Evolve500 Finance

THE EQUIPMENT FINANCE HANDBOOK

Sharon Piening

TABLE OF CONTENTS

EQUIPMENT FINANCE

To remain competitive, sustain productivity and meet increasingly higher customer expectations, businesses large and small need to regularly update their equipment.

Technology and the global marketplace have delivered many benefits, however it has also massively increased competition!

Customers have more purchasing options, expect higher quality, faster delivery and all at a lower price.

However, the upside to today's environment, is that business owners now have far greater access to equipment and technology than in the past.

There are also many more options available to finance the acquisition of equipment - however care is needed, for if you get it wrong, it can be expensive!

This eBook has been written to help business owners successfully navigate the equipment finance maze and avoid common pitfalls.

WHAT IS EQUIPMENT FINANCE?

Purchase, Lease or Rent

Equipment Finance is used to purchase, lease or rent equipment over an agreed period of time.

Term

Terms usually range from 1 to 5 years depending on the type of asset being financed and its useful life.

Repayments

Repayments are usually monthly, however can be quarterly, 6 monthly or even annually.

They can also be structured to allow for things like installation, commissioning and seasonality.

Interest Rates

Interest rates are fixed for the term of the loan - which provides peace of mind and makes budgeting easier

Residual (Balloon)

The finance may include a residual (or balloon) payment at the end, or alternatively, be cleared in full over the term of the loan.

The residual (balloon) will be driven by the nature of the item being financed and its perceived value at the end of the finance term.

Residuals (Balloon)

A higher residual the lower the repayments! A lower residual the higher the repayments!

WHY USE A FINANCE BROKER?

As a finance broker I specialise in equipment finance, it is what I do day in day out!

The key benefits you gain by using a finance broker:

Access to competitive rates: Brokers provide access to competitive rates from a large panel of lenders.

Expertise and Guidance: Brokers offer specialised knowledge to help navigate complexities, choose the right product, and structure financing effectively.

Tailored Solutions: Personalised advice helps clients choose financing options that align with their unique needs and goals.

Time and Effort Savings: Brokers streamline the process with efficient systems, saving clients time and effort.

Network and Relationships: Brokers leverage strong relationships with lenders to negotiate better terms and address challenges.

Ongoing Support: Brokers offer continued assistance, ensuring support throughout the financing arrangement.

In summary, a finance broker simplifies the equipment financing process, providing expertise, tailored solutions, and ongoing support while accessing competitive rates.

WHAT CAN BE FINANCED?

The variety and scope of equipment available for financing are vast, encompassing items such as:

- Trucks, Prime Movers & Trailers
- Cranes
- Manufacturing Equipment
- Medical Equipment
- Specialised Equipment
- Large Industrial Sheds
- Technology
- Office Equipment
- Office and Business Premises Fitout
- Plus, much more

If the equipment is used primarily for business purposes, and it has a useful life longer than 12 months, it can more than likely be financed!

SECOND HAND EQUIPMENT

If required, there are lenders available who are prepared to finance secondhand equipment – including from private vendors.

This market tends to be for equipment that has a long useful life:

- Trucks, Prime Movers & Trailers Cranes
- Manufacturing Equipment
- Etc.

Whilst the interest rates may be higher than for new equipment, this can be offset by a lower purchase price.

For second-hand equipment, greater due diligence is required:

- To ensure the equipment has been properly maintained and serviced
- That the equipment will perform as expected
- Parts and servicing are readily available
- You are not inheriting someone else's problem
- To ensure clear title to the equipment is available for the lender

Unsure if it can be financed?
Call me 0433 210 353

WHAT SECURITY IS REQUIRED?

In most instances the equipment being financed will be used as security for the facility.

In addition to the foregoing, depending on the applicant, directors or

personal guarantees are generally required.

The lender will register a charge over the equipment.

Depending on the type of product being used, when the loan has been cleared in full, the charge will be released and you will either:

- Have clear title to the equipment
- Hand the equipment back to the lender with no more to pay if rented
- Make an offer to purchase the equipment at market value if rented

I have provided an explanation as to the different types of products and how they work later in this eBook.

