman uses slick techniques or dishonesty to fool you into believing that he or she is doing you a favour. When in fact he is robbing you.

Let's make a start:

Provided you have a Hire Purchase PCP, which is what the vast majority are, you need to start preparing for the end of your agreement at least 3 months before the termination date.

Start checking the value of the car as this can make the difference between keeping the car, using it as a part exchange or handing the car back.

Visit dealerships and ask what they would allow you in part exchange, you might be quite surprised by the range of amounts offered. Try online with the companies that buy used cars such as webuyanycars.com or you can get a valuation on the Autotrader website.

Let me be very clear, your agreement is between you and the finance company, not the dealer. There is no obligation on your part to return to the supplying dealer when you come to change your car.

Some salesmen play on the incorrect belief (explained when you take out the PCP) that if you are to hand the car back or use it as a part exchange you must return to the supplying dealer. This is wrong, as I'll explain later. You don't have to restrict yourself to the supplying dealer or even the same manufacturer – suggesting it to you is a scam.

I'm not saying that you shouldn't return to the supplying dealer. Hopefully, they have provided you with a good enough deal and looked after you when having your car serviced and maintained sufficiently for you to want to return to them. I'm simply saying that you are not obliged to.

For example, you may be considering changing your BMW 1 series with another 1 Series but you may find a much better deal on say an A-Class Mercedes and the Mercedes dealer may be prepared to offer more for your old car giving you more money to use as the deposit on your next car. I go into this in more detail below.

You may also find that if a dealer feels you are a captive because you've been brainwashed into returning to him, that he may not offer you as good a deal as another same brand dealer in the next town. Again I cover this in more detail below.

Pay The Final Payment

There are generally two reasons why you would make the final payment. Either to own the car or to use it as a part exchange as there is some equity in the car. There is a third option that many don't appreciate.

There is nothing to stop you from making the final payment then selling the car and pocketing any difference between the final payment and what you can sell the car for. You could advertise the car privately, before the end of the agreement, at a figure higher than the balloon.

If you don't sell it you can still simply hand it back. Don't forget that you should pay for the car first before you take money from the buyer for title to pass legally unless agreed with the PCP provider.

The Hidden Equity

Let's say you visit the dealer, through whom you arranged the PCP, and he says that the car is worth £1,000 less than the final payment. You may believe that you should hand the car back to the finance company as there is no equity in it. We need to look a little deeper. Let's say that the car has a final payment of £8,000. The dealer tells you that the car is only worth £7,000 so you should just hand the car back.

Your research suggests that the £7,000 is about right and this is the trade value. However, If you were to buy the same car from a dealer you may have to pay another £1,000 above the balloon payment, i.e. £9,000.

So paying the balloon of £8,000 is not as bad as it seems. What I'm saying is don't dismiss buying the car just because the dealer tells you that the trade value is less than the final payment. It depends on whether you really want to keep the car.

Something else you need to know is that some dealers have a separate buy-back arrangement with the leasing company at less than the final balloon payment. So let's assume again that you have a final balloon payment of £8,000 and the dealer can buy the car back from the finance company for £7,000 under a buy-back arrangement.

The car is actually worth £9,000 in the trade. The dealer has two options. He could pay you £9,000 and leave you with £1,000 worth of equity to put towards your next car. He still has a good deal but he will make less profit.

On the other hand, he could convince you that the car is only worth £7,000 and therefore get you to hand the car back which will enable him to buy the car from the finance company and make a bigger profit.

You might not be happy to return the car but you are still happy enough to take out a new PCP on a replacement car. In the meantime, he is making a killing. I should make it clear that this isn't a common arrangement and not all dealers will try it on but you need to be prepared and shop around. Do your research before handing the car back.

So you now see the importance of knowing exactly what your car is worth before you step through the showroom door of the dealership. Not only for the above reasons but also the most common of all the scams, the equity scam.

The Equity Scam

Let me explain. You walk into the dealer without having a clue as to what your car is worth. The salesman greets you and understands that you want to change the old car for a new one.

After inspecting the car and checking his trade books he turns and says 'I have some great news for you, your car is actually worth a grand more than your final balloon payment so we can pay the balloon and give you £1,000 off your new car.

By now you are so ecstatic that you have a deposit contribution towards the new car you're too busy deciding on the colour of the replacement car to check that your old car isn't worth maybe £2,000 more than the balloon payment. You may think you have a good deal but you've just been ripped off.

This is most likely to happen if you are substantially under the contract mileage. So make sure you do your homework and check what the car is worth before walking into a dealer.

Finally, I should emphasise that your agreement is with the finance company, not the dealer, so don't believe that you must return to the supplying dealer at the end of the agreement. Test the market with another dealer first.

Simply ask them what they would offer on your car against a new one, then get them to give you a quote that you can wave under the nose of the dealer you want to use. If they can't match the figure from the other dealer return to the other dealer.

Also, keep an eye out for special offers from other manufacturers. Let's say you drive a Ford Focus and you are wanting to change for another similar model. But you see an offer advertised on a BMW 1 Series making it cheaper than the Focus you are about to take.

There is an added benefit because it means that the manufacturer is anxious to move cars so if you call into a local BMW dealer you may find that they can offer you substantially more for your old car as a result of subsidies from the manufacturer – keen to sell more cars.

Keep an open mind and don't be conned into thinking that you must return to the supplying dealer – that's what they would like you to believe – I really can't say that often enough.

Selling Your PCP Car For Less Than The Balloon

There could be a really good reason why you would consider selling the car to the dealer for less than the final balloon payment, leaving you to pay the difference to the finance company.

If you have the car checked for end of lease condition by a body shop and they recommend say £500 worth of repairs, you then calculate the excess mileage to say £900 making a total of £1,400 that you would have to pay the lender if you returned the car.

However, if the dealer explained that the car was worth £7,000 against a final payment of £8,000, i.e. £1,000 less than the final balloon payment, it would be cheaper to sell the car to them and pay £1,000 to the dealer, so that they could settle the £8,000 final balloon payment rather than pay £1,400 to the finance company. It makes sound financial sense.

Returning The Car

If you decide that you simply want to return the car because it's worth less than the final balloon payment hold your horses for a moment until I've explained your responsibilities.

Check your contract. Many PCP providers contact you 3 months before the end of the agreement in order to discuss your options. However, some simply have a clause in the contract telling you that you must contact the PCP provider a month before the end of the contract if you want to return the car.

If you don't contact them they will assume you want to keep the car and deduct the final balloon payment from your bank account. If you contact them or they are a professional company and contact you, they will normally explain when the car is due back and either

look to agree on a collection date or arrange for you to drop the car off at the supplying dealer – that way they can try to sell you into a replacement.

Some lenders will send out an inspector who will check the car, tell you what needs doing to get it into ‘reasonable’ condition and in some instances, they will tell you what they will charge if you simply return the car.

As they don’t always do this you should have the car inspected yourself by an independent body shop. They will tell you what needs to be done and give you a quote. You don’t need to use the body shop you can use a smart repairer who may be cheaper. I wouldn’t simply go for the cheapest because if the repairs aren’t of reasonable quality you could be charged to have the work done again. Check online reviews and recommendations.

Again, check the agreement in case the leasing company has changed its policy from the last car you may have had from them. Check your agreement to see who is an acceptable repairer, some lenders say they won’t accept a smart repair. As I just mentioned, when the lender inspects the car after you return it, if he feels the repair is sub-standard he will charge to have it done again. So take great care over this. Use a repairer who guarantees his work.

Some PCP Providers state in their agreement that their charge scale for body repairs is calculated at the Smart Body Repair rate. So it may be cheaper, easier and more convenient to simply hand the car back. That way you won’t risk the repair being rejected. Again, check your contract.

Repairs

Scratches and larger dents are not generally acceptable, you should have a guide in your driver pack, supplied by the lender, explaining what is acceptable and what isn’t. So you will need to have that damage repaired before returning the car or face a charge.

Another area that the lenders get worked up over is that of alloy wheels. Any scratches, scuffs or scars need to be repaired so call a smart repairer, specialising in alloy wheel refurbishment. Most of them can refurbish the wheels at the side of the road and charge between £40 and £75 per wheel so shop around.

Smart alloy repairs are generally acceptable but again check your contract. Always worth checking recommendations on the repairer's web site. If anyone else has used the repairer, then had their repairs rejected by the PCP provider, they will often post something on the repairer's web site.

The BVRLA set a minimum return standard many years ago which is used by most leasing and PCP providers. The guide to end of contract fair wear and tear is reviewed every 3 years and at the time of writing, it had undergone a recent review, the main change of which was in the area of Alloy Wheel condition.

I'll talk more about this later but in this section, I should point out that previously they stated that scuffs up to 25mm were acceptable as fair wear and tear. This has now been increased to 50mm. Always take lots of photos with your camera and a ruler as evidence when returning the car.

As a word of warning when it comes to end of lease charges be especially careful if you have taken the cheapest PCP deal on offer. Those offering the cheapest deals often look to the end of lease charges in order to top up their limited profit.

Check your agreement very carefully. I have heard that there are some that attempt to get you to pay for replacement alloys rather than repair – that can be really expensive and a con.

Finally, on the subject of alloy wheels, if you have Diamond Cut or Laser Cut Alloys (they generally shine with some defined shaping to the spokes) you cannot have these repaired by a smart repairer. They generally need to go to a specialist and can be over £100 to repair per wheel. This may be worth considering when selecting your next car as damaged wheels are the most common end of contract faults and few cars go back with faultless alloys.

Look very carefully at the wheels because in the case of Mercedes I have seen and read about customers who have found that what looked like a scuff was actually the lifting of the lacquer on the alloy and subject to a warranty claim. To be fair on Mercedes I have also heard that when the damaged wheels were returned to Milton Keynes for refurbishment they didn't charge the full price as part of the damage was lacquer damage.

If you're not sure yourself take the car to a body shop for an independent inspection.

Chipped & Cracked Windscreen

This often causes confusion. Your PCP agreement may not allow a smart repair to the windscreen, especially if it is considered to be in the eye line – generally accepted to be the sweep of your windscreen wipers.

However, your insurer may recommend a repair as they won't charge an excess if they come out and repair the chip or crack. But these repairs are never perfect and a slight blemish on the screen, in your eye line, could be considered as distracting.

If you intend to keep the car or use it as a part exchange you can choose not to have the screen replaced.

But be warned, if you hand the car back to the PCP provider at the end of the agreement and they consider the repair unacceptable they may charge you for a windscreen replacement. You won't be able to make a claim on your insurance company so you will have to pay the cost of replacement.

And bear in mind that a replacement windscreen is not just a replacement piece of glass. Some have sensors and heating elements built in and after the screen has been replaced the fitter may have to spend a great deal of time re-calibrating sensors and cameras that operate through the glass due to differences in internal refraction.

I have seen bills for a replacement screen as high as £1,800. So think twice before having a repair as opposed to a replacement. And always check your PCP agreement.

The problem here is, of course, you may have had absolutely no intention of returning the car based on the view, expressed by the salesman at the time you took out the PCP, that you will have plenty of equity in the car at the end of the contract, and can therefore use it in a part exchange or pay the balloon and own it.

You now find that you should have been conforming to all the PCP terms and conditions throughout the contract, including replacing cracked screens rather than repairing.

Service, Maintenance & MOT

You are under an obligation to return the car 'road legal' which means that the car must be taxed and have a current MOT. As the car is usually registered a day or two before you take delivery, on the day the car is due for return, if a 3-year or longer agreement, it will need an MOT, so you will need to arrange for an MOT test, along with any repairs necessary to get the car through the test.

As mentioned in the sections above you can take out an insurance to cover the cost of MOT tests along with associated repairs.

