



Consumer Guide: Five Key Highlights of the Hire-Purchase (Amendment) Act 2026

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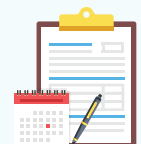
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1 Adoption of the effective interest rate (EIR) and the reducing balance method as the interest calculation for all types of hire-purchase financing

Under the reducing balance method, interest charges will be **calculated based on the outstanding principal amount**. This helps you see from your monthly instalment, how much of that amount is for interest charges and how much is for the principal repayment.

- **Interest charges:** Calculated based on your outstanding principal amount
- **Principal repayment:** Balance remaining from your monthly instalments (less interest charges) which will be allocated to repay your outstanding principal amount

Hire-purchase providers will use the EIR together with the reducing balance method in the calculation of interest charges.

So, what is the EIR?

EIR is the actual percentage of interest you pay over the financing tenure. It reflects the amount of interest you pay based on your outstanding loan balance at any given time, when you pay your monthly instalments. Sometimes, a hire-purchase provider will quote a flat rate to consumers, which appears cheaper. But, this does not result in lower monthly instalments.

For example, let's assume you borrow RM100,000 over a period of 9 years (or 108 months).

	Hire-Purchase Financing Rate Quoted	Monthly Instalment*	Total Interest
Bank A	Flat rate of 3% p.a.	RM1,175.93	RM27,000
Bank B	EIR of 5.5% p.a.	RM1,175.93	RM27,000
Bank C	EIR of 5% p.a.	RM1,151.76	RM24,390

*Will differ depending on your loan tenure

The above example illustrates that your monthly instalment remains the **same** with both Bank A and Bank B, where you end up paying a monthly instalment of **RM1,175.93** and the same total interest of **RM27,000**. With Bank C, you end up paying a lower monthly instalment of RM1,151.76 and a lower total interest of **RM24,390**. For a loan with a 9-year tenure, an EIR of 5.5% p.a. is equivalent to a flat rate of 3% p.a.

Hence, even though the flat rate may appear cheaper at first glance, it does not reflect the true cost of financing costs borne by you. It actually makes the hire-purchase product seem cheaper than it really is.

To prevent unexpected outcomes and to compare rates accurately, always ask the hire-purchase provider for the EIR.

Remember, it is important that you understand all key features, charges, terms and conditions of the hire-purchase financing agreement before you sign it!



You can continue to choose either fixed rate or variable rate hire-purchase financing.

While both these types of financing will adopt the reducing balance method for interest calculation, the **key differences** between these two rates include:

Fixed rate financing	Variable rate financing
<ul style="list-style-type: none"> • The interest rate stays the same for the entire financing period • Your monthly instalments will also stay the same, making it easier to plan your monthly budgets • This option is great if you prefer certainty in monthly expenditures 	<ul style="list-style-type: none"> • The interest rate can change (go up or down) over time based on upward or downward movements in the Overnight Policy Rate (OPR) • Your monthly instalments can go up or down, depending on interest rate changes • This option is great if you're looking for possible savings if interest rates go down

2 Flexibility to opt for electronic or digital signatures and to receive hire-purchase agreements and related documents electronically

	Electronic signature	Digital signature
Legal definition	Any letter, character, number, sound or any other symbol or any combination thereof created in an electronic form adopted by a person as a signature, as set out under the Electronic Commerce Act 2006	A transformation of a message using an asymmetric cryptosystem such that a person having the initial message and the signer's public key can accurately determine: (a) whether the transformation was created using the private key that corresponds to the signer's public key; and (b) whether the message has been altered since the transformation was made, as set out under the Digital Signature Act 1997
Key difference	It can be as simple as typing a name or inserting an image of a signature. To verify the signer's identity and protect against fraud, the signer's physical presence will be required for the initial signing of a hire-purchase agreement	It uses encryption technology and digital certificates to authenticate and verify the identity of the signer

How does the above flexibility benefit you as a consumer?

