

# Evolve500 Finance

## THE MOTOR VEHICLE FINANCE HANDBOOK



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## WHY THIS HANDBOOK WAS CREATED

The Motor Vehicle Finance Handbook was created to help avoid many of the common mistakes associated with buying and financing a motor vehicle.

It is written for business owners, or employees, who use their motor vehicles primarily for business purposes.

In the first section of the handbook, I outline many of the "traps" associated with buying and financing vehicles - and how they can be avoided.

In the next section, I provide practical suggestions to help you purchase the right vehicle for your needs to avoid later regret.

Included are links to resources to assist with research and importantly, if buying second-hand, to check details of the car being purchased.

Finally, for those who are time poor, or don't like negotiating with car dealerships, I outline an amazing free service we offer, that can take the pain out of sourcing a car!

If after reading this handbook, you have any questions, or want a competitive quote - don't hesitate to give me a call!

## THE HEADLINE INTEREST RATE TRAP

When seeking motor vehicle finance, it is important to understand the true cost of the finance. It is easy to fall prey to misleading headline interest rates or the big one zero interest rates!

Too often, low or zero interests prove illusionary! If you dig a little deeper, the seemingly low interest rate is offset by:

- Fees and charges
- A higher purchase price
- The prior year build date - delivering lower a resale value
- A higher balloon payment that potentially means the vehicle is worth less than the amount owing at the end of the contract
- Expensive "extras" which may have little value when you come to sell the vehicle
- Unpopular colours or models, plus, more....

The motor vehicle finance market is competitive but it is critical to ensure you are comparing "apples with apples"

## THE COMPLIANCE PLATE TRAP

Sometimes a really great price or financing deal, is because the vehicle being sold was manufactured in the previous year.

Whilst you will still be buying a

"new" car, the future resale value will be based on the year of manufacture, not the Compliance Plate

## THE LOW MONTHLY REPAYMENTS TRAP

Another tool used to attract buyers is to offer what appears to be low weekly repayments. Unfortunately, too often this is achieved by having a higher balloon payment.

Because of this:

The borrower ends up paying more interest than would be the case if the repayments were higher.

In some cases, the residual or balloon payment, will be greater than the car value at the end of the term - resulting in "negative equity"

### ***Negative Equity***

Negative equity arises when the value of the car is less than the amount owing on the loan.

Even when the motor vehicle is to be used for business purposes - for most of us, once we have decided to purchase a new vehicle, we often want it yesterday - this emotionally driven approach can lead to higher costs and later regret!

We go to the dealership, test drive the car, specify the extras, negotiate the price and are then offered what seems to be attractive finance.

In our excited state, we quickly read the contract - only later to have our illusion shattered when we work out the true cost of the finance.

To avoid the "I need it today" and the "emotional" traps we encourage all our clients to arrange their pre-approval before commencing the search for a vehicle.

### **Arranging finance in advance improves your negotiating power!**

#### ***Add it to my Home Loan Trap***

It may seem a good idea to add the cost of your new vehicle to your home loan to save interest.

However, unless you increase the home loan repayments to the pay loan off in the same time frame as a vehicle loan, it can become very expensive! Why?

Life and our circumstances can change over the term of the finance, and unless you are exceptionally disciplined, you could find:

Despite the lower rate - the vehicle ends up costing you a lot more than if it would have been the case with motor vehicle finance.

That by the time it needs to be replaced, you still owe more than the vehicle is worth!

**Trying to save money - can you cost money!**

## UNDERSTAND THE TRUE COST OF FINANCE

When you have determined the specifications of the vehicle, give me a call and I will assist you work out the true cost of the finance. Factors that influence the cost:

- Interest rate
- Term
- Fees and charges
- Repayments
- Balloon

## TYPES OF MOTOR VEHICLE FINANCE

The two popular types of Motor Vehicle Finance are:

- Chattel Mortgage
- Novated Lease

Both are very different products from an ownership, GST and tax perspective. The key differences being:

- With a Chattel Mortgage you own the vehicle
- With a Novated Lease the finance company owns the vehicle and leases it to you for the term of the finance

## CHATTEL MORTGAGE

With a Chattel Mortgage you own the vehicle and the finance company registers a charge (Chattel Mortgage) over the vehicle.