The car is also expected to be fault-free. This isn't as obvious as body damage. If, for example, the front tyres show signs of uneven wear, whilst the tyres may still be legal a check could show that a track rod could be bent throwing out the tracking and in need of repair.

You could receive a bill for the repairs and replacement of the damaged track rod and re-alignment. This is quite common damage as a result of potholes. If your car is damaged as a result of hitting a pothole make sure you take photographs with your phone and make a claim on the local authority. Some authorities find it cheaper to pay out claims than repairing their roads. If you don't do this and have the car repaired you could end up with an unexpected bill when the car is returned.

Another confusion when you take a car on a PCP agreement is your position regarding the regular servicing of your car. Your car comes with a warranty from the manufacturer and/or the dealer. In order to maintain the warranty, you must have the car serviced 'in line with the manufacturer's recommendations'.

The EU opened up competition by insisting that you could have the car serviced at any recognised garage, provided the car was serviced to manufacturer's recommendations and fitted with parts that meet manufacturer's specification.

Some say you must use manufacturer's parts. This isn't true, the parts must meet manufacturer's specifications but can be supplied by third parties. However, I must say that I normally insist on manufacturer's original parts being used to avoid future warranty claim disputes.

By doing this you ensure that you maintain your warranty cover. This is part of what is known as the EU Block Exemption Regulations. So some PCP customers, aware of these regulations, believe that it's OK to have their car serviced at a fast fit service centre rather than a main dealer.

That may be OK, you need to check your contract as the lender owns the car and may have it returned to him at the end of the agreement. In order to protect the resale value, he may insist on you having the car serviced at a main dealer.

Of course, if you believe that you will pay the final balloon payment and own the car you can have the car serviced wherever you like but remember the warranty rules and if you don't have the car serviced in line with the PCP contract and you hand it back you may have charges to pay.

Another piece of advice is to negotiate the cost of servicing at a main dealer. For years I've called local garages and asked for their charge for the next service on my car then called the main dealer and asked if they could beat the quote that you have from the independent.

In every case, they have either matched the figure or beaten it. Good result all the way around. In fact, I know that Audi offers a price match promise so you shouldn't feel awkward about negotiating.

If you are allowed to have your car serviced by an independent garage make sure they provide you with an invoice with details of the work carried out. It would also be wiser to ask the garage only to use manufacturer parts.

Return Items

This is also another major source of irritation. You should return all items to the lender that were in the car when delivered.

Keys: It is probably wrong to refer to the gadget you use to enter and start your car with as a 'key'. These days it's a mini computer with some devices storing masses of data that is used by the dealer to identify what work needs to be done at the next service.

When you receive your new car you always receive two 'keys' so they expect them both to be returned with the car. Make sure that you store your spare key somewhere safe so that you can return it with the car. If you don't provide it you will be charged for the missing 'key' which can cost up to £450. Yes, you read that correctly!

Before you go dashing down to the local main dealer and fork out for a new key to replace the lost one you may find that lost or stolen keys are covered on your car or household insurance (check the excess) or you can take out an independent insurance policy to cover keys.

Locking Wheel Nut: This is often lost or left at the tyre centre when you had tyres replaced. This can set you back from £20 - £70.

Remote Controls and Connectors: Some cars come with remote controls to operate audio and heating systems as well as USB cables etc. All of these are expected to be returned in the car. You will be charged if not returned.

Service History & Driver's Manual: Your car should have come with a manufacturer's driver's manual. These are normally provided by the supplying dealer. Unfortunately, as the dealer must put the manual in the car it can be overlooked.

The problem is that if the delivery note shows that a drivers manual was with the car when delivered they will expect it to be with the car when returned or you could be charged for a replacement.

If you have had the car serviced at a main dealer all service details are normally stored on their central storage system. However, you should also keep all receipts for services, repairs

and replacements. Hand them over with the car but only after you have taken copies or photos of the originals.

If it appears to the funder that a service has been missed and you don't have a receipt you can be charged a fee as this can affect the value of the car as the service history isn't complete.

Tools & Spare Wheel: Some cars come with a spare wheel, that may be full sized or a 'skinny emergency wheel', or it may come with a tyre repair kit. In any case, you must return the car with whatever was included when delivered. If you have discharged a puncture repair foam can you must replace it.

The only exception is when 'run flat tyres' are fitted. In this case, no spare wheel or repair kit is included. Any other equipment such as emergency lights, emergency triangle, reflective jackets, connectors and leads all have to be returned with the car. Anything missing could be charged for.

End Of Lease Diesel Scam

If you are running a diesel you may have read that the new car sales of diesels has plummeted. On average each month of 2018 has seen a drop in new diesel sales of around 30% year on year. Something very widely publicised. However, this isn't true of used diesel car sales. In February 2018 they reached a two year high and Auction houses report monthly that diesel car values continue to rise throughout 2018.

But you may not know that so the dealer may use the adverse publicity surrounding new diesels to give as a reason to offer a modest amount for your used diesel when in fact it's worth much more - another reason to do your homework.

Returning A Used Car PCP

There has been a phenomenal rise in the number of used cars financed on PCP agreements. The problem with this is that when you take out the agreement the car could be several years old so there could be some flaws. Some damaged alloys, the odd dent or minor scratch which may result in a bit of extra discount at the time you take out the PCP.

However, when you return the car at the end of the agreement you may find yourself being charged for damage that was already on the car when you bought it. To avoid this you should take plenty of photos with your mobile phone when you buy the car and where damage has been identified get the dealer to mark his sales invoice to that effect.

Print off the photos or store them safely on a memory stick in case you damage or lose your phone. Also, make sure that you note the start mileage, take a photo of the dashboard, just in case the invoice raised on the finance provider by the dealer shows the wrong mileage.

More Misselling

As if the above wasn't enough here are a few more ways that consumers can be misled or missold. It would be easy for me to blame salesmen for crooked practices but half the time I believe that they have either not been trained properly or not been trained at all and they are left to guess at the truth and explain things to the customer based on their own perception. Sadly this can end up costing you a lot of money.

VAT

I'll explain this with an example.

I was sitting in a car showroom waiting to speak to the service manager when I heard a salesman say something along these lines.

The customer already had HP and PCP quotes. He was expressing an interest in the PCP quote, playing straight into the hands of the salesman. As he was considering signing up on the PCP agreement he asked the salesman about another product which he referred to as a lease.

'Isn't there something called a contract hire lease?' he asked. 'Yes there is', was the response, 'But it's not really a product for consumers, like yourself, it's a product that was created for the use of businesses that are VAT registered'. 'Oh, why's that?' asked the customer.

'Well as you aren't VAT registered you can't recover the VAT that is charged on the initial and monthly payments on a contract hire agreement, unlike VAT registered businesses'.

'So as you don't pay VAT on PCP payments you end up paying 20% more for a contract hire agreement than you would if you took out a PCP agreement'. 'Contract hire or leasing is simply not suitable for consumers.'

VAT - The Facts

What the salesman said is at best misleading, at worst crooked and for you - very costly. If you believe that the VAT man would ignore the VAT on around a million new cars sold to consumers last year on a PCP agreement – you are deluded. Let's take a car that has a list price of £24,000, that is £20,000 + VAT. When a car is sold on a PCP or HP agreement the lender cannot recover the VAT so the lender pays £24,000 for the car, The VAT man receives £4,000 and you end up paying interest on the VAT element when the monthly payments are calculated.

As the lender pays over to the VAT man £4,000 up front, you're not required to pay VAT on your monthly payments as it's already been paid. Hope that makes sense?

If a lender provides Personal Contract Hire he can recover all the VAT included in the purchase price of £24,000 as the car is known as 'VAT Qualifying'. Whilst he still pays £24,000 for the car, he receives a rebate of £4,000 which means that he only pays £20,000 for the car.

Interest is therefore only charged on the £20,000 when calculating the monthly cost. Once the repayments have been calculated VAT is added to the initial rental payment (similar to a deposit on a PCP) and the monthly payments.

The bottom line is that even though you add VAT to your PCH repayments they would still work out less than your PCP repayments, on the same car costing the same amount over the same period calculated on the same APR.

Discounts

So often I have spoken to customers who happily proclaim that they have received a scrappage discount of £2,500 against their old car, offered in part exchange, an additional £1,000 from the manufacturer, a deposit contribution of another £1,000 from the leasing company and another £500 contribution from the dealer.

With this in mind and as a result of their clever negotiating the customer will dismiss any chance that the dealer can provide a car more cheaply.

Discounts – The Facts

Dealers have to be very careful with discounts. They often make more money from used cars than new cars so if they are seen to discount new cars down to prices that are less than the prices that they are selling 12-month-old cars, on their sales forecourts, they would kill off used car sales, certainly of nearly new cars.

In point of fact if you take into account all the discounts and bonuses that are available on new cars I have seen anything up to 50% off. When you take out a PCP the cost of the car must be shown on the documents including discounts, contributions and bonuses.

So it is possible that a £20,000 car could attract say a 40% discount because a manufacturer has a lot of stock and the car is about to be replaced with a new model. If the car is invoiced at a net figure of £12,000 (40% discount) and word got out, it could badly affect the sale of 12-month-old cars on their forecourts at say £15,995.

Even if they tuck away some of the discounts by providing 0% APR the cost of the new car will still be less than the screen price of nearly new cars on the forecourt. So they end up giving some of the discount away as deposit contribution, finance contribution, and various other discounts whilst being careful not to drop below the price of their used 12-month-old cars.

Compare this with Personal Contract Hire, whereby you are only quoted a monthly rental, the leasing company can build in all the available discount to arrive at a much lower monthly cost than the PCP rate.

I can tell you that between 25% and 35% total discount and bonus is very common in new cars offered to contract hire suppliers. I have received discounts of up to nearly 50% discount myself on new cars provided the cars are only financed through business and personal contract hire.

In the above PCP example if the car was a £30,000 car and you had a total of £5,000 in discounts and allowances you may consider that to be generous but the contract hire company could be passing on a total discount of £12,000 into the monthly rate making your monthly payments much less.

Of course, this only works as a direct comparison if you are likely to give your car back at the end of the PCP agreement.

APR

This is probably the most misleading and toxic financial measurement in existence. I won't bore you with my views on this most complicated calculation but I need to explain a little about it before you find yourself being misled.

First of all the meaning. The full expression is Annual Percentage Rate Of Charge. It is a calculated percent that incorporates not just the interest charges but also any other fees and charges then it is weighted by when you make the monthly payments and fees.

The reason for having such a figure is, we are told, to enable you to compare products. This is, in fact, a nonsense, you should only compare the amount you are paying in total including charges and fees and ignore the APR.

I'll give you an example. You are buying a car that costs £20,000 after paying your deposit. You want to finance the car over 3 years. You can choose a full payout Hire Purchase or PCP but you are concerned about the interest you will pay.

With the PCP it may be more convenient for you to pay a lower monthly payment but pay off the balloon of £8,000 at the end of the agreement to own the car. Either way, you will own the car in 3 years.

Assuming that there are no fees or charges involved, if you took the PCP on an APR of 5.9% you would pay total interest of £2,538.60. If, however, you took the car on a Hire Purchase agreement over 3 years, the same cost of the car, on the same APR of 5.9% you would pay total interest of £1,871.08.

How on earth does the same APR on the same car over the same period with you owning the car at the end of the agreement, in both cases, allow you to make a comparison – absolutely ridiculous.

The fact is that you end up paying over a third more interest so if the APR was a genuine comparison tool you would expect the APR on the PCP to be 8.0%. That would make more sense to the man or woman in the street.

I have heard car salesmen explain away the lower monthly payment on a PCP agreement by suggesting that the Guaranteed Minimum Future Value of £8,000 attracts no interest, it is just a sum deducted from the cost of the car and deferred to the end of the agreement.

