The Solution Loans Guide to Logbook Loans

Just as secured loans - often referred to as second mortgages or second charges - are guaranteed by a borrower's home, so logbook loans are secured on a borrower's vehicle, be that a car, van or motorbike. This means that the lender owns the borrower's vehicle until the loan is fully repaid although he or she can continue to use the vehicle in the meantime. When the loan is repaid, the borrower owns the vehicle again.

The maximum loan amount available varies considerably between lenders but in all cases will be limited by the market value of the vehicle. The amount available varies between £200 and £75,000 according to what the vehicle is worth and, generally, lenders will lend between 50 and 100% of its value.

How do Logbook Loans work?

Although there is not a credit check for a logbook loan, a lender will assess a borrower on affordability criteria. It will also want to examine the vehicle that is being put forward as security either at one of its branches or during a home visit.

When you are accepted for a logbook loan, the lender will take possession of your vehicle's logbook or V5 - the document that names you as the registered keeper of the vehicle. As well as signing the usual credit agreement, the borrower will also have to sign a bill of sale form that transfers ownership of the vehicle to the lender on a temporary basis. This does not affect who uses the vehicle or a borrower's insurance and he or she can continue to drive it as normal so long as the repayment schedule is adhered to. Bill of sale documents are legally binding in England, Wales and Northern Ireland although they are not used in Scotland.

Like other forms of credit, should you fail to keep up with repayments, you'll be served with a default notice by the lender which will give you a chance to put the matter right. If you fail to satisfy the default notice, then the lender will be able to take possession of the vehicle and sell it to cover the outstanding loan. A bill of sale is only legally binding if it is registered with the High Court so a lender will have to apply to another court to take possession of the vehicle if it is not. Most logbook loan lenders automatically register bills of sale with the High Court.

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Why should I apply for a logbook loan?

If you need to borrow a larger amount but are having difficulty obtaining traditional forms of finance, then a logbook loan may be worth considering. Interest rates are generally much lower than payday or instalment loans - typically about 300% - 400% APR - and the loans are repayable in instalments over six to eighteen months. There are not any credit checks for logbook loans but a borrower will still have to demonstrate to the lender that he or she can afford the repayments and provide evidence of both income and outgoings.

Assuming that you don't have outstanding finance on the vehicle that you want to use as security against the loan, you should be able to apply for a logbook loan. Even in cases where there is some outstanding finance on the vehicle, some lenders will consider a logbook loan providing that the borrower can get permission from the existing finance company.

What are the downsides?

The biggest risk with a logbook loan is that you could lose what might be your only means of transport if you do not keep up with the repayment schedule. Lenders have the legal right to use bailiffs to seize your vehicle if you default on your loan although most will give you a chance to catch up before resorting to such a measure. You should be aware that provided the bill of sale is registered with the High Court, a lender will not have to go through any further legal procedure before taking possession of your vehicle.

If a lender does take possession of the vehicle and sells it, you will still be liable for any shortfall between the sale amount and the outstanding loan. So, even if a lender sells your car, it can still apply to a court to recover this money.

Conclusion

A logbook loan may be a viable source of finance if you are unable to raise money another way and you have a vehicle of sufficient value to cover your borrowing. Interest rates are high but the loan is repayable in instalments. Remember that your vehicle is security and you risk losing it if you default on your debt.

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