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Personal Contract Purchase (PCP)

What is PCP?

A Personal Contract Plan is a method of buying goods (e.g. a car) through a pre-agreed fixed term finance agreement with part of the cost left to pay at the end of the agreement (an optional final payment).

You might get lower monthly repayments or a shorter period of repayment. However, you will pay more interest on a PCP plan than a HP plan for the same loan amount, term and APR. This is because you're paying back less on the amount you owe - due to the optional final payment.

How it works

Once all the repayments are paid (including the optional final payment and any fees such as damage and excess mileage charges), the car becomes your property. This means you pay the difference between the car's sale value and its minimum worth at the end of the period.

The optional final payment is calculated based upon your usage of the vehicle and the future value. Your repayments are based upon the price of your car, less any deposit and the optional final payment, plus interest charges and any fees.

It's important to note that due to market conditions, the car may not be worth more than the optional final payment at the end of the agreement – this will affect the deposit available to buy your next car and subsequent monthly repayments.

It's important that you accurately predict your mileage over the term, as any additional mileage is subject to an excess mileage charge.

At the end of your plan

You have three options at the end of the agreement.

Renew: You can part-exchange your car at a dealership and start over again. If the car's worth more than the optional final payment, you can use the difference as a deposit.
Any new finance application is subject to status

Retain ownership: If you'd prefer to keep your car, you'll need to pay the optional final payment in full – and an option to purchase fee. Some finance providers will allow this value to be refinanced at the current interest rate. Any new finance application is subject to status

Return: If your circumstances have changed, you can hand the car back to the dealer. This is subject to mileage and condition (excess mileage charges may apply).

What are the benefits of PCP?

- Fixed regular payments
- At the end of the agreement, you can decide if you want to keep the car
- Variable deposits and periods are available (usually between 2 to 4 years)
- You can exercise your legal rights and voluntary terminate the finance agreement – you would need to pay the difference between the current balance and total amount payable and simply hand the car back to the finance company (a 'Fair Wear & Tear' clause may apply)
- You have satisfactory quality rights (under the Consumer Credit Act). The credit provider may be liable for putting things right providing the cash price was less than £30,000
- You can pay extra amounts during the agreement and have the interest recalculated – to lower your monthly repayments

What risks are there with PCP?

- A significant proportion of the credit is left to pay until the end of the period – this will need to be repaid if you decide to own the car
- The interest on the final payment is calculated differently to the body of the credit as no capital is reducing
- The car's resale value may not be worth more than the Optional Final Payment – meaning your deposit may be reduced for your next car. You should therefore prepare for potential higher future repayments
- A 'Fair Wear & Tear' clause will apply if the car is returned at any time
- You do not own the car outright until the final payment is made
- The car is at risk of repossession if you don't pay the contractual repayments
- Agreed mileage limits are imposed at inception
- Excess mileage charges apply

- You must have Fully Comprehensive insurance throughout the term of the agreement
- You must not sublease or rent the car to a third party
- There may be usage restrictions on the car during the term of the agreement
- Charges may apply for late payments or to alter the repayment date (these are detailed in the Pre-Contract Credit Information)
- Any outstanding finance must be settled if the car’s sold