This is also nonsense, the final payment is an interest-only loan, that's why the interest cost is so high.

Having explained this we are brainwashed into believing that we should use APR to compare products and I have known consumers make a decision about a loan based on a difference in the APR rate of just 0.1%. It simply isn't fit for purpose.

And here is another frightening fact and potential con trick. As I mentioned many people make their finance decisions based on the APR that you will be charged. But the APR is not a 'prescriptive term' in a contract. It is advisory. Let's see what this actually means to you.

You search the marketplace for the cheapest APR because you have been sold the lie that APR is the measurement you should use to compare products. You choose the PCP with the lowest APR but when you receive your documents you decide to check on the payments using an APR calculator.

You find that the repayments reflect a much higher APR so you've been lied to. What can you do? You might think that if there is an error with something so critical as the APR, the measurement that you used to make the buying decision, you could apply to the court to have the contract set aside. But as APR is not a prescriptive term all that will happen is the Judge will order the lender to re-issue documents and to change the APR so that it is accurate.

How ridiculous! You use the measurement you were told to use to compare products only to find that the APR, if incorrectly stated, doesn't make the contract irredeemably unenforceable. This was the belief in 2010 when several claimants issued claims against a number of banks and financial institutions.

The landmark case was Sternlight vs Barclays Bank 2010. Even after accepting that an incorrectly stated APR didn't in itself render the agreement irredeemably enforceable the claimants claimed that if you used the APR to calculate the interest rate, which is a prescriptive term (enforceable) as well as the interest charges that this would make the contract unenforceable.

The court found against the claimants. So whilst you make your buying decision based on the APR the dealer could be lying through his teeth provided the stated monthly and/or annual interest rate (not the same as APR) is correct, even though it bears no relationship to the APR. Absolutely crazy!

So compare figures rather than APR's whatever type of finance you take out.

How To Complain & Who To Complain To

Too few people understand when and how to complain. I've read literally hundreds of articles where a trade journal has helped a reader who has been treated appallingly by either a dealer or a finance provider with a half reasonable outcome – 'As a gesture of goodwill'.

If there's one expression that seriously winds me up it's, 'As a gesture of goodwill'. I'll tell you why – because in most instances when this is used, it's an admission that they have a legal obligation to do what they have done or propose to do – NOT because they are nice people and genuinely offer a solution as a gesture of goodwill.

So how do we stop this nonsense? How do we stop those who are not meeting their legal obligations and get them to start doing the right thing because they are legally required to and not because they are doing it because they are making themselves out to be nice people and doing you a favour?

Well, the first thing you need to do is to understand your legal rights – and there are tons of them, as I've mentioned throughout this report. I'm going to impart as much information as I can to enable you to get legal satisfaction, not 'gestures of goodwill'. The end result may be the same but you aren't helping others who find themselves in exactly the same situation as you if you simply accept a 'Gesture Of Goodwill'. We need all concerned to take legal responsibility.

Let me be clear, all I want is that everyone is treated fairly. And by everyone I mean the customer, the dealer, the manufacturer and the finance provider. It's totally unfair on the honest and genuine dealers and finance providers when the crooks treat them so badly.

Warranty

I've covered this in depth earlier in this report so I'm not going into the detail. What I will say is that the warranty is there to enhance your legal rights – not to replace them. **THE LAW OF THE LAND SUPERCEDES ALL GUARANTEES AND WARRANTIES.**

So why have a warranty? Well as you know, from reading the above, after 6 months, according to the Consumer Rights Act, if you have a problem with your car you are responsible for proving that the problem pre-existed before you took delivery, whether the car is new or used.

However, if you have a warranty and the faulty item is covered, it may be quicker and easier to make a warranty claim. However, if the dealer/manufacturer refuse the claim you still have your legal rights to fall back on.

AND DON'T FORGET THAT YOU DON'T OWN THE CAR SO YOUR CLAIM IS AGAINST THE FINANCE PROVIDER - YES EVEN WARRANTY CLAIMS!

The other important thing to remember is that a car doesn't fall off a cliff when it gets to 3 years old and the 3-year 'manufacturer's warranty runs out (some warranties are longer). There are certain wear and tear items that will only be covered for a relatively short amount of time, they can be fairly obvious, things like brake discs and pads, bulbs, clutch plates, shock absorbers, tyres, batteries etc. (more detail shown above)

As an example, I had a complaint from a lady regarding a fault that appeared just before the end of the warranty period. After an inspection the dealer found the problem to be a faulty ABS pump. Not something that would be considered to be a wear and tear item. However, by the time the dealer managed to get the car into the workshop, it was a few days outside the warranty period.

As a result, Peugeot dismissed the claim which meant that the customer received a bill for the investigation, £250, the cost of repair, if she wanted the fault fixed, £1,200 and the cost of the loan car during the period of investigation, approximately £200. I intervened and threatened a course of action that included filing a claim through the small claims court. Common sense intervened and all the costs were carried by Peugeot – probably as a gesture of goodwill!

The point is that you have solid rights in law and as much as some manufacturers, PCP providers and dealers may squirm, know your rights and use them. The law is more often than not on your side.

What If You Need The Car Repaired?

Sometimes the dealer and the manufacturer can be incredibly awkward in the hope that you stop pursuing the warranty claim knowing you can't survive without your car. The important thing to remember here is that you can still get the car repaired and pursue a warranty claim or court action but you must make sure that you do something **VERY IMPORTANT**, this is the advice from Citizens Advice:

Write the words **“paying under protest”** clearly on their copy of the repair order sheet and any copies of receipts that the garage makes. If you don't say you're paying under protest it will be difficult to get compensation later on, because the garage could argue that by paying the bill, you were accepting the charges.

Remember to keep all copies of communication between yourself, the garage, the finance provider and anyone else you involve such as Citizens Advice and Trading Standards.

Warranty Vs EU Guarantee

I'll digress for a moment and talk about warranties or guarantees in general. Let's say you buy an electric kettle which comes with a 12-month guarantee. In my opinion, this is misleading because, before we finally BREXIT, whilst our own laws supercede any general terms and conditions in contracts, EU supercedes UK laws. Our laws can only enhance consumer rights – they can't reduce them.

Across the whole of the EU, there is a 2-year guarantee that applies to all goods and services bought from shops, traders and dealers (anyone other than a private purchase). This is an absolute right so if you have a problem with anything you buy within the first 2 years you have options. The following options can be found via the Your Europe website, aimed at shops and traders:

What can your customer claim?

Your customers have the right to ask you to do any of the following **without any charge** (for postage, labour, material, etc.):

- **repair** the product

- **replace** the product
- **reduce the price**
- cancel the contract and **reimburse** them in full (in some countries, the sales contract cannot be cancelled if the fault is minor, e.g. scratch on a CD case)

So whether you are buying a kettle or a car you are covered by the European 2-year guarantee. So why am I mentioning this as most cars come with at least a 3-year warranty?

Well, I've seen in some warranty terms and conditions, and even advice from consumer bodies, that you may be required to contribute to the cost of a replacement part if it increases the value of the car or improves its condition. It's referred to as 'betterment'. This can happen when the part is expensive such as an engine or gearbox.

I don't agree. Certainly in the first two years, when the EU Guarantee covers you. As it says above, you have to be reimbursed in full if a part fails. Don't forget this applies to new AND used cars so if you buy a 3-year-old car and a part fails due to a manufacturing fault within 2 years of ownership they cannot claim betterment. If they do, take it up with all the bodies named above. Of course, this may change once we are out of the EU.

Who To Complain To

This is probably the most comprehensive list of places and bodies to complain to. Far too frequently I've seen individuals with problems bounced backwards and forwards between dealers and manufacturers trying to resolve a warranty claim. And even when the car has been financed on a PCP it hasn't been realised that the person who should really be sorting out the issue is the PCP funder.

Most lenders, finance companies and dealerships are members of trade organisations. How many 'experts' recommend that you make a formal complaint to them? I can tell you – virtually none! Nor do they explain that all trade associations must provide you with details of an Alternative Dispute Resolution (ADR) provider who can act as a mediator.

Financial Ombudsman & Alternative Dispute Resolution (ADR)

In 2013 the EU published the European Directive on ADR. The main objective of this Directive was to ensure that all member countries offer ADR as a simple, fast and low-cost out-of-court solution to disputes between consumers and traders.

In the UK, this Directive led to The Alternative Dispute Resolution for Consumer Disputes (Competent Authorities and information) Regulations 2015 and this imposes certain requirements on dealers and traders from 1 October 2015 (these are in addition to the new rules set out in the Consumer Rights Act 2015 which also came into play from 1st October 2015).

OK, that's the formal stuff. As I've stated several times before if you have a problem with warranty claims, fit for purpose claims or pretty much anything else you should be approaching the PCP provider. It is of no consequence to you what arrangements the funder/manufacturer/dealer come to – all you want is a solution. If the finance provider cannot provide a solution you can approach the Financial Ombudsman Service which is an Alternative Dispute Resolution service for the banking, insurance and finance industry.

The FOS is seriously underfunded which means you can wait over 2 years for an Ombudsman to review your case. Initially, an adjudicator will review your case and normally issue a ruling to the 'business', i.e. the finance provider. However, the business needn't comply with the ruling. The only ruling that is binding is the one issued by the Ombudsman. And even then you (not the business) can ignore the ruling and go to court and maybe use the Ombudsman ruling to strengthen your case.

On the other hand, you can accept the ruling, in which case the business (finance provider) must abide by the Ombudsman's ruling. However, whilst the amount that the Ombudsman can award has a limit of £150,000 He can often be constrained as to what he can award compensation for. If poor pension advice can be shown to lose a consumer future pension income of up to £150,000 it could be awarded plus any costs plus interest charges.

However, the sort of claims you might make that are car/finance related may be constrained in terms of compensation. Take the case of my broken laptop, ruined after I very stupidly dropped a bottle of Lucozade. I made a claim against the Insurer, Zurich, whom I strongly

recommend you never use for any insurance as a result of their abysmal handling of my claim. They refused my claim.

I could understand that they had to be cautious about claims for liquid ‘accidentally’ dropped into a laptop. With virtually no evidence they claimed that I had acted fraudulently, bear in mind that this was the first insurance claim that I had ever made and the machine, a top of the range Sony, was nearly new. If I was a serial insurance claimer or if the machine was 10 years old I could understand it.

I even explained that I was, and still am, an accountant and that I had been an expert witness for the police in cases of fraud, would I really run the risk of making a false insurance claim for £1,800? It was all too ludicrous for words. The FOS Adjudicator agreed and instructed Zurich to pay up. In the meantime, some major investment into my company had to be put on hold as I couldn’t run the risk of explaining why a CIFAS entry appeared on my credit file.

The adjudicator wrote to Zurich every couple of months telling them to pay up and each time they refused. The whole business project had to be put on hold costing me hundreds of thousands of pounds.

Eventually, the Ombudsman reviewed the case and immediately agreed with the findings of the adjudicator and ordered Zurich to replace the laptop and pay interest on the replacement cost of the computer. However, whilst the Ombudsman sympathised with my situation, the most he could award in the circumstances was £200 but suggested that if I didn’t accept the award I should take Zurich to court.

I had every intention of doing so but of course, the cost of doing this would be substantial, even with the Ombudsman’s finding as evidence. So I took no action but I felt that if, through my blog and now through this report, I could lose them a £million worth of business that would be compensation enough. So please don’t take out a policy with Zurich if you actually want to be paid out after making a legitimate claim.

The Ombudsman works to an unpublished compensation guide so don’t expect to get much more than the car repaired or replaced but with little more for the inconvenience, costs and interest. Incidentally, if you accept the FOS ruling and whatever they award, you can still

apply to the court to sue the business for additional compensation but according to the FOS, this is unlikely to be allowed by the courts so it would be wise to take legal advice before accepting or rejecting the FOS's award.

