The subject of **car finance** comprises all the different financial products that allow someone to acquire a car with any arrangement other than a single lump payment.

Car finance may be required by both private individuals and businesses.

In short, the provision of car finance by a third party supplier allows the acquirer to provide for and raise the funds to compensate the initial owner – either a dealer or manufacturer.

Have you ever wondered how car finance began? The history of car loans is really quite fascinating because it follows the history of cars.

Before the Model T

Most people believe the American, Henry Ford, invented the first automobile but actually it was Sam McLaughlin, a Canadian from Oshawa, Ontario. In partnership with an American called David Buick, Sam began mass-producing McLaughlin-Buick vehicles a year before the first Model T.

In 1903 only 178 cars were registered in the United States. By 1908 this figure had climbed to just over 2,000. At that time the horse and buggy was still the most common form of transportation.

Then an extraordinary salesman and entrepreneur, William 'Billy' Durant, entered the fledgling automobile industry. Billy founded General Motors. Building on his success with a single car, **he was the first person to assemble a group of automobile companies**, including McLaughlin-Buick, under a common management.

Billy even made a bid to buy Ford Motor Company. The deal only fell through because of the bankers' distrust.

> **It is remarkable how one man's vision can create a business of this size.**

Billy Durant was a legend in the automotive industry and was inducted into the Business Hall of Fame in April 1996. He is also honoured at the Automotive Hall of Fame in Dearborn, Michigan.

Ironically, Billy didn't really care for cars, considering them to be smelly, noisy and frightening to animals. Despite his personal prejudices, Billy was enough of salesman to know there was plenty of money to be made from selling them!

All the manufacturers of the time, including Henry Ford, believed the concept would never work.

Why the first car finance company was formed

Billy was also the first person to introduce **financing specifically designed for the purchase of a vehicle**, a concept created as the solution to a very specific problem.

In the early days of the motor vehicle industry, dealers had to pay cash to stock their inventory. This restricted the number of cars they could purchase at one time. But once the assembly line came into operation, manufacturers wanted dealers to buy vehicles in large quantities so they could keep the factories running regularly. The only way to do this was to make it possible for consumers to finance their vehicles so the dealers could then pay for the vehicles they bought from the manufacturer.

Billy gave ordinary people a way to buy cars. All the manufacturers of the time, including Henry Ford, believed the concept would never work. Undeterred Billy created General Motors Acceptance Corporation (GMAC), the first large non-bank financing source for car loans.

GMAC branches were opened in Detroit, New York, Chicago, San Francisco and Toronto in 1919. The following year they expanded to Great Britain and **by 1928 they had written their four millionth retail contract.**

As the car industry grew, so too did the business of car loans. In 1958 GMAC wrote 40 million contracts. By 1985 this figure had increased to 100 million contracts and the company's earnings were $1 billion. By 2002, earnings had reached nearly $1.9 billion.

Since its inception, **GMAC has provided more than $1 trillion of financing** for 150 million cars and trucks around the world, operating in 41 countries. It is remarkable how one man's vision can create a business of this size, but even more remarkable to think he created an entirely new finance concept.

Where Billy went others followed

Once the other major car manufacturers saw the success GMAC was experiencing, they quickly entered the market. These companies are known as 'captive finance companies': a term for lending companies fully owned by an automobile manufacturer. Today, all major car manufacturers have their own captive finance company.

The next to enter the market was the commercial banking sector, and then independent companies joined the fray.

A finance broker can provide impartial advice on the loan product and structure best suited to your situation.

Australian car loans

Nearly a century after Billy introduced car loans, how they operate has not significantly changed from his original concepts. **Car loans normally begin at the time of purchase.** A financier provides the funds for the customer to purchase the car and takes an interest in the vehicle as security for the loan.

The customer takes ownership of the vehicle and when the contract is completed the customer is given clear title.

Today, for a car to be eligible to be used as security, certain criteria normally apply. New cars may have to be purchased from a dealer, and some lenders limit the age of used cars. Many will limit the amount lent on used cars rather than lending the full purchase price.

One of the major advantages of a car loan is the interest rate can be lower than an unsecured loan because the car can be seized in the event of default. Other advantages include flexible contract terms, a balloon value can be applied and interest rates can be fixed or variable.

What has changed from the early days of GMAC is the myriad options available to the consumer. Many will be overwhelmed with the range of deals available, all seemingly offering the best value for money. **It is hard for the average car buyer to assess the available options** and this is where a finance broker can be invaluable. A broker can provide impartial advice on the loan product and structure best suited to your situation.