

HIRE PURCHASE AGREEMENT

Hire Purchase is defined as **an agreement in which the owner of the assets lets them on hire for regular installments paid by the hirer.** The hirer has the option to purchase and own the asset once all the agreed payments have been made. These periodic payments also include an interest component paid towards the use of the asset apart from the asset's price.

Hire purchase agreements are used as an arrangement when purchasing expensive goods or services. The purchaser will pay the initial installment or down payment at the beginning, followed by additional payments in the future to pay off the remaining balance of the good, plus interest.

In other words, it can be defined as an option of financing or acquiring an asset for use whereby the financing company lets the goods on hire to the buyer against small installments called hire charges. Hire purchase was very prominent for vehicle financing, whether a personal car, commercial vehicle, etc., but now equipment, machinery, etc., are also financed with hire purchase method.

FEATURES	<ul style="list-style-type: none">➤ Rental payments in instalments➤ Each rental payment considered as charge for hiring the asset.➤ Hire-Purchase agreement contains terms and conditions➤ Frequency of the installments as per terms agreed.➤ Asset instantly delivered to the purchaser.	<ul style="list-style-type: none">➤ Assets are passed to him after the last installment is paid.➤ The hirer cannot pledge, sell or mortgage the assets as he is not the owner of the assets till the last payment is made.➤ Hirer can terminate the agreement any time before the ownership rights pass to him.
	ADVANTAGES	DISADVANTAGES
<ol style="list-style-type: none">1. Immediate use without payment of entire price2. Best for purchase of expensive assets3. Fixed instalments makes budgeting easier.4. No obligation to buy the asset.	<ol style="list-style-type: none">1. Total amount paid could be much higher than the cost of the asset due to substantially high-interest rates.2. Long Duration3. Ownership at the end of the agreement4. May result in penalty if asset not needed and agreement terminated.	

Following are the features of a regular hire purchase transaction:

- Rental payments are paid in installments over the period of the agreement.
- Each rental payment is considered as a charge for hiring the asset. This means that if the hirer defaults on any payment, the seller has all the rights to take back the assets.
- All the required terms and conditions between both the parties involved are documented in a contract called a Hire-Purchase agreement.
- The frequency of the installments may be annual, half-yearly, quarterly, monthly, etc., according to the terms of the agreement.

- Assets are instantly delivered to the hirer as soon as the agreement is signed.
- If the hirer uses the option to purchase, the assets are passed to him after the last installment is paid.
- If the hirer does not want to own the asset, he can return the assets at any time and is not required to pay any installment that falls due after the return.
- However, once the hirer returns the assets, he cannot claim back any payments already paid as they are the charges towards the hire and use of the assets.
- The hirer cannot pledge, sell or mortgage the assets as he is not the owner of the assets till the last payment is made.
- The hirer usually pays a certain amount as an initial deposit/down payment while signing the agreement.
- Generally, the hirer can terminate the hire purchase agreement any time before the ownership rights pass to him.



Characteristics	Leasing	Hire purchasing
ownership	With the finance company, the lessor	It is transferred to the hirer on the payment of the last installment
Depreciation	Lessor, and not the lessee is entitled to claim depreciation tax shield	The hirer is entitled to claim depreciation tax shield
Capitalization	Done in the books of lessor	Done in the books of hirer
Payments	The entire lease payments are eligible for tax computation in the books of lessee	Only the hire interest is eligible for tax computation in the books of hirer
Magnitude	Used as a source of finance, usually for acquiring high cost assets such as machinery, ships etc	Used as a source of finance, usually for acquiring low cost assets such as automobiles, office equipments etc
Maintenance of asset	Lessee in case of financial, Upkeep is the responsibility of the lessor in the case of operating lease	It is the hirer's responsibility to ensure the maintenance of the asset bought
Nature of asset	Asset- as a fixed asset of the lessor	Shows the asset either as a stock in trade or as receivables
Down payment	No down payment required	It is required

Forms of Hire Purchase Agreements

Hire-purchase agreements are of two forms-

1. In the first form the goods are purchased by the financier from the dealer and
 - the financier obtains a hire-purchase agreement from the customer,
 - under which the customer becomes the owner of the goods
 - on payment of all the installments of the stipulated hire and exercising his option to purchase the goods on payment of a nominal price.
 - The owner gets his money from the financier, who recovers the cost from the customer.
2. In other form

- the customer purchases the goods and he executes a hire-purchase agreement with a financier,
- under which he remains in possession of goods, subject to payment of amount paid by the financier on his behalf to the owner.
- The financier gets a right to seize the goods in the event of non-fulfillment of conditions of hire-purchase agreement by the customer.