Let me be clear, I'm on a mission to make sure that you aren't bullied and are treated fairly. And equally that the dealership isn't unfairly abused. Always be courteous even though you may be seething inside, being obnoxious won't help your case.

So who else can you call on for help? In my opinion, too few people are aware of the options open to you. So let's get on with the list.

Citizen's Advice Burea (CAB)

Generally, they can be very helpful and have access to legal advice on your behalf. Depending on the local CAB office, the time available and the enthusiasm of the staff, some can be more helpful than others.

You should also be aware that they work with Trading Standards so there is a pretty good chance that you will find Trading Standards helping with the problem even though you passed it to the CAB.

You can call the CAB between Monday & Friday 9.00am to 5.00pm on 03454 04 05 06. Calls are charged at 9 pence per minute from a landline and between 3 pence and 55 pence per minute depending on your tariff – if you have inclusive minutes the call will be in your inclusive minutes (per their website).

You can also send them an email via a form on their website. You can do it by clicking here:

<https://ssl.datamotion.com/form.aspx?co=3438&frm=general&to=flare.fromforms>

You can also write to them here:

Citizens Advice consumer service
2nd Floor, Fairfax House

Merrion Street

Leeds

LS2 8JU

If they can't give you advice there and then they will pass on to a Trading Standards advisor or take advice from their legal department.

In fact, you can no longer contact trading standards directly yourself, you must go through the CAB.

Trading Standards

These days your case must be referred to Trading Standards by the CAB. You can do this on their website or call them on the number shown above under CAB. They can be quite helpful when you have a claim over poor servicing of your car or a warranty claim but some car dealers know that the powers of Trading Standards are limited so may initially ignore them.

Trading Standards is another form of Dispute Resolution advising both parties on the law and can, in certain circumstances take legal action against the dealer but they have no power to stop the dealer from trading, that can only be done by the courts. Having said that if the dealer has ignored Trading Standards and you end up in court the judge won't look favourably on the dealership if they have taken no notice of the advice given.

Consumer Programmes, National Newspapers, Motoring Press

Many consumers after getting nowhere with the dealer or manufacturer turn to the press or TV programmes such as Watch Dog or Rip Off Britain. If your case is selected they can be quite helpful but their lack of legal knowledge, especially some newspapers and trade press, can sometimes lead to misleading or incorrect advice being given.

Sadly some self-proclaimed 'experts' and industry executives, with reputations and income to protect, have not always provided accurate and unbiased advice when asked for their opinions by journalists. This doesn't help people's understanding of the complexities of PCP and other vehicle finance methods.

Don't misunderstand me, there are some great investigative journalists and the consumer programmes are excellent when it comes to holding large businesses to account. I favour Rip Off Britain as I have appeared on the show. Whilst it covers a wide range of subjects in a short period I feel that Watch Dog can be a little frivolous at times when dealing with some very sensitive and disturbing issues. But they often get results and that matters a lot to those involved.

Hopefully, this report will help all concerned to provide better-informed advice. And if they take on your complaint you could end up with the sort of result you were looking for.

NEXT I'M GOING TO REVEAL THE NOT SO WELL KNOWN WAYS TO COMPLAIN AND/OR GET ADVICE

Which Magazine For Advice

I carried out a lot of research for you here. The Which organisation is well known for its consumer advice and fighting battles on behalf of consumers who have been treated badly. If you visit their website you will find a mass of support and information.

They offer a legal advice line 01992 879 550. Their legal experts can assist on any legal issue Monday to Friday, 8.00am to 6.00pm (excluding Bank Holidays). You pay £29.99 for a year's advice, this is an introductory offer, the following years you pay the full subscription rate, currently £48.

This advice not only covers vehicle-related issues including warranty, speeding and parking fines, it also covers general items such as credit cards, mortgages, bank issues, broadband, energy, purchase and delivery of goods etc. So it could be very useful.

In addition, they have some standard letters on their website covering appealing parking tickets through to challenging excessive garage charges. Visit www.which.co.uk.

Financial Conduct Authority (FCA)

I've spoken about the FCA under various headings throughout this report. One of the issues I have with them is that much of what they are doing is setting the legal framework under which those offering finance should work.

And that is fine but unlike those that offer insurance or pension products, those offering finance don't have to take and pass exams. I have known people move from being butchers, estate agents and furniture salesmen take on the role of selling finance simply relying on their own experiences of maybe arranging hire purchase or a PCP themselves in the past.

In one main dealership a head of fleet sales, which included the provision of finance, had been running a furniture company and in another, in the same position was a man who had previously sold insurance and pensions as an Independent Financial Advisor (IFA).

Now I'm not suggesting that all of those providing finance are giving out bad information – not at all but you're about to agree to part with a substantial amount of money over the next few years. Surely you should expect those to whom you are talking to be qualified to do so?

The fact is that my next book, that will be available on Amazon, explains over 40 ways to finance a car. Should those offering finance know all the options and explain them to you? Possibly not and some would not be beneficial to them so they are unlikely to offer them.

For example, PCP will make them more money than a personal contract hire (PCH) so will they offer both? It is even more confusing for customers when they see cars advertised on TV at a rate that is a PCH rate but be offered a PCP at a higher rate when they turn up at the dealer.

Let me share an example. You may be of an age where you feel that you can release some of the equity in your house (which is tax-free), i.e. over 55. If you call into a dealer and offer cash from the equity release you will be offered a very small, if any, discount as they prefer that you to take out some finance as that can make the dealer more money than the sale of the car.

However, if you arranged a PCP on the car, they may have factored in a dealer discount, a manufacturer discount and all sorts of other discounts to encourage you to take out the PCP. That may sound unfair, however, you can balance things up by taking the PCP, then terminating the finance and paying the amount owed to the finance company after your 14 day cooling off period.

So let's say the car had a list price of £20,000. For cash, they will give you £1,000 off but if you take a PCP you will receive other discounts and bonuses, totalling £3,000. So according to the paperwork you are funding £17,000. You terminate the agreement and pay back the finance provider what you have 'borrowed' i.e. £17,000 plus a few days interest.

Do I agree with this process, not really but it's the law! Would a dealer explain this process to you? You could guarantee they wouldn't. The question is – should you be told? And by not suggesting that option is the dealer in breach of the FCA code?

Please let me be clear, I'm not recommending that you do this. You need to discuss with a financial advisor and your family before releasing money from your house or pension, there could be other consequences – but it's an option!

So if you don't believe that you have been given best advice or you've been treated unfairly then you should advise the FCA. They need to be aware of problems in the industry that affect consumers for future iterations of their code. They may also be able to provide some direction if making a complaint to the Financial Ombudsman.

Insurance

I have recommended elsewhere that you take legal cover when you take out your car insurance. The main reason for this is to cover you in the event you have an accident and even more important if you sustain injuries. Even if you have issues with your own insurer you can call on the legal cover to take action against your insurance company.

You need to check your individual policy to see if it covers you for traffic violations and if so at what level, simply advising, provision of letters through to court representation? Bearing in mind that the lawyers need to be convinced that they have over a 51% chance of winning any court case they get involved in.

They don't tend to cover you when it comes to warranty claims, Consumer Rights claims including fit for purpose and faulty goods claims. However, they normally include advice in these areas as part of their helpline, so if you have a claim against a garage, dealer or

manufacturer you should be able to get advice, even if you don't receive representation in court. Check your policy carefully.

The same applies to your home contents insurance policy if you have legal cover included. Their attitude is not dissimilar to your car insurer. The legal cover included in your contents insurance may be included in the premium or you may have to pay for it as an extra. Again, I feel that it's worth it in the event that a claim leads to a dispute.

The cover will extend to things like personal injury, property disputes, employment disputes and tax investigations. You will need to check your policy to see exactly what is included. It will also cover consumer disputes. Buying goods and services for the home, trades disputes, poor repairs are generally covered. But this is where policy exclusions are more important than the inclusions.

As I have pointed out elsewhere in this report, according to the British Insurance Brokers Association (BIBA), not only do insurance policies have to include policy inclusions but also exclusions. Most policies that I have seen do not include automotive disputes but if the policy doesn't specifically exclude motoring disputes you could argue that your policy includes motor disputes. Even if the policy excludes motoring disputes you could still obtain advice from their helpline as you could from the helpline attached to your car insurance policy.

Managing Director

Years ago Esther Rantzen presented a consumer programme called That's Life. She used to take on manufacturers selling poor quality goods, bad tradesmen and poor utility services. Occasionally her team would challenge a car manufacturer if several viewers reported the same fault, providing a great deal of advice on how to raise complaints.

One piece of advice that stuck with me was, don't waste your time complaining to Customer Services or the Complaints Department. Get details of the company's managing director and complain directly to him or her in a letter marked 'private and confidential'. Since she made that suggestion I have always followed her advice and guess what? It gets results!

So if you have a problem with your car, or with the finance, which can't immediately get resolved, escalate it to the person who can make an immediate decision, the managing director. If the problem is with a dealership providing poor service or failing to carry out a repair on your car, write to their managing director or dealer principal of the dealership. Most dealers are either owned by the manufacturer or they operate as a franchise.

Either way, write to the managing director of the finance provider if you have financed the car using PCP, HP or PCH. It is their car and they need to resolve any issues. They can deal directly with the dealership you are having problems with in order to get the issues resolved.

You should also write to the managing director of the manufacturing company as they will be responsible for the actions of their dealer, whether owned or franchised.

Explain your problem and request that they help you resolve it. Don't be rude, simply lay out the problem or problems that you have experienced and what you've done to resolve them. Then explain why you feel that the service received isn't as expected and what you expect them to do.

This is quite important as far too many people explain the problem within a lengthy complaint without telling the MD exactly what they want. A replacement, a repair to be carried out within a set timescale, money back, etc. Make it very clear as you might both be working to different objectives.

You should be able to get the name and address of any managing director by calling the company concerned and asking for the name and address of the MD and their head office address. They are legally bound to tell you.

Trades Union/Professional Body

If you are a member of a Trades Union or a Professional Body they may also have a legal helpline and possibly a dispute resolution service, all of which is included in your annual fees.

If you are having problems with your car and you need the car for work then your trades union will try to help as it can affect your ability to do your job as well as lose income. It's worth a call to see if they can help out. I've heard that in some circumstances a trades union member has had court representation approved.

Professional bodies are more likely to simply provide a helpline and possibly a dispute resolution service.

In either of the above cases if the garage or manufacturer is aware that you are using the resources of a trades union or a professional body they will normally do their best to help out rather than fight against you and the power of the Union or Association.

The Motor Ombudsman Service

This body was originally set up under the name of Motor Codes Ltd. It changed its name to The Motor Ombudsman Ltd. on the 1st November 2016. It has absolutely no similarity to the Financial Ombudsman Service that is a statutory dispute resolution scheme set up by Parliament under the Financial Services and Markets act 2000 (as amended). It is a not-for-profit public body but not a Government Agency or Quango.

The Financial Ombudsman Service is independent of Government and the businesses they cover - and they are not a consumer body. They resolve individual disputes between businesses that provide financial services and consumers, as an alternative to the civil courts. As you can see completely independent.

Let's look at the Motor Ombudsman Service. This is a subsidiary company of The Society of Motor Manufacturers and Traders Ltd. Why would it change its name from Moto Codes? Possibly to give the appearance of being as independent and unbiased as the Financial Ombudsman Service. They claim to be self-regulating which I don't doubt and are approved under the Chartered Trading Standards Institute (CTSI) as a conciliation service.

However, they are a subscription service available to dealers and garages to subscribe to and in turn appear on the Motor Ombudsman website as an approved supplier. This is meant to

give consumers a greater level of assurance that the garage or dealer that they are dealing with subscribes to a self-regulated code of practice approved by the Government.

