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Lenders may be adversely affected by little-known law as they will have little recourse if borrowers default on loans

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BODY:

IF YOU bought a car that cost \$80,000 or less in the past 18 months and put less than \$8,000 down for it, your hire purchase contract is likely to be void.

According to industry estimates, as many as 10,000 new vehicles have been sold 'illegally' since January last year because of a little-known law which requires a 10 per cent down payment be made even though vehicle loans have been deregulated.

The Hire Purchase Act, which governs the sale of motor vehicles with a price tag of up to \$55,000 without certificate of entitlement, stipulates this.

But going by how common \$1 or zero down payment deals have become since the Monetary Authority of Singapore (MAS) removed the 70 per cent cap on car loans last January, several thousand hire purchase contracts may not be 'enforceable'.

About 75,000 new cars sold in the past 18 months fall within the ambit of the Hire Purchase Act, as do an undetermined number of commercial vehicles, motorcycles and used cars.

Managing partner at law firm **Parwani & Co**, Mr Vijai **Parwani**, said unless such loans were made with at least a 10 per cent payment upfront, 'the hire purchase agreement may not be enforceable'.

A lawyer at legal firm Myintsoe & Selvaraj, Mr Deepak Raja, said: 'This minimum deposit rule... was of little concern in the past because, then, the MAS stipulated a 30 per cent minimum deposit.'

He added that 'all those who have paid less than 10 per cent of the cash price should know their hire purchase contract is really void'.

However, the rule does not have any real effect on the vehicle buyer, other than that he may have difficulty reselling it to a legally savvy person.

It is the lender who may be affected adversely. Should the borrower default on his loan, the financial institution has little recourse to recover the balance it is owed. Even repossessing the vehicle is unlikely to allow it to recoup the outstanding loan.

Mr Raja said: 'I know of a case where the lender tried to sue the buyer for defaulting on his payments, but backed down when it was pointed out that the vehicle was bought with less than a 10 per cent down payment.'

While the Government is expected to do away with the 10 per cent requirement when it revises the 35-year-old Hire Purchase Act in the next month or two, the change will not be retroactive. All void contracts will remain so.

Another proposed change to the Act, which is administered by the Ministry of Trade and Industry (MTI), concerns the controversial Rule of 78, which is a method of calculating the interest rebate due to a borrower when he settles his loan earlier than scheduled.


The method has been outlawed in the United States and is under review in many other countries, as it has been deemed unfair to consumers.

An MTI spokesman said amendments to the Hire Purchase Act, including the formula used to compute the statutory rebate for early settlement, will be tabled in Parliament before year's end.

With the change, industry sources expect banks to put in place other forms of early-settlement 'penalties'.

It is believed such penalties contribute significantly to the vehicle-loans revenue of banks and finance houses.

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