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Overview

A logbook loan is a loan secured on your vehicle, meaning that the lender owns your vehicle until you have repaid the loan. You are able to carry on using your vehicle providing you keep paying the loan. If you don't, your vehicle can be taken away and sold. Logbook loans tend to be very expensive and pose a risk, therefore you should avoid them if you can. It is recommended that you seek free, independent and impartial debt advice first before making the decision to get one.

Logbook loans are available in England, Wales and Northern Ireland only (not Scotland). If you're offered a loan in Scotland, it's likely to be a hire-purchase or a conditional sale agreement, you should therefore examine any agreement carefully to check what is involved and how it works.

How does the loan work?

Logbook loans are normally available on the high street and also the internet. The amount you can borrow depends on the value of your vehicle but usually between £500.00 and £50,000.00, and some lenders may only lend you up to half the value of your vehicle. The typical Annual Percentage Rates (APRs) are 400% or higher and there is an expectation to repay within 78 weeks for a lot of

logbook loans.

Ownership

When you obtain a logbook loan you will be asked to sign two separate agreements. The first is a personal loan, regulated by the Consumer Credit Act, this details how much you borrow and how the loan is to be repaid. The second is a 'bill of sale', which transfers the legal ownership of your vehicle to the lender until the last payment on the loan is made. You are then normally asked to hand over your logbook (vehicle registration document), even if you don't the lender will still retain ownership until you have cleared the loan.

A bill of sale and the law

The law only recognises a bill of sale if it has been properly registered in the High Court. If the lender has not registered it, they must get approval from the court before they can repossess it.

The lender must register the bill of sale within seven days of the agreement being made or it will not be valid. If the loan term is longer than five years, the bill of sale must be re-registered every five years to remain valid. You are able to check if a bill of sale has been registered by making a written application to the Royal Courts of Justice in London. However, there is usually a fee to pay.

Money transfers

The majority of lenders will transfer the money into your account using electronic payments and some will offer a quick cash transfer service, but this usually attracts charges of up to 4% of the loan for this service.

Paying back the loan

Some agreements ask you to repay the whole of the amount you borrowed in the final month of your contract and the payments prior to this will cover the interest only. As logbook loans attract an exceptional amount of interest you could end up paying thousands more than what the actual value of your vehicle is.



What happens if I sell the vehicle?

You will be breaking the law if you sell the vehicle and you haven't made the last payment as you are not the legal owner. If you do sell, criminal action is likely to be made against you by the lender (the legal owner).

In addition to this, the lender has the legal right to repossess the vehicle from the person you sold it

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to, who in turn can take you to court to recover their money.

HPI Index

This is a database which records all logbook loans, which a buyer can check first. Visit www.hpi.co.uk/



Getting into arrears

It is essential to seek debt advice early if you cannot afford the repayments. If you have fallen behind, the lender will contact you initially and if you receive a 'default notice' you will be required to pay the arrears within 14 days to get the agreement back on track. If you don't clear the arrears, the agreement will default and this is likely to lead to repossession of the vehicle, which in addition will incur more costs. Logbook loan lenders may employ bailiffs to seize your vehicle if you have defaulted on your agreement. Although most lenders will wait until you have fallen behind with several repayments.



Repossession

Once the logbook loan has defaulted, the lender must wait a minimum of five days before the vehicle can be repossessed. The lender does not need to get permission from the court to do this either. Normally the vehicle will be towed away, and as there is no time limit that they have to adhere to, it can be late at night or early in the morning. The costs for removal will be added to your debt.

Auction of your vehicle

Once your vehicle has been repossessed the logbook loan company will auction it and if the sale price is not enough to cover the full amount of the debt you owe, you will remain liable for the shortfall. If the vehicle is auctioned for more than the amount you owe, the difference must be paid back to you.

Shortfall debt

At this stage as the vehicle has already been repossessed, any sums of money still owing to the lender are treated as a non-priority debt, which means you can offer to pay the debt back in instalments at a rate affordable to you. You should seek help in drawing up a budget plan, especially if you have other debt too. There may be alternative debt solutions available to you.



Summary and further information

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- Your vehicle is likely to be repossessed if you can't make the repayments to the loan company
- A logbook loan agreement does not give you the same consumer protections in comparison to a hire purchase agreement
- The interest on a logbook loan is much more expensive than an unsecured loan from a mainstream lender, making it much harder to pay back what you owe
- The APR can be excessively high, so if possible the loan needs to be paid relatively quickly
- You may be subjected to extra charges on early repayment if you repay more than £8,000 in any 12-month period
- You may be required to make payments weekly and some companies do not take Direct Debit
- The lender must provide you with a 'statement of account', when asked, telling you what you have paid and how much you owe
- The amount you borrow will depend on the value of your vehicle. A reputable lender will ask you to get the vehicle independently valued
- If you already have existing finance against your vehicle you might still be able to get a logbook loan. The lender will normally only agree to this if the existing agreement is coming to an end. You will also need to get permission from your existing lender first

Code of practice

Most logbook loan companies have signed up to a code of practice produced by the Consumer Credit Trade Association (CCTA). If you have chosen to obtain a logbook loan you should research first to see if the lender has signed up to this code of practice.

The code offers extra protection for consumers, which the lender will need to consider on a case by case basis. This includes:

- They must consider reducing your loan payments when your circumstances change
- They must let you hand the vehicle back at any time to settle the debt if you can no longer afford to pay for it
- Your vehicle can only be repossessed as a last resort
- The lender must allow you two weeks after repossession to pay off the outstanding debt and get your vehicle back

Any logbook loan company displaying the CCTA logo, must follow this code. If they don't, you can make a complaint to the CCTA.

Visit www.ccta.co.uk for further information, a complaint form and a copy of the code of practice.

If you are not satisfied with the response a further complaint can be made to the Financial

Ombudsman Service (Visit: www.financial-ombudsman.org.uk).

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