However, according to their 2016 annual accounts, the Motor Ombudsman says,

‘In conjunction with its self-regulatory activities, www.themotorombudsman.org is successfully channelling motorists to subscribing garages through an online search and review mechanism that is generating a significant revenue opportunity for subscribers to the Service and Repair Code’.

‘This activity has been deployed in direct response to the original Government objective when establishing Motor Codes, to establish a UK network of ‘Safe Haven’ garages and provide mechanisms that allow consumers to easily identify and engage with them’.

So the companies that appear on the website are there because the ‘safe haven’ suggestion gives consumers confidence that they will receive a good service and therefore should use an ‘accredited dealer’. Thereby promoting their subscribers. So is it a self-regulating body or a marketing platform for those who subscribe to the service?

I have seen dealer groups stating on their websites that they abide by codes set down by the ‘Government-Backed’ Motor Ombudsman. In fact, this is untrue as the Motor Ombudsman isn’t Government Backed, as stated. In fact, they state on their website that they AREN’T a Regulator nor a Government-Backed Regulator.

They say on the website that participating garages voluntarily join but didn’t mention that they are dependent on the income from these ‘volunteering garages and dealerships’ for their income. I would, therefore, question the independence of such an organisation and I would certainly read the reviews on Trustpilot left by those who have used the service.

But the choice is there should you wish to use their facilities and, according to their website they are approved by the CTSI as a conciliation service, and it’s free to use.

EU 2 Year Guarantee

I mentioned this earlier in the section headed Warranty Vs EU Guarantee. Whilst we are in the EU all consumers are covered by the EU 2 year guarantee. This applies to new and used cars bought from dealers, shops and traders (not private individuals).

You can threaten all sorts of action but sometimes the threat of a report to The European Commission Consumer Centre will cause suppliers to think twice before stretching out a claim.

You may find that if you're into your second year of ownership of a car, whether new or second hand and you find a fault that needs attention, you are not as well covered by UK law as you are by EU legislation, i.e. EU directive 1999/44/EC. According to the Consumer Rights Act if a fault occurs in the first 6 months you don't need to prove that the fault existed before you bought the car it is up to the seller to prove that it didn't exist or was down to your misuse.

Beyond 6 months the onus is on you to show that the fault pre-existed. This is pretty similar to EU law but our laws allow for the seller to claim for betterment. So if a repair is carried out to your gearbox or engine after 18 months, especially if the car was second hand, to begin with, you may be asked to contribute towards the repair as you have already had some wear out of the gearbox or engine.

The EU law that always supercedes UK law doesn't allow for this. At any time in the two years if it can be shown that the fault pre-existed then you are entitled to a repair, replacement, money off or your money back. No mention of betterment, so no reductions. Also, you are not responsible for the cost of the return, if you have to drive the car some distance you can claim back the travel costs both ways.

With more used cars being financed on PCP's you may find that the car itself only comes with as little as 3 months warranty, supplied by the dealer, if it is already out of the manufacturer's warranty. Or it could be that this is all that is left on the manufacturer's

warranty when you buy the car. Either way, it doesn't matter as you are already covered by the EU 2 year guarantee.

If you experience problems you can get support here:

The European Commission

Europe House

32 Smith Square

London SW1P 3EU

Tel: 020 7973 1992

Buy Shares In The Company

Let me recall a story from many years ago. I was fortunate to have a house built to my specification on a private, exclusive estate. It was a lovely house but one of the walls seemed to get all the weather and when it rained the wall developed damp patches inside.

As much as I complained to the site manager I got nowhere. I complained to their head office to no avail. I tried to get hold of the MD but continually got diverted to Customer Services. I had decorators about to turn up and happened to mention it to a friend who was a stockbroker. He suggested buying some shares in the company – ‘this will make you an owner’.

I did this, called to speak to the MD, this time pointing out that I was a shareholder. I was connected immediately. The man was charming and having explained the problem and given him my address two trucks turned up within an hour and completely sprayed the outside of my house with a special waterproof coating.

The following day my wife received a bouquet of flowers and from that moment on we had a daily visit from the site foreman to check that all was OK. I learned the power of being a shareholder. For years I've done the same, if I feel that a problem is insurmountable and I've been dealing with a quoted company. It works!

So if you experience problems with the car or the finance you should buy shares in either the dealership, the manufacturer or the finance company or all if they are quoted on the stock exchange and deal with them as a boss – which is what you are.

MD's of large companies don't want to have to deal with irate shareholders so you are more likely to get a positive result.

Frequently Asked Questions (FAQ's)

Is the Road Fund Licence Included?

When a new car is registered there are two taxes to be paid. The First Registration Tax and the Road Fund Licence. The first registration tax is paid by the dealer and included in the cost of the car (currently £55) as is the first year's road fund licence or as we usually call it the car tax. You are responsible for paying the car tax from year 2 onwards.

You probably saw the changes brought about in the 2017 Budget affecting new cars registered after 1st April 2018. The big difference relates to the first year's car tax which has been calculated, from 1st April 2017, based on CO2 emissions. Only if your car has zero emissions (electric) do you not pay for the first year's car tax or car tax thereafter.

Car tax, paid for in the first year by the dealer, relates to the CO2 output of the car, you can see a chart on the Government website. So, for example, a car with a CO2 output of 91 – 100g/km will pay £120 in the first year and £140 per annum thereafter. 101 – 110 g/km will pay £140 in the first year and £140 thereafter, 111 – 120 g/km is £160 in the first year and £140 per annum thereafter and so on.

Cars with high CO2 output are hit very hard in the first year. For example, if the new car you are about to take on a PCP has a CO2 output of 171 – 190 g/km you will pay £800 in the first year (included in the cost of the car) but still only £140 thereafter. 191 – 225 g/km will have a charge of £1,200 but still only £140 per annum thereafter.

The changes for 2018 means that if you take a diesel car on a PCP you pay one band higher than the petrol equivalent. So looking at the examples above if you have a petrol car emitting 101 g/km of CO2 you will pay £140 in the first year (included in the price of the car) and £140 per annum thereafter. However, if you drive a diesel car with the same CO2 emissions you will pay the next band higher than the petrol equivalent, i.e. the 111 – 120 g/km rate of £160.

Why have I gone into such detail? Well, you are still paying the first year's car tax, included in the 'on the road' figure shown on the car order. Always check every figure, even computers can get it wrong and if the car has high emissions the first year's road fund licence can be expensive.

Finally, and very important, if the car costs over £40,000 you will have to pay an additional £310 per annum for your car tax for the first 5 years of its life. So you will be paying £310 + £140 = £450 per annum. Incidentally, the list price includes any factory fitted options and VAT but not the first year's tax. Check beforehand, you don't want your car tax to leap from £140 per annum to £450

What Happens If I Die Or Can No Longer Drive?

One would assume that this should be a simple question with a simple answer – but it isn't. It can be a very complex problem and if you die it is something that your family will have to deal with.

Sadly these situations can occur but as with any debt, just because you die or you have an accident or health problem that means you can no longer drive you are still responsible. At the time you advise the lender that you can no longer drive or when whoever is managing your estate, should you die, advises the lender that the car needs to be returned, there are usually two options.

Either hand the car back and the lender will sell the car through auction and compare the amount received with the amount outstanding on the agreement, once they've calculated it as you have a refund of interest charges due, then charge you or your estate the balance. On the other hand, the car could be Voluntarily Terminated (see above) and you just pay the difference between the 50% figure and what has already been paid.

If a large deposit was paid, or a car was used as a part exchange to reduce the monthly payments, it may well be better to get a settlement figure from the finance provider then see what an online used car buyer would pay for the car as there could well be some equity in the car. You should then settle the finance and sell it.

The alternative courses of action may or may not be covered by your contract so it's important that either you, if you've lost your licence, or whoever is dealing with your estate, if you are no longer with us, reads the contract to see what needs to be done. Or takes legal advice to see what your options are.

Of course, if you hand the car back and there is any equity in the car when it is sold by the lender then the funder should return some money to you or your estate. Again this should be shown in the contract.

Whilst they may be entitled to keep any profit in the car when sold, should you return the car at the end of the contract, that may not be the case if you hand the car back without exercising Voluntary Termination rights.

Now we get to the complicated bit. As we know the laws of the land are, in many instances, not fit for purpose. In my opinion, the laws should be so specific that they are, in the vast majority of cases, not open to interpretation. For example, if you die – there is a very simple set of rules that are applied regarding car disposal and outstanding debt.

In addition, if you can no longer drive the car due to death or injury i.e. the consequence of an event out of the driver's control, a shortfall insurance should be included in the contract to cover these situations. If you can no longer drive as a result of a drunk driving, drug driving, dangerous driving or speeding conviction then a different set of rules apply as the events were within your control.

Unfortunately, this isn't the case so you may have to take up your argument with the Financial Ombudsman if you feel that the finance company isn't treating you fairly.

Force Majeure

Check your agreement to see if there is a 'Force Majeure' clause in the contract. This clause, appearing in a contract, will explain the circumstances that will excuse you from performing the contract.

This could include death or health issues that cause you not to be able to drive your car. If there is no Force Majeure clause you cannot be excused from the contract and you must follow the course of action shown above. But as always there may be another chink of light that I've identified.

There is a doctrine of frustration applied to contract terms that cannot be performed because the circumstances haven't been allowed for in the contract. In these circumstances, a judge could decide that the contract is frustrated relieving both parties of obligations and resulting in neither party being bound by the agreement.

For a frustrating event to take place it must be an unforeseen event that occurs after the contract has been performed (both parties have signed it) which was not the fault of either party and makes the contract impossible to perform, illegal to perform, or makes the contract radically different to what was agreed between the parties.

That may sound a little complicated but this is what it means: Most PCP contracts contain a clause that says something like 'You will insure the vehicle with a reputable insurer on a comprehensive policy for the period of the hire to the full value of the car' It will also say, 'Failing to insure the vehicle for the period of the hire will amount to a breach of contract and allow the finance company to terminate the agreement'.

In the circumstances, you are technically in breach of the agreement as you will not have a valid insurance policy as you can't have a valid policy if you have no licence. And of course, if you have passed away you cannot have a licence leading to frustration.

You've signed the agreement and due to unforeseen circumstances you have died or can no longer drive through ill health or even because you've lost your licence. If this hasn't been specifically covered in the terms of the contract it could be equally frustrating. Not frustrating as in annoying but frustrating as in the contract can't be enforced.

Because the contract states that you are required to have the car insured at all times during the period of the PCP, you cannot have a valid insurance policy without a valid driving licence. Therefore it is impossible for you to perform the contract. It is also illegal to drive the vehicle

without valid insurance, and as a result, the agreement has become frustrated because it is impossible for you to perform your obligations without a driving licence.

In my opinion, you have a strong case for frustration, allowing you to withdraw from the contract and hand the car back without any further cost but make sure that you are not giving away any equity. The car could be worth more than the settlement figure. Also, the finance companies are getting very tough so don't expect any favours because of your unfortunate circumstances.

However, if you believe that you will be out of pocket (or the estate will) keep your nerve, they will probably settle your claim before it goes to court. Make sure that you take some legal advice. I'm not alone in these views but you must decide what to do.

The fact is that, as you can see, this is dreadfully complicated. And this is just one thing that could go wrong. Anybody that thinks that PCP is simple and straightforward is deluded! Make sure you keep everything in writing, avoid telephone calls as these can be denied at a later date. Even if you record the conversations you could breach Data Protection regulations and make them inadmissible in a court.

Finally, you should be aware that there are insurance policies that cover you for legal costs in the event that you are fighting a conviction – considered as self-imposed.

