

Problems & Prospects of Hire Purchase in India



Finance

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ABSTRACT

A 'hire-purchase transaction' has been defined as "a system of financing where goods are bought by putting down a deposit and then periodically paying off the balance of the purchase price plus interest". The process involves the drafting and signing of an agreement between the hirer (the consumer) and the owner (the lending institution). The process of hire-purchase financing has become an alternative option for consumers who want to buy large and expensive items which may otherwise be difficult to afford. The transactions allow the buyer to pay for items without cashing in investments or savings, and to spread the cost of expensive items over an extended period. In such transactions ownership of goods is transferred to a finance company at a discounted price, and the company hires out and then sells those goods to the buyer.

INTRODUCTION

The British concept of hire-purchase is there in India for more than 6 decades. The first hire-purchase company is believed to be Commercial Credit Corporation, successor to Auto Supply Company. It was based in Madras, Motor and General Finance and Installment Supply Company were set up in North India. These companies were set up in the 1920s and 1930s.

Development of Hire-purchase took two forms: consumer durables and automobiles.

Consumer durables hire-purchase was promoted by the dealers in the respective equipment. Thus, Singer Sewing Machine Company, or Murphy radio dealers provide installment facilities on hire-purchase basis to the customers of their products.

The other side developed very fast - hire-purchase of commercial vehicles. The dealers in commercial vehicles as well as pure financing companies sprang up.

CONCEPT

In a hire-purchase transaction, assets are let on hire, the price is to be paid in installments and hirer is allowed an option to purchase the goods by paying all the installments. A Hire Purchase agreement usually requires the customer to pay an initial deposit, with the remainder of the balance, plus interest, paid over an agreed period of time.

Under hire purchase agreement, you:

1. purchase goods through installment payments
2. use the goods while paying for them
3. Do not own the goods until you have paid the final installment

• RIGHTS OF THE HIRER

The hirer usually has the following rights:

1. To buy the goods at any time by giving notice to the owner and paying the balance of the HP price less a rebate
2. To return the goods to the owner — this is subject to the payment of a penalty.
3. With the consent of the owner, to assign both the benefit and the burden of the contract to a third person.
4. Where the owner wrongfully repossesses the goods, either to recover the goods plus damages for loss of quiet possession or to damages representing the value of the goods lost.

Additional rights-

1. Rights of protection
2. Rights of notice
3. Rights of repossession
4. Rights of Statement
5. Rights of excess amount

OBLIGATIONS OF HIRER

The hirer usually has following obligations:

1. To pay hire installments,
2. To take reasonable care of the goods
3. To inform the owner where goods will be kept.

OWNER'S RIGHTS

The owner usually has the right to terminate agreement where hirer defaults in paying the installments or breaches any of the other terms in agreement.

This entitles the owner:

1. To forfeit the deposit.
2. To retain the installments already paid and recover the balance due.
3. To repossess the goods (which may have to be by application to a Court depending on the nature of the goods and the percentage of the total price paid.
4. To claim damages for any loss suffered

FEATURES OF HIRE PURCHASE

1. The entire interest that is accumulated by the hiree is distributed. This distribution is done on the basis of method sum of the years digits.
2. The counterpart of the lesser or the hiree buys a particular property. He then provides the hirer or the counterpart of the lesser the proper Features of Hire Purchase Agreement:
3. The hiree usually takes a flat rate of interest. This means that a specified portion of the interest rate is calculated on the basis of the investment made at the beginning by the hirer.

ADVANTAGES:

1. Spread the cost of finance – Whilst choosing to pay in cash is preferable, a hire purchase agreement allows a consumer to make monthly repayments over a pre-specified period of time;

2. Interest-free credit – Some merchants offer customers the opportunity to pay for goods and services on interest free credit.

3. Higher acceptance rates – The rate of acceptance on hire purchase agreements is higher than other forms of unsecured borrowing because the lenders have collateral.

4. Sales – A hire purchase agreement allows a consumer to purchase sale items when they aren't in a position to pay in cash.

5. Debt solutions - Consumers that buy on credit can pursue a debt solution, such as debt management plan, should they experience money problems further down the line.

DISADVANTAGES

1. Personal debt - A hire purchase agreement is yet another form of personal debt it is monthly repayment commitment that needs to be paid each month;

2. Final payment - A consumer doesn't have legitimate title to the goods until the final monthly repayment has been made;

3. Bad credit - All hire purchase agreements will involve a credit check. Consumers that have a bad credit rating will either be turned down or will be asked to pay a high interest rate;

4. Creditor harassment - Opting to buy on credit can create money problems should a family experience a change of personal circumstances;

5. Repossession rights - A seller is entitled to 'snatch back' any goods when less than a third of the amount has been paid back.

