



Case study: Sarah's unknown loan

The Personal Property Securities Register (PPSR) is the national online database of security interests in personal property.

Before buying a car privately, it's important to do a PPSR used car search. A used car search can tell you if a car is safe from possible repossession, has been reported written-off or stolen, or is on the Takata airbag recall list (meaning it could contain dangerous airbags).

A PPSR search costs just \$2 and provides important information to help people protect themselves when buying a used vehicle.

Scenario

Sarah has saved enough money to buy her first car. She carefully researches and investigates different cars, before choosing a second-hand hatchback within her price range. Her Dad knows a lot about cars and comes along with Sarah for a test drive.

Sarah and her Dad don't know how important it is to search the PPSR before buying a used car.

The car is exactly what Sarah wanted and she purchases it from John, a private seller.

A few months later, Sarah comes out of the shops to find her car is being loaded onto a tow truck. When she asks the truck driver what's going on, he tells her the car is being repossessed by ABC Car Finance Company.

Sarah didn't need a loan for the car, she paid for it with money she had saved, and she doesn't know anything about ABC Car Finance Company.

It turns out John had taken out a secured car loan to purchase the car originally, and had stopped making repayments after he sold it to Sarah.

How can this happen?

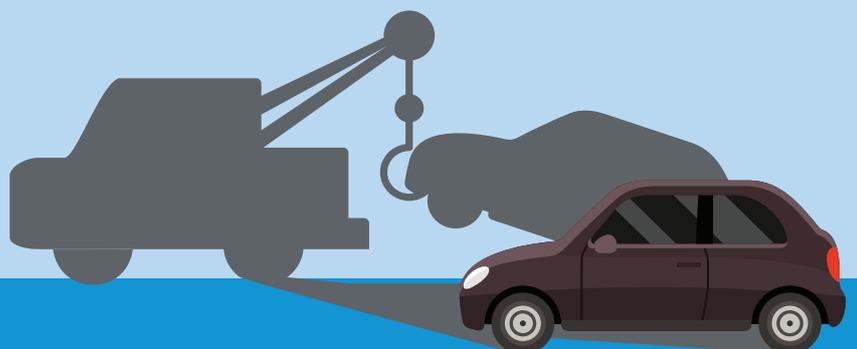
If a person doesn't have enough money to purchase a car outright, they will take out a loan from a bank or other lender. Loans can be advertised as 'secured' or 'unsecured'.

A **secured loan** is one where you offer property that can be sold if you fail to pay back the loan. If a car is used as security for a loan, the lender will register on the PPSR that they have a security interest in the car.

If the person selling the car (in this case John) has a secured loan and stops making repayments before the loan is paid in full, the lender (ABC Car Finance Company) has the right to repossess the car and sell it to pay out the remaining loan. This right attaches to the car itself, not John, and is registered against the **Vehicle Identification Number (VIN)** of the car.

The right of the lender to repossess the car remains, even after Sarah has purchased the car from John.

If John had taken out an **unsecured loan** when he purchased the car, ABC Car Finance Company (the financier) would not have a security interest in the car and would not be able to repossess it.



What happens to Sarah?

This is a difficult situation for Sarah. Sarah will be left with:

- **No car** – ABC Car Finance Company can legally repossess the car to pay out John's loan.
- **No money back** – Finance companies mostly sell at auction and aim to recover their own costs. There are usually no funds left over for someone in Sarah's situation.

Could this have been avoided?

If Sarah had done a PPSR used car search, she would have known that there was a security interest against the car, registered to ABC Car Finance Company. She could have then contacted ABC Car Finance Company to ask for more information about the security interest, or discussed it with John prior to purchasing the car.

Sarah may have chosen to back out of the deal and look for another car.

Used car searches are easy to do, and cost just \$2. Visit ppsr.gov.au/check-my-car to complete the search. Results are available immediately on your smart phone or computer.

What you should know

- **Before buying a car privately, do a PPSR used car search.** It pays to check twice – once when you have found the car you want to buy, and again on the actual day you hand money over to the seller to make sure nothing has changed since you last checked.
- **The seller doesn't have to tell you anything about the finance situation of the car.** It is up to the buyer to check.
- **The seller may not know anything about the debt identified on the PPSR.** It doesn't always mean the seller is trying to do the wrong thing. Sometimes the seller may have bought the car themselves with the debt noted on the PPSR.

Common questions

But I paid for it, isn't it my car?

If there is a finance company shown as having an interest in the car on the PPSR (and this is not released when you buy the car), the registered interest stays with the car. If the finance company is not paid the full amount they are owed, they continue to have the right to repossess the car even after you have become the owner.

If you are buying a second-hand car and the PPSR shows there is finance registered against the VIN, is it still OK to purchase the car if the seller shows you a bank statement proving they have paid out the finance?

No. It is important that the financier shown as having an interest on the PPSR search is contacted to arrange for the registration to be removed from the PPSR. If you do not arrange for the registration to be removed, and the security remains on the PPSR, you may have difficulty proving to a new buyer that there is no money owing if you decide to sell the car later.

What if I'm buying a car from a dealership?

As a buyer you are protected if buying from a licensed used-car dealer. However, it's still a good idea to request a PPSR search certificate before purchasing a car from a dealer. You can also do a PPSR search yourself on a car that's being sold by a dealer – the cost is still only \$2. If you are given a search certificate by a seller, you can also check that it is legitimate by searching the certificate number on the PPSR website, ppsr.gov.au, using the free 'retrieve search results' function.