

## LENGTH OF HIRE PURCHASE CONTRACTS FOR VEHICLES

One aspect of hire purchase about which little has hitherto been known is the length of time that contracts are outstanding. The maximum length of contract has in post-war years nearly always been limited by official controls. Agreements can, however, be taken out for shorter periods; and whatever their intended length, they may be completed before the due date (as may happen, for instance, when a purchaser of a car decides to trade it in for another) or even after it. The completion of a hire purchase contract releases part of a consumer's resources for other purposes, which may include taking out a new contract. So the timing of completions may have an appreciable effect on further purchases of cars and other consumer durable goods.

The need for more information, on these and related matters, to help economic forecasting led to a series of visits by the Bank of England to some leading hire purchase finance companies late in 1962 and early in 1963. As a result it was arranged, with the helpful co-operation of all finance companies, that information about the length of contracts for vehicles should be made available through Hire Purchase Information Ltd., the industry's central registry of vehicles subject to hire purchase agreements. The new information, which is available from April 1963, is being analysed jointly by Hire Purchase Information Ltd. and the Bank. These arrangements and the early findings will be described in more detail in the March 1964 issue of *Credit*, the quarterly review of the Finance Houses Association.<sup>(a)</sup>

These findings deal with the period April to September 1963 and are necessarily tentative, not only because the period is a short one but also because it covers the peak of a particularly good selling season for cars, following the reduction of purchase tax from 45% to 25% in the previous November. Subject to that, the main points that emerge can be summarised as follows:

(i) many more contracts were taken out

than completed during this period, adding about 7% to the total number outstanding;

(ii) most contracts taken out were for two or three years, with less than one-quarter for shorter periods; three-year contracts were more common for new cars and commercial vehicles than for used; for all vehicles together the average length was about twenty-seven months;

(iii) contracts being completed (whether on time, early or late) had, on average, run about eight months less than this; their age distribution was still being affected by the reimposition of official terms control in April 1960 and its relaxation in January 1961; and

(iv) one-half or more of contracts were completed early, about one-third were on time and one-tenth or more were late.

The analysis of early and late completions cannot be refined further until the new system has been operating longer; and it is too early to reach any firm conclusions about what they imply. Nevertheless, the small proportion of contracts completed on time does suggest that the actual pattern of completions is likely to be linked only loosely with the new contracts taken out in earlier periods. An example from recent years may help to illustrate this. It is probable that in 1962 a particularly large number of contracts for cars were due to be completed—if they ran for their full course—because many three-year contracts dating from 1959 and many two-year contracts dating from April 1960 onwards (after terms control was reimposed) would then reach their final maturity dates. There seemed in consequence to be grounds for expecting, in 1962, a sharp rise in new credit extended; but this did not occur. One among a number of possible reasons may have been that the actual pattern of completions was not so heavily concentrated in 1962 as had appeared likely, because of a spread of early and late terminations somewhat similar to that shown in April to September 1963.

<sup>(a)</sup> Copies of the article in *Credit* will be available from the Association, 14, Queen Anne's Gate, London, S.W.1.