Benefits	How to sign
Convenience: Sign hire-purchase agreements anywhere*	Receive: Review the hire-purchase agreement electronically or digitally
Speed: Faster loan processing	Sign: E-sign or digitally sign the hire-purchase agreement
Security: Secure and legally binding	Confirm: Receive a softcopy or hardcopy of your signed agreement**

* Regardless of the method used to sign a hire-purchase agreement, hire-purchase providers are required to carry out proper due diligence on the prospective customer. In some cases, this will require the prospective customer’s physical presence for the initial signing of a hire-purchase agreement.

**The method of delivering hire-purchase documents, either electronically or via hardcopy, must be clearly stated and mutually agreed upon in the hire-purchase agreement. This ensures transparency and a shared understanding between the hire-purchase provider and you as the customer.

3 Replacement of the term Base Lending Rate with Reference Rate

The term Base Lending Rate has been replaced with Reference Rate. This involves operational amendments to the relevant provisions in the Hire-Purchase Act 1967, in line with several enhancements made to Bank Negara Malaysia’s Reference Rate Framework in 2015 and 2022. [\(Click here to read more about BNM’s Reference Rate Framework\)](#)

4 Usage of the EIR updates to the maximum rates for hire-purchase financing (*Set out under the revised Hire-Purchase (Term Charges) Regulations*)

Hire-purchase providers will use the EIR moving forward, which provides a more transparent and accurate reflection of the true cost of the hire-purchase financing.

 <p>Fairer interest charges</p> <p>You are only charged interest on what you still owe, which is the remaining principal balance. The amount of interest charged reduces with each monthly instalment repayment.</p>	 <p>Informed decisions</p> <p>Helps you become a smarter shopper! You can do apple-to-apple comparison of rates offered by different hire-purchase providers.</p>	 <p>Transparency</p> <p>While flat rate offers might look cheaper, it does not show the true cost of financing. EIR gives a clearer picture of what you are paying.</p>
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What updates were made to the maximum rates for hire-purchase financing?

For **fixed rate financing**, the existing maximum flat rate of 10% p.a. has been replaced with its corresponding EIR based on loan tenures. For **variable rate financing**, the existing maximum EIR of 17% p.a. has been retained. Hire-purchase financing contracted under variable rates are already subject to reducing balance method under the existing Hire-Purchase Act 1967.

<p>Fixed rate financing</p> <p>The EIR is capped at 17% p.a. for loans with tenures of up to 5 years and 16% p.a. for loans with tenures of more than 5 years*</p>	<p>Variable rate financing</p> <p>The EIR is capped at 17% p.a. for all loan tenures as per the existing Hire-Purchase (Term Charges) Regulations 2005</p>
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*The maximum rates are set based on the conversion from flat rate to EIR, which is determined by the loan tenure. This ensures that the corresponding EIRs do not exceed the existing maximum flat rate of 10% p.a. The maximum threshold of EIR 17% p.a. has been assessed as an adequate consumer safeguard against excessive interest charges. This threshold is subject to periodic review by the authorities to ensure it remains fit-for-purpose.

5 Introduction of a grace period for system and infrastructure enhancements

The effective date of the Hire-Purchase (Amendment) Act 2026 is 1 June 2026*. From this date, hire-purchase providers will be given a grace period until 31 March 2027 to conduct the necessary systems and infrastructure enhancements in implementing the reducing balance method and pricing in EIR.

This means that hire-purchase companies that are ready to use the new reducing balance method earlier can start doing so anytime during the grace period, beginning from the date the Hire-Purchase (Amendment) Act 2026 comes into effect.

If you want to enjoy the benefits of the new reducing balance method, you can look for packages offered by these early adopters. Be proactive by comparing your options and choose what works best for you.

Most importantly, remember to ask the hire-purchase company whether they have already switched to the new method!



*As announced by the Ministry of Domestic Trade and Cost of Living (KPDN)

PRO TIP: Thinking of opting for hire-purchase? Here's how to get started!

