

Hire Purchase System

Hire Purchase System

Meaning of Hire Purchase System:

- In a hire purchase system, goods are delivered to the purchaser immediately upon signing the agreement.
- The purchaser, referred to as the 'Hire Purchaser', pays the purchase price in periodic installments.
- These installments can be monthly, quarterly, half-yearly, or yearly, depending on the agreement.
- Each installment is considered a hire charge until the final installment is paid.
- Once the final payment is made, ownership of the goods transfers from the seller (the 'Hire Vendor') to the buyer.
- If the buyer defaults on even the last installment, the seller can repossess the goods and keep the payments made as hire charges.

Characteristics or Legal Provisions of Hire-Purchase System:

Right to Use the Goods:

Upon signing the agreement, the hire-purchaser receives possession of the goods and is entitled to use them.

Payment in Installments:

- According to Section 3 of the relevant Act, the hire purchase agreement must be in writing and signed by the involved parties.
- The agreement must specify:
  - The hire purchase price of the goods
  - The cash price of the goods
  - The date of commencement of the agreement
  - The number and amount of installments

Ownership of Goods:

Possession of goods is delivered to the hire purchaser at the signing of the agreement, but ownership does not transfer until the final installment is paid.

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**Right of the Hirer to Purchase with Rebate:**

The hire purchaser has the right to purchase the goods by giving a 14-day notice to the owner.

**Instalment Payment System**

**Meaning of Instalment Payment System:**

In this system, both ownership and possession of the goods transfer to the buyer immediately when the contract is signed, even though the purchase price is paid in installments. If the buyer defaults on any installment, the seller cannot repossess the goods; the seller's only recourse is to sue the buyer for the unpaid balance.

**Characteristics of the Instalment Payment System:**

**Contract of Sale:**

It is a credit sale agreement, where the goods are sold on credit, with payment to be made in installments.

**Transfer of Ownership:**

Ownership of the goods transfers from the seller to the buyer as soon as the contract is signed, regardless of whether all installments have been paid.

**Default in Payment of Installments:**

If the buyer defaults on an installment, the seller cannot repossess the goods. The seller's only option is to sue for the unpaid balance and any applicable interest.

**Key Differences Between Hire Purchase System and Instalment Payment System:**

**Transfer of Ownership:**

- In a hire purchase system, ownership transfers after the final installment is paid.
- In an installment payment system, ownership transfers immediately when the contract is signed.

**Repossession of Goods:**

- In a hire purchase system, the seller can repossess the goods if the buyer defaults on payment.

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- In an installment payment system, the seller cannot repossess the goods; they can only sue for the unpaid balance.

Nature of Agreement:

- Hire purchase is essentially a lease agreement until the final payment is made.
- The installment payment system is a credit sale agreement where the buyer becomes the owner immediately.

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