This could be the result of a variety of reasons but if you are disqualified as a result of the lawyers appointed by the insurer being unsuccessful in getting you off the conviction you can claim up to £2,000 per month on the insurance policy to pay for travel costs.

One company I found would provide cover for up to 12 months at a maximum of £2,000 payout per month to cover transport costs.

What Happens If I Can't Pay (Pregnancy, Illness, Redundancy, Reduced Hours)?

These are things that are often overlooked. Even when a car is financed in the name of the husband if the partner gets pregnant and both are working this can have a substantial effect on the family income.

Long-term illness that drops you down to basic pay with no overtime, bonuses or commissions can be very challenging. Even worse if you drop down to statutory sick pay, it can make paying for the car very difficult. But you still have a legal obligation to make your payments.

The same applies if you are made redundant or have your hours reduced if your employer needs to reduce his costs but doesn't want to lose any staff. In all these circumstances there is insurance to cover you. It's called – wait for it – PPI. Yes, the dreaded PPI but of course we call it something different today, Income Protection Insurance is just one name.

The fact is that PPI was not a bad product. It was just sold badly. A bit like PCP's. I have friends that back in 2008, when the finance world went into freefall, and many people were made redundant, they were grateful that they had the insurance that paid for their mortgage and other bills as well as their car repayments allowing them to remain mobile. So it certainly had its place, as it still does today.

So if you aren't sure about the future and feel that any of the above circumstances could apply, during the course of the lease, then you need to consider employment protection insurance or something similarly named. If you are in a financial relationship and rely on each other's income you should consider both of you taking out a policy. You may be able to take out a joint policy.

Make sure that the agreement covers you for all the circumstances you wish to have covered. Some policies will offer a mix and match of risk. So you can cover accident and sickness but exclude redundancy. Most policies will cover pregnancy. This insurance can be very useful at a time when you want to keep stress to a minimum. Always take advice if you are unsure.

The one piece of advice I would give you, mentioned before, is don't bury your head in the sand. Talk to the lender as soon as you see a problem looming. They will try to help you and

find a way to make sure you remain in the car whilst you sort out your predicament. Life becomes more difficult if you are moved into the collections department.

If you don't deal with the PCP provider you will end up being chased by a debt collection agency and they are far more difficult to deal with and they have fewer options as they are there to collect debt not negotiate a solution.

I've Been Banned From Driving – Can I Hand The Car Back?

No, you can't. If you are early into the agreement you will need to get from the funder an early settlement figure. You would need to pay that then sell the car, which will probably be for less than the settlement figure unless you paid a substantial deposit.

You can always look at VT'ing the car as explained above. You would need to compare what you have paid, including your deposit, compared to the 50% figure, as shown in the contract, under 'Termination Your Rights', pay the difference and hand the car back.

This may be less than the loss you would sustain if you paid the settlement figure and sold the car. Read my notes on Voluntary Termination carefully before exercising your right.

The alternative would be to continue paying the lease if, like me, you were prevented from driving temporarily due to a hip replacement. I had to pay for 3 months but was back to driving straight after. As already mentioned above, provided they are covered fully comprehensive on your insurance, family members and friends can drive the car with your permission.

So they could drive you around during your incapacity. If you wanted to dispose of the car after paying a large deposit or if you are some way into the agreement you may have built up equity so would be beneficial to settle the finance, sell the car and pocket the equity.

Bear in mind that you should buy the car first for the settlement figure before selling it to a third party. If you don't perform the transaction that way you and the buyer could have title issues.

The process and catches are as described above, however, you will probably find the finance company far more accommodating if you can't drive due to an accident or poor health than losing your licence through your own fault such as drink driving, speeding, dangerous driving etc. Check your contract to see if there are any terms relating to losing your licence? See also the question **What Happens If I Die Or Can No Longer Drive?**

Take Over Contracts

There are companies that will arrange for your contract to be taken over by a 3rd party if you can no longer pay. You should avoid these like the plague. First of all, this is what is known as sub-leasing. If you check your contract you will normally find that you are not able to do this.

They set up a contract between you and the 3rd party whereby the 3rd party arranges to pay the amount of your direct debit by standing order. However, there is no guarantee that the payment will be made, how they will look after the car, if they will return the car at the end of the contract etc. You shouldn't even think about entertaining such an arrangement.

It is possible to legitimately arrange a takeover through the PCP provider. If you have someone willing to take over the repayments you may be able to arrange this through the PCP provider but first, they will have to carry out the usual credit checks and issue a contract in the name of the nominee. That is the only legal way to do it.

I'm Retired Can I Still Take Out A PCP?

There are no age restrictions on taking out a PCP or any other finance come to that. I think I held the record for the oldest person to take out a Personal Contract Hire when an 87-year-old client took out an agreement arranged through my brokerage. As long as you have a valid driving licence and you have proof of income, showing that you can make the repayments, then there is no reason not to accept you as a client.

Make sure you are prepared with copies of bank statements covering the last 3 months and proofs of address and identity.

My PCP Car Is An Ex-Rental Car – Should I Have Been Told?

Many dealers buy used cars from auction and nearly new cars work well on a PCP so they make good stock. The dealer doesn't get the benefit of big manufacturer discounts and bonuses when he buys used cars but the leasing companies and daily rental companies do when they buy the cars as new.

So when the finance providers sell the cars that they bought from new they can sell for less than you or I might want to sell the car had we owned it ourselves because they bought them so cheaply in the first place. However, especially in the case of ex-hire cars that would have had many drivers, wear and tear items could wear quicker such as clutches, brakes and even gearboxes.

The law is very clear here. The dealer must advise you of all previous owners, The Advertising Standards Authority (ASA) has ruled that dealers now have to disclose the full history of the car before selling it.

This was highlighted in a case, reported in Fleet News, where a customer bought a Peugeot from Robins & Day in Gateshead, advertised as one previous owner, that developed a problem with the clutch within a few days.

The car was returned to the dealer and the customer was told that the clutch needed to be replaced, blamed his wife's driving style, and told him he would have to stand the major part of the cost of repair, i.e. £650.

After receiving the car's V5C (Log Book), he noticed that the previous owner was rental company Europcar, so the customer reported the dealer to Trading Standards who went on to take Robins and Day to court under the Consumer Protection from Unfair Trading Regulations 2008. The company pleaded guilty and were ordered to pay a fine of £5,000 plus £500 costs and £1,000 compensation to their customer for not declaring that the car was an ex-hire car.

Whilst I wouldn't recommend that you buy an ex-daily rental car you could most certainly end up with a great deal on an ex-lease or fleet car as they are invariably better looked after than many privately owned cars due to the effect on the resale value when disposed of.

So if you find that a car is an ex-fleet or lease car beat them down on price because they probably bought the cars super cheap, either through the auctions or through a 'buy back' arrangement with the manufacturer or the daily rental company.

And if you weren't given the car's ownership history by the dealer you can report the company to Trading Standards via the Citizens Advice Bureau and take up your case with the PCP provider, as I've said before they are responsible for this breach of the law.

The Dealer Promised Equity In The Car – What can I Do As There Isn't?

This is a massive can of worms. Most people I've spoken to, who have taken out a PCP, claim that the salesman explained, at the time of taking out the PCP, that there would be equity in the car at the end of the agreement and that equity can then be used as a deposit on the next car.

Some don't explain that this won't be the case if you exceed your annual mileage and much depends on market conditions in 3 or 4 years time when the contract ends. As no PCP provider has a crystal ball, that accurately predicts future values, they have to use 'best estimates' based on historical information and various trade guides.

According to moneysavingexpert.com 80% of those who take out a PCP hand the car back at the end of the agreement. This suggests that the car isn't worth the final balloon payment so there is no equity in the car – this is where the problems begin.

You take the car in the belief that there will be some equity in the car at the end of the agreement. You have some body damage along with some scuffs to the alloy wheels. You're a little over mileage and whilst the agreement said that you should have the car serviced at a main dealer, you didn't bother because you had every intention of buying the car. So you had the car serviced at a local, non-main dealer, garage or service centre such as Halfords.

A chipped windscreen was smart repaired that looked OK to you even though it was in the eyeline. You replaced a couple of tyres with some very adequate 'cheapos' even though the contract stated that the car should only be fitted with premium brand tyres.

At the end of the agreement, you call into the dealer who explains that the car is worth considerably less than the final balloon payment. You are extremely disappointed at the news and feel that you have been mis-sold and misled. But it now gets worse.

You had pretty much ignored the contract as you had no intention of handing the car back but after handing it back you receive an invoice for all the contract breaches. Damage, excess mileage, replacement windscreen, not serviced at a main dealer, wrong tyres etc.

Your argument here is why should you pay when you were told that the car would have equity in it at the end of the agreement and therefore you had every intention of owning it.

But you're not a car specialist and they are the experts. So whilst some of the items you are being charged for might have affect the value of the car this wasn't explained at the outset.

Of course, you could still have bought the car with negative equity in it – why would you want to do that? And of course, the problem here is that you only receive the charges after the car has been returned so you can no longer buy it.

The solution, send an email to the salesman agreeing to the PCP, before signing the agreement, on the understanding that there will be equity in the car at the end of the agreement and keep a copy. Chances are that he will refute the statement that he made that will throw doubt on any other claims and promises that he may have made to coerce you into signing the contract.

Given the high number of returned end of contract, cars you should assume that you will end up doing so also. You should, therefore, adhere to the contract terms. If you feel that you were misled or missold you should complain to your local Trading Standards office via the Citizen's Advice Bureau and, if they can't help, complain to the Financial Ombudsman Service and the PCP provider.

With A Million Cars A Year Financed On PCP Could We See A PCP Provider Collapse If Used Car Prices Drop?

This is a question that journalists asked me a lot over the last 2 years. The answer, in my opinion, is no. Yes, the lenders are at risk if the majority of PCP customers hand back the cars but there are mechanisms in place that protect the lenders.

First of all, take a car that has a final GFMV after 3 years of £8,000 on your PCP contract. That isn't the amount that the lender stands the car in, in his accounts. It will be less than that figure. Bear in mind that he has got to allow for the collection, preparation, admin and selling of that used car, if returned. That has to be paid for and can cost from £400 - £800 per car, so it makes sense to allow for these costs in the written down value allowed in the lender's books. So the same car may stand him in at a written down value of £7,000,

In addition, the lender constantly reviews his used car exposure across all cars on lease, by following market forces and buying trends. As a result, his resale values are constantly being reviewed and altered up and down to reflect used car movements in his accounts. So contrary to some press reports, once the final figure has been set it is constantly being monitored and adjusted.

The risk is also contained because consumers' finance a huge range of makes and models. So the risk is spread very thinly. On the other hand if you consider fleet cars on contract hire, whereby all cars are returned to the lender, there is a much greater risk as it isn't unusual for a fleet of hundreds, if not thousands of cars, are not just from one manufacturer but even one model of say Ford Mondeo or Vauxhall Insignia.

Using the contract hire model it is highly unlikely that there will be a motor finance industry collapse as, with more cars being financed using this method than PCP, the providers have survived some major challenges over the years, including the financial collapse of 2008.

Over recent years the car manufacturers have become reliant on PCP in order to sell more new cars, so they are highly unlikely to allow their own finance arm to collapse if they get into financial difficulties due to an extraordinary drop in used car prices. They will simply do

what we do when we want to change our car part way through an HP agreement and find ourselves in negative equity. The dealer takes some of his profit in the new car and uses it to pay off the used car.

In the case of PCP's and the manufacturers' captive PCP providers, they will use some of the discounts, that they would normally give away in new cars, and use it to support their lender so they don't suffer losses as a result of a collapse of the used car market.

I have seen accounts for one manufacturer who underwrites the resale values of used cars coming off contract hire so I'm sure they could apply the same principles to PCP.