01

Check the hire-purchase providers' website or app, or go to their branch
Review the latest offerings of fixed and/or variable rate hire-purchase financing

02

Explore your options

Shop around, ask 'What's the EIR?' and compare the EIR offered by several hire-purchase providers before accepting any offer

03

Check your finances

Have enough funds not only to cover the upfront 10% down payment but also the monthly instalments throughout the financing tenure, including other related costs such as insurance/takaful, road tax and vehicle maintenance

04

Review the hire-purchase agreement

Carefully read the hire-purchase agreement, product disclosure sheet and any other disclosure materials to fully understand your obligations and your rights

05

Sign the hire-purchase agreement

If you agree to the terms and conditions, sign the hire-purchase agreement and ensure you receive a hardcopy or softcopy of the signed agreement

06

Pay your monthly instalments on time

Make timely payments on your monthly instalments and financial obligations to avoid unnecessary fees or charges, which can increase your overall cost of financing

07

Know your redress options

If you are dissatisfied with the product or service, contact your hire-purchase provider to lodge a complaint. If you disagree with the final decision, you may follow these steps:

- If your hire-purchase provider is regulated by Bank Negara Malaysia, you may escalate your complaint to the Financial Markets Ombudsman Service (FMOS) ([Click here to learn more about FMOS](#)) or BNMLINK
- If your hire-purchase provider is a non-bank, you may lodge a complaint to the Ministry of Domestic Trade and Cost of Living (KPDN) via KPDN's e-complaint portal (<https://eaduan.kpdn.gov.my/>), toll-free number (1-800-886-800) or email (e-aduan@kpdn.gov.my), or send a letter to or visit the nearest KPDN office

Frequently Asked Questions (FAQs)

1

Why is the reducing balance method being adopted for fixed rate loans under the Hire-Purchase (Amendment) Act 2026?

The reducing balance method replaces the Rule of 78 method. The method of computation applied determines how interest charges are allocated throughout the tenure of a loan.

The Rule of 78 method frontloads interest payments, resulting in higher initial interest costs and a larger outstanding principal amount due in the event of early settlements. The fixed rate formula under the existing Hire-Purchase Act 1967 uses the flat rate method, which computes interest based on the original loan amount throughout the repayment tenure. This means that in the early years of your loan, for example, up to the third year of a 9-year plan, most of your monthly payments go towards paying interest, not reducing the loan amount. So, your balance goes down by a smaller portion at the beginning.

The reducing balance method has been applied for variable rate hire-purchase financing all this while under the existing Hire-Purchase Act 1967 and is now streamlined to be adopted for fixed rate hire-purchase financing under the Hire-Purchase (Amendment) Act 2026. As at December 2024, variable rate hire-purchase financing accounts for 15% of hire-purchase offerings by banks. The move to the reducing balance method is intended to ensure fairer outcomes for customers, particularly those who settle their loans early. With this method, interest is only charged on the remaining unpaid principal balance. So, more of your monthly instalments goes towards reducing the actual loan, which means your balance goes down faster each month throughout the loan period.

The reducing balance method is a more transparent measure of pricing as it more accurately reflects the actual cost of financing borne by customers, while ensuring fairer outcomes for consumers.

2

How does the reducing balance method adopted by hire-purchase providers benefit customers?

The reducing balance method charges interest on the customer's outstanding principal balance each month, resulting in fairer interest charges as interest will only be charged on the current amount that is owed, which in turn progressively reduces with each monthly instalment paid.

3

With the abolishment of the flat rate formula for the calculation of interest charges, will this mean that hire-purchase providers will only offer variable rate loans moving forward?

No, the Hire-Purchase (Amendment) Act 2026 continues to allow hire-purchase providers to offer both fixed rate and variable rate loans. Customers will continue to have the option to choose a fixed rate or variable rate hire-purchase loan.

4

How do I know if the interest rate offered to me is reasonable?

Moving forward under the Hire-Purchase (Amendment) Act 2026, hire-purchase providers will begin using the EIR instead of the flat rate.

The EIR shows the true cost of your loan for the duration of the financing tenure. It takes into account the amount of interest you pay based on your outstanding loan balance at any given time after accounting for monthly repayments. The EIR gives a clearer and more accurate picture for the purpose of rate comparison. Shop around to find the best deals that meet your specific financing needs.

5

Will hire-purchase providers perform any verifications on prospective customers before entering into a hire-purchase agreement?

Prior to entering into a hire-purchase agreement, hire-purchase providers are required to conduct the necessary due diligence to verify the identity of the prospective customer. To do this, hire-purchase providers will request for relevant information and identification documents from you, such as, your full name as per National Registration Identity Card (NRIC) or passport or any other official document issued by an authorised body that can be used to verify a person's identity, NRIC or passport or any other official documents, residential and mailing address, and contact number.