BENEFITS OF EQUIPMENT FINANCE

The key benefits of using equipment finance include:

- It spreads the cost of the equipment over its useful life
- Preserves business cash flow
- Facilitates access to critical equipment and technology to improve productivity, sustain your competitive advantage and satisfy customer expectations
- Allows time for the full benefit of the investment to be realised
- Facilitates better planning and forecasting as costs are known and fixed

From a general business perspective, access to the latest equipment and technology can:

- Accelerate turnarounds
- Improve responsiveness to customer requests
- Allow greater systemization of processes and lower value work
- Integrate business processes and systems
- Frees up team members to focus on higher value work

EQUIPMENT FINANCE PRODUCTS

There are four primary products used for equipment finance. These being:

- Chattel Mortgage
- Finance Lease
- Novated Lease
- Operating Lease

Each product has different implications from an ownership, tax and GST perspective. I have explained the key features of the products in the following Pages

Care is Needed!

When sourcing new equipment, it is important to ensure you choose the right financing option as mistakes can be expensive & time consuming to unwind.

Every business is different, and it is critical to seek guidance from both an equipment finance specialist, and your accountant, before committing to finance.

Also to avoid later regret, always use an equipment finance specialist not a generalist financier.

CHATTEL MORTGAGE

A Chattel Mortgage is the most common product used for equipment finance.

With a Chattel Mortgage, the lender provides the finance to allow you to purchase the equipment and registers a “mortgage” over the asset as security for the loan.

You own the asset from the time of purchase.

When the loan is repaid in full, the “mortgage” is removed and you have clear title to the asset.

Other Key Features

- Terms range between 1 and five years
- Can include a residual (balloon) payment to reduce monthly repayments.
- Residual (balloon) payments range between 0% and 60% depending on the equipment being financed
- Able to make an upfront deposit to reduce the amount being borrowed
- Interest rates are fixed for the term of the facility
- Interest paid and depreciation may be tax deductible
- Purchase price includes GST. Borrowers registered for GST may be able to claim the GST Input tax credit on their next business activity statement
- No GST is payable on the monthly repayments or residual (balloon)

FINANCE LEASE

With a Finance Lease it is the lender that owns the equipment.

You then lease or hire the asset from the lender on agreed terms over a set period of time.

At the end of the term, the borrower will usually have the option to purchase the equipment from the lender for a previously agreed price.

Other Key Features

- Terms range between 1 and five years
- Can include a residual (balloon) payment to reduce monthly repayments.
- Residual (balloon) payments are governed by the Tax Office
- Cannot include an upfront deposit
- Interest rates are fixed for the term of the facility
- Lease payments may be tax deductible
- The lender claims the GST input
- GST is payable on the monthly repayments and the residual payment. Borrowers registered for GST may be able to claim the GST on their next business activity statement

OPERATING LEASE

With an Operating Lease the lender purchases the equipment and you rent it from them on agreed terms over a set period.

An Operating Lease is ideal for equipment that:

- Depreciates quickly
- Needs to be regularly updated due to changes in technology (computers, software, phone systems, medical equipment etc.)

It is also used by businesses that run vehicle and truck fleets etc.

At the end of the lease, based on what was agreed at the outset, the borrower has the option to:

- Hand back the equipment to the lender with no more to pay
- Extend the lease
- Purchase the equipment for a pre-agreed price

Other key features

- The cost of servicing, parts, registrations and insurance can be built into the lease.
- For motor vehicle fleets it can include a pre-agreed number of km's per year
- The lender carries the residual (balloon) risk
- There is no residual (balloon) payment to make at the end of the term
- The cost is fixed for the term of the Lease
- Terms range from 1 to 5 years
- The rental may be deductible as a business expense
- Reduces the risk and cost associated with obsolete equipment

NOVATED LEASE

A Novated Lease is the 3-way agreement between an employee, employer and a lender.

The vehicle is owned by the lender and leased to the employee for a fixed monthly payment over an agreed term.

At the end of the lease, the employee can usually either hand the vehicle back to the lender, or purchase it at market value.

To work, the employer needs to provide salary packaging to employees.

It is often used by businesses to retain key employees and avoid the cost of providing and maintaining company owned vehicles

It can also be attractive to employers as it removes the residual (balloon) risk associated with maintaining a fleet of company owned vehicles.