What Happens If I Die And My Private Number Plate Is Still On My PCP Car?

This happens very rarely but some personal number plates can cost many thousands of pounds and if you pass away and your family hand back the car to the finance company, without realising that the number plate has a substantial value, they could be giving away a lot of money.

The leasing company wouldn't necessarily point out that your number plate is still attached to the car and therefore advise that the number plate should be put on retention. They stand to make extra profit. However, if you take the plate back it can then be sold as part of the estate. Or it may have sentimental value and the family may want to keep it for one of their cars.

Keep a file explaining what should be done with the plate if you were to pass away. Or better still put full instructions in your will. However, this may be a little late if there is any delay in reading the will, the car may already have been handed back by the family, under pressure from the finance company, and sold.

Maybe better to make sure that the family is aware of the valuable number plate and leave instructions as to what to do if you pass away and leave that information attached to the registration document (V5C) on your file.

I Have Poor Credit – Will I Be Able To Take Out a PCP?

In a word – NO! Contrary to reports in the press during 2016 and 2017, that people who can ill afford the repayments or have poor credit history are being tempted into new cars in their thousands - is not true. We may all be tempted but the PCP providers won't enter into an agreement with a customer on a payment they don't think he or she can afford.

That is simply commercial suicide. Repossessed cars generate losses for the providers. They then have the aggravation of trying to collect their losses from the customer. And if the customer was known to have poor credit the chances of recovery are very slim.

PCP's are high risk, they have, more often than not, a low or subsidised deposit and as much of the cost of the car is left to pay at the end of the agreement, with low monthly payments, the risk, if the customer defaults, is higher than say a standard HP agreement. Throw into the mix low or zero rate APR and the financial exposure is one of the highest in the motor finance industry.

The confusion amongst many journalists is that someone who would normally take a two or three-year-old car costing say £7,000 - £8,000 on HP or bank loan has been tempted into an £18,000 new car. The comparison is flawed. They should ignore the capital cost of the new car as that isn't the financial commitment, given the fact that they can simply hand the car back at the end of the agreement or even sooner under the VT rules as explained above.

With a repayment of say £250 per month that is the consideration that must legally be given by the lender to the application when considering affordability, not so much the capital cost of the car. Having problems with your credit means that you fall into the group known as sub-prime. I have seen no PCP providers in the sub-prime sector but plenty offering traditional HP at APR's from 35% to over 75%. The two shouldn't be confused.

If you have poor credit and you are offered finance be very careful about the deal you are getting into. The cars may have trackers and cut off switches fitted to enable the lender to immobilise the car and collect it if you miss so much as one payment.

In summary, PCP is not a product that is generally available to subprime customers, it is too high a risk.

New Cars Offered ‘At-Cost’, Is It True & Must You Take Their PCP Finance?

In March of 2018, Mike Rutherford wrote in Auto Express about a few dealers that were offering new cars at what they cost the dealer. This can happen so I have little doubt that the advertisements are genuine because in the contract hire industry this goes on all the time.

When a new model is coming out or a manufacturer has fields of unsold cars or maybe stocks of old model car parts that can be used to build new cars, they end up with a load of cars that they can knock out at ridiculous prices. As low as 50% of full retail. I know because I have been offered them.

When cars are sold to leasing companies the prices include a large discount from the dealer, who will supply the cars to the leasing company, as well as extra bonuses from the manufacturer. Vehicles are rarely supplied directly by manufacturers. This is a great way to dispose of these cars because it doesn't affect the used car sales on the dealer's forecourt as customers don't see what the leasing companies pay – just a monthly rental.

So whilst a £30,000 car may have been bought for say £17,000 you would only see the £300 per month that you pay on a contract hire agreement. This deal would therefore not affect the one-year-old cars being sold on his forecourt for say £22,000.

But by dealers offering the cars to customers at cost they will first apply a deadline so long term it won't affect the used cars on their forecourt. In the case of the report by Mike, cars had to be bought by the end of March, just a few weeks away.

The other little twist is that dealers receive a variety of bonuses if they reach their targets so it would make sense for a dealer to sell some cars at cost in order to reach their target and bonuses and receive another say 5% on all sales.

This isn't new by the way, I remember one of the manufacturers, I believe it was Renault, having a scheme whereby you bought cars at cost plus a penny years ago.

Getting back to the question, making this offer obviously compromises the dealer's used stock so he needs to be making something out of the deal and that is where the 'Law of Reciprocation' comes in. All salesmen know what I'm talking about – I've given you something, i.e. all of my profit, so I expect something in return.

So you can expect to be pushed towards a PCP. And as you are getting the car so cheaply you start to get led by the nose. In fact, unless they have made it a condition by saying something like, 'If you take out a PCP with us on such and such car before the end of the month you can have the car for what it cost us'. If it isn't a condition then you don't have to take out a PCP Agreement unless you want to.

Beware also of the add-ons, e.g. paint protect, upholstery protect, GAP, alloy protect, service agreement etc. Don't buy unless you want them, don't feel obliged.

And don't forget that the manufacturer hasn't contributed anything at this point so he could still subsidise the APR and make a contribution towards the deposit. Negotiate hard but fairly. As I've said all along the dealers still have to make a living.

As The Car Is Financed By Me Can Others Drive It

Check out your contract but generally, anyone can drive the car as long as they are legally able to, they have your permission and they are covered by fully comprehensive insurance. The general rule is that anyone can drive the car as long as they have fully comprehensive insurance.

However, this is where some people get confused. Your own policy may cover 'any driver' but any driver other than you may only be covered 3rd party. So check your insurance policy.

On the other hand, you may allow a friend to drive the car and be told that she is insured to drive any vehicle. Again he or she may be covered fully comp when driving their own car, but their policy only covers them 3rd party when driving any other car. Don't forget if the car

is damaged and it's the driver's fault you will be liable to the PCP provider for the condition of the car if you hand it back at the end of the agreement.

The situation is even worse if the car is written off and it was the driver's fault.

I Bought A Car Already On A PCP – Can I Legally Keep The Car?

I'm glad this question has been raised a number of times because it gives me an opportunity to respond to a press release from CAP HPI which found its way into a number of newspapers and trade press. It's what Donald Trump would refer to as fake news.

Before I respond I would say that if you are confused by anything or worried about title always take legal advice.

The question refers to a situation whereby you buy a car without knowing that the car was still on a PCP agreement and you receive a call, letter or knock on the door advising that the finance company, who has contacted you, still owns the car as the person who sold you the car illegally sold it without settling the finance.

If you buy a car from a dealer you are protected. A dealer or trader cannot sell a car that he doesn't own and if he sells a car that is still on PCP finance the finance company can recover its losses from the dealer. The dealer, in turn, must pursue the person from whom he bought the car. Title passes to the buyer.

If the dealer goes out of business in the meantime the finance company still can't recover the car or the cost from the new private owner.

Now there is a grey area that needs to be cleared up. If the finance company ignores the dealer and finds you, as the new owner, and rather than go for the dealer approach the new owner direct. The problem is that if you voluntarily hand over the keys to the car and sign a piece of paper saying that you have voluntarily handed the car over and that you will pursue the previous owner you pass title back to the finance company. If that has happened to you write to the Financial Ombudsman and contact a lawyer.

Some lawyers have a different opinion so my advice is that you never ever sign anything or hand over the keys before taking legal advice.

What normally happens is that you buy your car from a private seller only to find that he hasn't paid off the finance. Sometimes it can be completely innocent as some people believe that they can sell the car and simply continue the repayments. This isn't legal, the finance should always be settled before the car is sold otherwise title doesn't pass.

Let me be very clear, if you have asked the seller if there is any outstanding finance on the car and he says there isn't you can take him on his word and ownership passes to you. The PCP provider has no right of recovery, he must pursue his client to recover the outstanding finance. There is no legal obligation on the lender to record the finance on HPI or any other car history platform. As a result of this, there is no legal obligation on you to check the platforms for outstanding finance.

In 2014 the Guardian ran a story about a person who bought a car that was found to be on finance. The article read as an advert for HPI, saying:

Whenever you buy a used car from any private seller – or, in fact, a dealer – you should do an HPI check before you hand over your payment.

I don't disagree that it is advisable, when buying a used car privately, that you carry out an HPI check. However, they went on to say:

Your car was not the seller's to sell and the finance company has gone after you as the new registered keeper. You need to explain to them immediately that you bought the car in good faith. Your letter should include: the name and address of the person you bought the car from, the date you bought it, and how much you paid.

Which was actually good advice but they then amazingly said:

You also need to contact the previous owner – assuming they are still around – and ask them what they intend to do. With luck, they will have paid off the loan. If they have disappeared,

there is nothing to stop the finance firm taking back their car. This would leave you having to sue the seller. Always, always do a HPI check before you buy a used vehicle of any sort.

Ridiculous and just as well Guy Skipworth of Citizens Advice Specialist Support saw the article. He Pointed out, as I would, the legal position under section 27 of the Hire Purchase Act 1964 as an innocent buyer. This is what he said:

"Where a motor vehicle is subject to an HP or conditional sale agreement, while the vendor does not own it and has no right to sell it, a private purchaser who buys the car in good faith without notice of the HP or conditional sale agreement obtains good title to it. He does so under section 27 of the Hire Purchase Act 1964."

So the position is crystal clear in these circumstances. But it all changes if you hand the car over – the law needs to change!

What has really upset me is the press release from HPI regarding the number of cars searched with finance on and what appears to me is a slant that could cause private buyers, who were innocent buyers, to hand over cars that they were legally entitled to keep.

And because of this, I'm making a big issue over it. Here are my views:

The headlines from car data company CAP HPI, said 'Vehicle Finance Fraud On The Up'. Auto Express reported the same release from CAP HPI with the headline: 'Third Of Used Cars Sold With Finance Still Owing'. This simply isn't true and is a manipulation of data.

Are a third of used cars sold with finance on them? I believe not! Let's look at the statistics. They first reported that 6 million cars were flagged as having finance on them in 2017. What does this mean? It means that out of all the searches that took place on HPI 6 million had finance on them. They go on to say that in the first 4 months of 2018 2,437,025 searched vehicles had finance on them. So in pro-rata terms, the figure is up.

Those figures actually mean absolutely nothing! The report doesn't explain, as I suspect, that the figures could include multiple searches on the same car. If you take your old car into a car dealer with outstanding finance on it the dealer will want a settlement cost from the funder

and to do that, with permission from the customer, he will first, as a matter of course, carry out an HPI check.

In no way is that the customer trying to sell a car illegally it's just normal process. And even then, having checked the car once on HPI, they will probably check again, just before parting with their cash to the lender, in the event that the customer has refinanced the car or taken out a further loan secured against it. Not to mention the fact that the customer could have spoken to several dealers about a part exchange with each carrying out their own HPI check.

They say themselves in the report: Fraudulent activity only takes place if the vendor tries to sell the vehicle with existing finance still owed, without letting the buyer know. So to be clear the buyer does nothing illegal if he innocently buys a car with finance on, it's the seller. And, as mentioned above, there is nothing in law that insists that buyers of used cars should check HPI as there is also nothing in law that insists that lenders list all finance agreements on HPI.

The only legal requirement on the buyer, for title to pass (for him to own the vehicle), is for him to ask the seller if he has the car on finance. If he says no you are entitled to keep the car. But this is what appears in the press release:

Commenting on the increase in used cars being identified as already on finance, Fernando Garcia, head of consumer at HPI said: "Buying a car with outstanding finance can land the unwitting buyer in trouble as most finance agreements or loans will grant the lender ownership of the vehicle until the debt has been paid. The debt stays with the vehicle, not the borrower. Even if a buyer bought the vehicle in good faith, if the finance hasn't been settled then the lender could repossess the vehicle, meaning you could lose the car and the money you paid."

