

FINANCE YOUR CAR



HOW DO I FINANCE MY CAR?

In most cases, people would look for a loan to finance the purchase of a car. This loan is more commonly known as a hire purchase or HP loan.

If you take on a HP loan, you become the hirer while the financier is the owner. As the hirer, you will have to pay installments to the financier based on an agreed duration while using the car. When all installments are paid up, the ownership of the car is transferred to you.

HOW MUCH CAN I AFFORD?

Interest rate on a car loan is normally computed on a flat rate basis. Under the Hire Purchase Act 1967, the term charges or interest rate should not exceed 10% per annum. Term charges are calculated on principal amount financed over the entire hire purchase tenure.

Car price = RM50,000
Down payment @ 10% = RM5,000
HP loan amount = RM45,000
HP rate (flat rate) = 5% p.a.
Loan tenure = 5 years (60 months)
Computation:

Total interest charged
= Loan amount x Rate x Years
= RM45,000 x 5% x 5 = RM11,250
Total loan + Interest = RM45,000 + RM11,250 = RM56,250
Monthly installment = RM56,250 ÷ 60 months = RM938

Here the car installment is RM938 per month. To gauge if you can afford the installment, use this formula to derive the minimum monthly income you will need. This minimum monthly income computation assumes that you do not have any

other installments.

If you have other loans, your total monthly loan repayments should not exceed 40% of your gross monthly income.

Gross monthly income
= Monthly car installment ÷ 40%
= RM938 ÷ 40% = RM2,345

With a salary of RM2,345 and no other loan commitments, you should be able to afford the installments. You then need to also consider the associated expenses illustrated below.

FIXED COST	RM/MONTH	NOTES
Installment (rounded)	938	RM45K @ 5% for 5 years
Insurance	125	RM1,500 p.a./12 months
Road Tax	8	RM90 p.a./12 months
Sub-total	1,071	
Variable cost		
Petrol	225	Assuming RM0.15/km x 50km/day x 30 days
Service & Maintenance	100	Based on estimate
Parking/Toll etc	100	Based on estimate
Sub-total	425	
TOTAL	1,496	

Therefore the monthly cost of owning the car is much more than the installment of RM938.

HOW MUCH AM I ACTUALLY CHARGED?

Hire purchase loans are generally quoted on a flat rate basis, which makes it more expensive than it really is. Take for example, the earlier case where the hire purchase interest rate is 5% p.a. but the effective rate works out to 9.55% p.a.!

This happens because interest is charged upfront on the principal loan amount (RM45,000) over the entire loan period (5 years). A flat rate calculation does not consider the monthly repayments as reducing the principal amount.

Thus it is advisable to keep the tenure to not more than 5 years. If you take a longer tenure and when you want to change your car, you

may find that the loan outstanding is more than the value of the car. If you cannot afford the installments, put a larger down payment or buy a less expensive car.

EARLY SETTLEMENT

Early settlement of the loan will entitle you to a rebate on the interest. This is calculated using the 'Rule of 78' formula where the bulk of the interest is charged in the initial years of the loan. However, there could be a fee or penalty charged (as stated in the loan agreement) if the loan is

repaid early.

If you decide to sell your car during the existing tenure of the HP, you need to:

- check your redemption or outstanding amount with your financier
- check the market value of your car to see that it is of fair value
- be prepared to settle the difference, if any, before you proceed with the sale/transfer - *Agensi Kaunseling Dan Pengurusan Kredit*

