

Hire Purchase and Installment Payment System

Hire Purchase System:

Under the Hire Purchase System the customer (Hire Purchaser) obtains possession of the goods at the outset and can use it, while paying for it by installments over an agreed period of time.

However, the ownership of the goods remains with The seller (Hire Vendor) until the hire purchaser has made all the payments. Each installment paid by the hire purchaser is considered as hire charging for using the asset.

If he (hire purchaser) fails to pay any of the installments (even the last one) the hire vendor will take back his goods without compensating the buyer i.e., the hire vendor is not going to pay back a part or whole of the amount received through installments from the buyer.

Installment Payment System:

It is a system of credit sale in which payments are made in installment over a period of time, under this system buyer gets the possession and also ownership of the goods right at the time of signing the agreement. If the buyer defaults, the seller cannot repossesses the goods but he can sue the buyer for the amount due

Difference between Hire Purchase and Installment System –

(1) Nature of Contract

- Hire Purchase System: It is a hiring goods agreement. System of buying goods by making regular payments until the full price is paid.
- Installment System: It is an agreement of sale. System of credit sale in which a sum of money or debt is paid regularly in installment.

(2) Ownership

- Hire Purchase System: Ownership of goods is transferred after the payment of the final installment. Ownership of goods remains with the seller until the full price is paid
- Installment System: Ownership of the goods passes to the buyer just signing the agreement. Ownership is transferred immediately after the first installment

(3) Right

- Hire Purchase System: The buyer can not sell, destroy or transfer the goods.
- Installment System: The buyer can sell, destroy or mortgage or transfer as his/her wish.

(4) Risk

- Hire Purchase System: All the risks are borne by the vendor before the payment of the final installment.
- Installment System: All the risks are to be borne by the buyer from the date of the agreement.

(5) Right of Return

- Hire Purchase System: The buyer can return the goods before making the final installment. Goods can be returned to the seller before the final installment.
- Installment System: The buyer can not return the goods to the seller.

(6) Repair and Maintenance

- Hire Purchase System: The liability of repair and maintenance lies with the seller-provided that the buyer takes the utmost good care.
- Installment System: The buyer is responsible for repair and maintenance. Goods cannot be returned.

(7) Forfeiture of Installment Paid

- Hire Purchase System: In case of default in payment of installment, paid installment will be forfeited and treated as hire charges.
- Installment System: The act of forfeiture can not be activated.

Conclusion

In essence, the hire purchase system is suitable for buyers who need the asset for a short period or are not sure of long term needs.