The underline is mine – recognise it? That is seriously misleading for the sake of marketing their HPI searches!

This disgraceful comment is legally incorrect. Why did they make this statement? Read what Mr Garcia said next:

Fernando Garcia added: "The first thing any used car buyer must do is ascertain whether the potential purchase is actually paid for. It's impossible to tell if a vehicle has outstanding finance just by looking at it, which makes a vehicle history check an even more vital form of protection for buyers. An HPI Check can help protect consumers from buying a vehicle with something to hide, saving them cash as well as keeping them safe.

This is clearly an attempt to get more naïve car buyers to use their HPI checking service and increase their income. Putting the frighteners on like this is wrong. Certainly, draw drivers' attention to the benefits of checking a car's history before buying but don't twist statistics to mean something they don't and certainly don't suggest that lenders can repossess the car when the new owner is an 'innocent buyer' and therefore legally owns the car.

The exception to the 'innocent buyer' rule is a car that is on rental, could be a daily rental owned car or a car on contract hire. In which case the seller won't have a V5C (Log Book) with his name in it as the owner/keeper of the car.

What Happens With Manufacturer Recalls?

I get very worked up over this subject and I'm really pleased that the Driver & Vehicle Standards Agency (DVSA) has now issued warnings to all car manufacturers over Safety Recalls after the disgraceful attitude towards safety displayed by Vauxhall and BMW in 2018.

Before I get to the meat of this piece do you know what a safety recall is? Briefly, if a car is found to have a problem and the manufacturer, through its harvesting of statistics, finds that the fault appears on a lot of cars of the same model manufactured over a specific period of time, they will find a fix then issue a recall to all the current owners of cars that potentially carry the same fault in order to have the fix applied.

Now, this could be something simple like a boot lid having to be slammed to close or the intermittent wipe on a rear windscreen wiper not functioning. These are called technical recalls and not so critical as the potential for a car to catch light or a gearbox to fail at speed. This type of recall is a safety recall and it is these that the DVSA are tightening up on.

A recall can occur at any time, in the case of the BMW safety recall it applied to cars built between 2007 and 2011 so this isn't restricted to just new or nearly new cars.

This all follows the highly publicised cases of the Vauxhall Zafira model B's that caught light and the BMW's that had an electrical fault caused by a B+ battery connector. Neither Vauxhall nor BMW were prepared to acknowledge the faults until BBC's Watchdog got involved and exposed the problems.

So to start with shame on Vauxhall and BMW. In the case of BMW Narayan Gurung lost his life when he hit a tree trying to avoid a broken down BMW as a result of this known fault. Following the accident BMW recalled 36,000 vehicles, it was only after the Watchdog show that a further 312,000 vehicles were recalled. There are two important points to be made here.

Firstly the faults very rarely apply to all cars so whilst we see that a total of 348,000 cars are recalled it doesn't mean that all the cars have the fault. Having said that, we don't know until the cars are inspected whether the car has the fault or not, so even though you haven't experienced the brake fault or electrical fault that doesn't mean that you shouldn't return your car to a main dealer to have it checked.

If you don't you could be putting yours, your passengers and third party's lives at risk. The new rules imposed on manufacturers by the DVSA means that once a safety-critical fault is known the manufacturers have just 10 days to issue a recall notice or face prosecution and a fine.

DVSA CEO Gareth Llewellyn has made it clear that when the 10-day warning has been issued it will also be made public unless the manufacturer can give a good reason why the recall shouldn't be made. This will put pressure on the manufacturers to take action.

I hope that the DVSA gets tough on manufacturers who seem to take a very casual approach when dealing with life-threatening safety recalls. It should also be pointed out that if a car has a recall notice on it and the driver doesn't have it inspected it could invalidate his insurance. Something that few people are aware of.

If you would like to check the MOT history of your car and whether there are any outstanding recalls you can check online by entering your registration number. Go to:

<https://www.check-mot.service.gov.uk/>

Whilst I believe that there have been suggestions along the lines that recall notices should be checked at the time of the car's MOT test it doesn't cover cars during the first 3 years of a car's life. Maybe that should also apply to those servicing your vehicle, I believe that they should check at the same time.

The Graham Hill Gripes

There are a number of things that get on my nerves and seriously irritate me so I'm going to let rip here in the hope that the miscreants read it and put them right.

Manufacturer Websites

Photographs & Videos

I'm hoping that car manufacturers will read this report, as I have an issue with most of you.

In 2016 CarKeys.co.uk carried out some research into the buying habits of those buying new cars and they found that 97% carried out online research before visiting a showroom. So with this in mind maybe car manufacturers would like to take note of my following gripes.

Firstly, sort your pictures and videos out – you are insulting UK car buyers. In addition to carrying out research there are a growing number of drivers who simply buy their new cars online without even visiting a car showroom and being the second biggest market in Europe, which one assumes makes us pretty important to you, I have a shock for you all – WE DON'T DRIVE LEFT-HAND DRIVE BLOODY CARS!!!!

Go to any manufacturer's website and even the local dealer, who tends to use the manufacturer's website template, and most are displaying left-hand drive cars. I've even suggested to a few that I nip down to the local dealer and take a few pictures with my iPhone of right-hand drive cars for them to upload. None took up my offer!

If we are often spending or financing north of £20,000 on a new motor car surely they can spend a few pounds and upload some right-hand drive pictures so that we can see the layout of the car as it will be when delivered. Look on the Jaguar website and be slapped in the face by the manufacturer who can't be bothered to show right-hand drive cars. XF's and F Paces all left-hand drive. It's a disgrace!

In the same group, Landrover treats customers with similar disdain, even their massively popular Evoque is only shown as a left-hand drive car. Mini is the same as is Honda and VW. Don't you realise that this is a serious insult to your customers?

Equipment

Whilst on the subject of websites can you please make life easier for visitors and show the equipment fitted to models more easily. I have searched for hours on various websites trying to help a customer find out – which model, if any, has a sunroof fitted or heated seats or climate control as opposed to air conditioning. No, I don't want to download a damned eBrochure that is 100 pages long and full of stuff I'm not interested in, including pictures of left-hand drive cars.

Credit Reference Agencies

When I apply for credit the lender has to check my credit status – fair enough, no problem with that, as long as the information they use is accurate – this is where my gripes start!

First of all with UK Consumer debt running at £1.562 trillion (end of October 2017) and with nearly every penny of that having been advanced after accessing credit records, should we rightly assume that the stored data, on which lending decisions are made, be totally accurate and present a consistent and fair picture of our credit history?

In addition, if money is advanced to the wrong people we know, from experience, that economies can collapse, as was seen in 2008. So it's fairly obvious that the data on which lending decisions are made must be incredibly tightly controlled especially given the potential for a financial meltdown if lending goes seriously wrong.

If you think that all stored information is accurate and tightly controlled you would be wrong. That's why I'm so incensed.

First of all, there are 3 credit reference agencies – why? If all the information stored by say Experian is the same as Equifax and Call Credit then why the need for three? Could it

possibly be because each stores different information? Of course, that couldn't possibly be the case, our economy depends on consistency and accuracy – doesn't it?

What a nonsense! Maybe we should do away with the 3 platforms and replace with one controlled by Government as we do with DVLA data held on our cars?

Given the importance of the information stored on the platforms surely there is a legal obligation on all finance providers to record the same information on each platform and store it accurately. Actually – no! There is no obligation on any lender to store anything on the platforms. I've seen credit information on a finance agreement stored by a lender on two platforms and totally missed off the third causing a dramatic difference between credit scores – unbelievable!

You would think that as the vast majority of consumers are not lawyers or accountants that there would be an obligation on all lenders to provide exactly the same information to each credit reference agency and for each agency to present the information in exactly the same way to consumers to make life simple for them – nope! I've spent hours working my way through difficult to read credit reports on the same person from each agency.

In a blatant admission that the system, as it stands, is not fit for purpose this is what they say on the Information Commissions Office website as an FAQ:

Do I have to get my credit report from all three CRAs?

As there is no DPA (Data Protection Act) requirement for lenders to report such data to the credit reference agencies, it is up to the lender to decide which credit reference agency they wish to use, if any.

While we appreciate it is frustrating to have to buy three copies of your credit reference file you may want to consider buying one first as it may be that all accounts appear on there and you won't have to buy the other two. You could ask your lenders which CRAs they use to help narrow this down. You may find that they all use one, or even all of, the CRAs.

If that isn't totally hit and miss I really don't know what is! It needs to be sorted!

There is no link between the platforms. You are told about searches and the effect on your credit score but what you are not told is that when you have searches carried out on just one platform that is the only platform on which the searches show. So if the lenders you've approached use Experian and have recorded 6 searches then you apply for credit to a lender who only uses Equifax they won't see any searches – so what's the point?

Finally, I believe that it is highly dangerous when a platform that is meant to be unbiased and equitable introduces a commercial element by using their own credit scores to offer you finance products such as credit cards and loans. How do you know that they aren't showing a lower score in order to get you into a high APR loan or credit card which no doubt pays them a higher commission? Wouldn't be so bad if all three Credit Reference Agencies (CRA) used the same scoring method and we could see consistency. But they don't

Also, how do we know that the score is correct? There is no transparency. We don't know how the credit score is arrived at. It's a disgrace given the fact that we are making financial decisions based on a cobbled together figure that may or may not include all your data and if it does we don't know how it is used to calculate our credit score.

The whole system needs a total shakeup – it's ridiculous!

Contract Transparency

I recently walked into a main dealer and having had a PCP quote provided I asked for the Contract Terms and Conditions. 'How do you mean?' was the response from the salesman, to which I explained that I needed the terms and conditions to read through, at home, whilst I consider the quotation. Off he scuttled and returned with some sales material explaining the difference between HP and PCP and reasons why I should use their group of dealerships and their in-house finance.

That wasn't what I was looking for and after a quick chat with one of the managers he returned and said, 'Good news, if I can take a few details I can run some mock forms off as we don't normally provide them till you agree to take out the finance.' Dreadful.

I gave a few details and 10 minutes later he returned, not with a full set of documents, but a couple of pages of Pre-Contract Credit Information. Ridiculous, I need to see all the terms and conditions that I'm going to be contracting to well in advance of my application being made.

I asked again and was told that I would get the full terms when I have had finance approved, I can then take away the documents before signing them. That is wrong. If there are terms that I'm not happy with I won't sign the agreement but by then I will have another search on my credit files. I don't want that.

Life would be so much easier if the full terms and conditions were posted on the manufacturer's websites. Why don't they do it? We could all check the terms and conditions, decide if they are suitable and, if confused or have questions, ask about them before wasting both my time and that of the salesman.

The only reason why I can see manufacturers resisting this suggestion would be that other competing manufacturers would be able to see their terms and conditions. I have two answers to that. The first is that they should all be the same in the first place. It might sound crazy but surprise surprise it would make life so much easier for consumers. And the product should be an industry standard anyway.

The second is that if they believe that competitors don't know their contractual conditions they're dreaming. When I was a consultant, working for a contract hire company, we had intelligence on every other provider's terms and conditions. I have no doubt at all that the same applies to PCP providers.

My suggestion to the FCA is to get them all to upload their contract terms and conditions on their websites. This will give customers plenty of time to read and digest all the implications of taking out their finance before they visit the dealer. They can also contact the finance providers with any questions rather than deal with dealers who may not be as aware of the terms and conditions as the providers and end up guessing.

Leaving it till after customers have seen and decided that they want a car in the showroom takes away much of the objectivity when it comes to the finance agreement. Heart leading the head and all that. But then could that be the reason why they don't already do it?

It seems bizarre that when they offer free insurance they have to post all the policy details on the website – why shouldn't the same rule apply to the much more important finance agreement?

Over to you FCA!

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