Other Key Features

- The Lease costs are paid by the employee from pre-tax income, which can offer tax savings
- The employee can select his/her vehicle of choice and use it 100% of the time whether business or personal
- Terms range from one to 5 years
- Residuals are governed by ATO guidelines
- Fixed interest rate for term of the lease
- Both the lease and vehicle are portable should the employee change
- Employment (Providing the new employer offers salary packaging)

IMPORTING EQUIPMENT

As the world has become more global, many businesses are now importing the equipment they require from overseas.

If the equipment needs to be financed, the exporter wants comfort they will be paid. This can be addressed by providing a Letter of Credit.

(A Letter of Credit being a written undertaking by the issuing bank on behalf of the party importing the equipment, promising payment once the goods have been landed in the country and commissioned).

We can arrange the Letter of Credit in conjunction with the equipment finance facility.

If payment for the equipment is required in foreign currency, the lender may require that foreign exchange cover be taken out.

Whilst an extra cost, it provides peace of mind and helps ensure savings arising from sourcing the equipment from overseas, are not obliterated by adverse changes in the exchange rate!

THE HEADLINE INTEREST RATE TRAP

When purchasing equipment, it is important to look beyond the headline interest rate and understand the TOTAL cost of the finance over the term.

Compare "Apples to Apples"!

To understand the true cost of the finance it is critical to ensure you are comparing "apples to apples"

In addition to ensuring the purchase price, model and servicing costs are the same, it is important to understand the TOTAL cost of the finance over the term!

That is, the total repayments over the term of the facility, plus any fees and charges plus the Residual.

DON'T PUT ALL YOUR EGGS IN ONE BASKET

Finance like any other risk in business needs to be proactively managed. A major risk many business owners fail to consider is finance risk!

That is; what happens and where will you stand, if your primary lender changes policy, or at a critical time, says no?

Lender policies and appetite for different business segments regularly change and if you don't have a fallback position, these changes can potentially have serious implications for your business.

To mitigate this risk, equipment finance allows business owners to build relationships with other lenders and:

- Change the relationship dynamic through competition
- Provides a broader base of lenders for future finance
- Ensures your finance is truly market competitive from a rate, structure, terms and conditions perspective

PLANNING - THE KEY TO SUCCESS

Like most things in business, better outcomes are achieved with planning!

Depending on the nature of the equipment the degree of planning will vary greatly - however regardless, planning will help avoid expensive mistakes, frustration and later regret.

I have detailed below some thought starters:

- Determine the expected returns/benefits from the investment
- Work out a budget - what you can afford in the way of repayments
- Consider whether time will be needed to increase sales to cover the repayments
- Will the repayment program need to allow for seasonality
- If needed prepare a cashflow forecast
- List all specific features you require - including maintenance & servicing
- Research suppliers, reputation, support, parts, local representation and training
- Consider time and cost for commissioning if required
- Should the equipment involve software, evaluate the degree to which it can be integrated with other business systems and processes
- Speak to your accountant to ensure depreciation and tax benefits are optimized - do this before committing to any purchase or lease
- Seek detailed written quotes from suppliers

Call me for a Highly Competitive Finance Quote

When the finance has been approved, you can then pay the supplier(s) the initial deposit. This will be a percentage of the project cost.

Note, you can request the initial deposit be included in the overall amount so that it can be reimbursed.

As invoices are received from suppliers, we will make the payments on your behalf.

INSURANCE

As part of the process, you will also need to provide the financier with a certificate of Insurance covering the items financed with the financier interest noted.

SHARON PIENING

As a business owner, I understand both the challenges and joy of running your own business!

I have an in-depth knowledge of equipment finance and understand what is needed to deliver the right outcomes for my clients.

I love the complexity and managing the different facets involved with equipment finance.

I have a practical, down to earth approach and strive to make my client experience as seamless as possible.

Strengths

- Knowledge of the market and different industry sectors
- Exceptional organisational skills
- Persistence - I am tenacious when negotiating competitive finance packages for my clients
- Ability to structure finance to align with cashflow

Industry Experience

- Manufacturing, Retail, Transport Construction
- Medical & Dental, Shopping Centre Fitouts
- Restaurants and Cafes

E: sharon@evolve500.com.au M: 0433 210 353