Hire-purchase providers will then verify the identity of the prospective customer through appropriate verification methods, such as verification of the prospective customer's thumbprint via a biometric reader, or usage of a facial recognition system. This verification process will not only be conducted at the point of on-boarding, but also for transactions which require explicit customer agreement, such as, for any alterations to an existing hire-purchase agreement. Such measures serve as safeguards against fraudulent practices.

6

If I sign a hire-purchase agreement electronically or digitally, will my hire-purchase agreement be sent to me electronically?

Hire-purchase providers now have the option to issue hire-purchase documents and notices through electronic channels. However, specific to the delivery of hire-purchase agreements or contracts, the method of delivery (electronically or hardcopy) must be clearly stated and mutually agreed upon in the hire-purchase agreement.

This ensures transparency and promotes mutual understanding between the hire-purchase provider and you, the hirer. You can request for a physical copy of your hire-purchase agreement if this is preferred.

7

Will hire-purchase providers continue to offer a rebate if the customer settles their loan early?

Hire-purchase providers will no longer offer rebates at the point of early settlement to customers who have contracted hire-purchase agreements under the new provisions of the Hire-Purchase (Amendment) Act 2026.

Under the Hire-Purchase Act 1967, when a customer settles their hire-purchase loan early, the hire-purchase providers typically waive the interest for the remaining months in the financing tenure, which is termed as a statutory rebate.

Under the Hire-Purchase (Amendment) Act 2026, both fixed rate and variable rate loans will adopt the reducing balance method, where interest is calculated on the customer's outstanding principal balance. Once the customer pays off the outstanding balance, no further interest charges subsequently accrue. Hence, the need for such a waiver or rebate does not arise.

8

How do the changes to the Hire-Purchase Act 1967 affect existing hire-purchase agreements?

The changes made to the existing provisions under the Hire-Purchase Act 1967 will only apply to new hire-purchase agreements secured after the Hire-Purchase (Amendment) Act 2026 takes effect. Existing hire-purchase agreements signed under the Hire-Purchase Act 1967 will continue to follow the original contractual terms and conditions.

Notwithstanding, the Hire-Purchase (Amendment) Act 2026 provides the flexibility for you and your hire-purchase provider to mutually agree to elect the method of calculating the net balance due under the hire-purchase agreement in accordance with the Hire-Purchase (Amendment) Act 2026. This will be subject to the readiness of the hire-purchase provider to perform interest calculations using the reducing balance method pending enhancements to their existing systems.

9

Why are the changes to the Hire-Purchase Act 1967 being introduced now?

To enhance protection for credit consumers, the government, through the Ministry of Finance, has introduced the Consumer Credit Act 2025. Adopting a whole-of-government approach, KPDN also undertook a review of the Hire-Purchase Act 1967 to identify and address unfair practices towards credit consumers. One key area of concern was the use of the Rule of 78 method under the Hire-Purchase Act 1967, which has been widely criticised for being inequitable, particularly for customers who repay their loans early. In response, many countries have banned its use due to its inherent unfairness to credit consumers and Malaysia is now aligned with global best practices.

10

If I have a query or complaint on my dealings with hire-purchase providers relating to the roll-out of the new provisions under the Hire-Purchase (Amendment) Act 2026, whom do I turn to?

If you have a query or complaint relating to the roll-out of the new provisions under the Hire-Purchase (Amendment) Act 2026, you may contact your hire-purchase provider directly to submit the query or lodge the complaint.

KPDN remains as the regulatory and supervisory authority of all hire-purchase agreements under the Hire-Purchase (Amendment) Act 2026. Hence, if your query or complaint with your hire-purchase provider is not addressed, you may also reach out to KPDN via KPDN's e-complaint portal (<https://eaduan.kpdn.gov.my/>), toll-free number (1-800-886-800) or email (e-aduan@kpdn.gov.my), or send a letter or visit the nearest KPDN office.

If your hire-purchase provider is a banking institution, for unresolved queries or complaints you may reach out to the Financial Markets Ombudsman Service (FMOS) ([Click here to learn more about FMOS](#)) or [BNMLINK](#).