CONTENTS OF HIRE PURCHASE

According to the Act, every hire-purchase agreement includes:

1. The Hire-Purchase price of the goods to which the agreement relates.
2. The cash price the goods, i.e., the price at which the goods may be purchased by the hirer for cash.
3. The date on which the agreement will deemed to have commenced.
4. The number of installments by which the hire-purchase price is to be paid, the amount of each of those installment, and the date, or the mode of determining the date, upon which it is payable, the person to whom and the place where it is payable.
5. The goods to which the agreement relates, in a manner sufficient to identify them.

ANALYSIS OF HIRE PURCHASE

TB-1 AWARENESS OF HIRE PURCHASE IN INDIA

ALTERNATIVES	PERCENTAGE OF POPULATION (40%)
LOAN FACILITIES	20%
LEASE FACILITIES	5%
HIRE PURCHASE	5%
HYPOTHICATION LOAN	10%

Interpretation- It can be analyzed that the awareness of hire purchase transaction for assets are very less. As per the table given above only 5% population is aware of the hire purchase. They treat hire purchase as hypothecation loan transaction.

TB2-NEED OF HIRE PURCHASES

NEED OF FACILITIES	PERCENTAGES (40%)
To get the benefit of the business	15%
To hire the good assets	10%
To take the good knowledge	5%
To get the benefit of ITR	10%

Interpretation It can be analyzed that the need of hire purchase is very high in case of getting good benefit in business regarding tax relaxation and very less in case of taking good knowledge.

HYPOTHESIS

TB3- HIRE PURCHASE TRANSACTION:-

factors	mean	Stdev	Ztab	Zcal	Accept/reject
Awareness	2.3050	1.0546	1.645	-9.3288	accepted

Service Provider	2.728813	1.14214	1.645	-3.368	accepted
Professional Mgt.	2.9322	1.28471	1.645	-0.7466	accepted
Risk Profile	2.81355	1.18138	1.645	-2.233	accepted
Past Performance	2.91525	0.97003	1.645	-1.2379	accepted

The hypothesis was done on the basis of above mentioned factors as awareness, service provider, and professional mgt., risk profile & past performance. All areas were duly filled & acceptable with negligible errors.

FINDINGS

Information collected from bank

- They showed us the format of accounting treatments for hire purchases. Generally they keep three accounts when transactions take place. They are saving accounts, hirer a/c, & bank a/c.
- It is not mandatory that the person must have the individual a/c in that particular bank from where he/she is taking services
- The hire purchase is of two types the c.c. limit transactions & hypothecations
- The bank plays a vital role on primary level for these kinds of transactions.
- They are working as a surety among two parties. Here bank will come under the purview of risk adverse individual entity.
- The bank creates a systematic risk in these transactions so we have calculated Beta.
- The hire purchase transaction is very uncommon in India in perspective of assets hire but in target market they have covered the aspect of c.c. transactions.
- The credit transactions & the hire purchase are different from each other. We have to pay the initial amount upto 25% of the cost price. Where in incase of loan we get the possession of assets even if we are not paying any single amount. So this is the major difference between them. If we take the point interest into consideration than in case of loan we have pay the principal & int. amounts in every year. But there is nothing as such in case of (H.P) the account will be renewed by bank every year & we have to pay the additional amount to compensate the depreciation.
- If the parties to the transaction are from outside than we have to take the help of credit note & letter of credit.
- The people who want to acquire the assets have to give the project report which covers the maximum aspects of cost statements to know the position of the firm under which it dealt with.
- The ratio of problems faced is very high in getting reliable informations.

CONCLUSIONS

Hire purchase transactions are very uncommon transactions in India. Meaning there by the awareness of this concept is very lesser in India. All segment of India's population treat the hire purchase transaction as a hypothecation loan but there is a slight differentiation among all processes related to hire purchases. Almost for the population of India the hire purchase transaction is very similar to the loans & hypothecation. Meaning there by person who wants to purchase any asset then the best option & way for him or her would be loan or hypothecation. Why? Because the public is not aware with transaction named hire purchases. Hire purchase transaction is of two types the cash credit & asset hire purchases. People do not go for hire purchases in India because in India business people are very less so they can not hire the assets for a longer period of time.

Finally, we would like to end up over here that, lack of awareness leads to occurrence of problem in dealing with hire purchase transactions easily.

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