When the contract is finalised the Chattel Mortgage is removed. Key features include:

- Terms one to 5 years
- Balloon payments from 0% to 60% depending on the vehicle
- Fixed interest rate
- No ongoing fees
- Interest and depreciation may be tax deductible to the extent of business use

Businesses may also be able to claim the full tax credit Input (to the extent of business use) on their next business activity statement

### ***End of the term***

At the end of the term, you can either:

- Pay the balloon amount and take ownership of the vehicle
- Refinance the balloon and take out a new contract
- Sell the vehicle, payout the balloon and upgrade to a new vehicle
- Apart from the interest rate, choosing the right balloon for the vehicle is critical to avoid negative equity at the end of the contract

## NOVATED LEASE

A Novated Lease is a three-way agreement between an employee, the employer and a finance company.

With the Novated Lease, the vehicle is owned by the finance company and leased to the employee for an agreed term.

### **Key features include:**

- The employer needs to offer salary packaging to employees
- The vehicle 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 be employee change employment (Providing the new employer offers salary packaging)

## **Important!**

**Vehicles need to be primarily used for business purposes**

## START WITH A BUDGET

As is the case with most major purchases, the starting point is to create a budget to work out what you can comfortably afford in the way of monthly repayments.

This in turn will determine what sort of vehicle you can afford to purchase.

It will also help avoid a lot of stress down the track!

There are a number of tools that you can use to work out a budget. A couple of our favorites are:

- Money Smart Budget Planner

### **Decide what to purchase**

Next you need to decide the type of vehicle you want to purchase to suit both your work and lifestyle:

- New or used
- Colour
- Specifications - including safety features
- Accessories
- Warranties
- Servicing and maintenance

## NEW OR USED?

There is nothing quite like the feeling of a new car.

However, outside of budget considerations, there can be advantages buying a used or demo vehicle:

For many vehicles, depreciation is highest in the first couple of years

The vehicle may still be covered by the manufacturer's warranty

Dealer delivery and stamp duty are likely to be lower

Insurance costs may be lower

## DO YOUR RESEARCH

Having decided the type of vehicle you wish to purchase; it is important to do your research before approaching dealerships.

Fortunately, today the web makes it easy to do research and read vehicle reviews. Some of our favorites include:

- RACV
- Cars Guide
- Drive.Com

To avoid later regret - always do your research!

## THE TRUE COST OF THE MOTOR VEHICLE

Whether it is a new or used car it is important to understand the true cost of purchasing, maintaining and running the motor vehicle - this can include:

### ***Depreciation***

All cars depreciate; however, some retain their value better than others. It is important to understand the future resale value of the car. If needed, I can also provide some guidance around expected depreciation for vehicles.

### ***Servicing Costs***

These can vary widely. Some new cars offer affordable fixed price servicing whilst under warranty. Others, particularly those imported from Europe, can be expensive to service once the initial warranty has run out.

The cost of spare parts and tyres are also an important consideration.

### ***Petrol***

Larger vehicles such as 4WD's and SUV's may be great for the family, but can be expensive to run, particularly if used for a daily commute.

Similarly, some performance cars can be expensive to run if not driven conservatively.

### ***Insurance and Registration***

Again, these will differ depending on the type for vehicle you purchase, how long you have been driving and your claims history. (If needed, I can assist you with insurance)



## BUYING THROUGH A DEALERSHIP VS PRIVATE

Whilst Motor Vehicles purchased privately may be cheaper than through a dealership, it is not without pitfalls!

Both new and used vehicles purchased through a dealership should include a warranty. This won't be the case with a private purchase.

Licensed dealerships are also required to offer a cooling off period - this doesn't apply to a private purchase.

When purchasing privately it is critical to:

- Confirm the seller actually owns the vehicle ensure it isn't an insurance "write off" Confirm if finance is owning on the vehicle
- Ensure a current road worthy certificate is held (this also applies to second-hand vehicles through dealerships)
- Have the vehicle inspected by a qualified mechanic you trust before handing over any money

## PERSONAL PROPERTY SECURITY REGISTER (PPSR)

Use the PPSR to confirm ownership, if financed and to ensure it is not an insurance "write off".

To do a vehicle search on the PPSR, you will need the VIN or Chassis number of the car you're interested in. The car's vehicle identification number (VIN) is 17 characters (digits and capital letters) that act as a unique identifier for the vehicle

A small cost provides a lot of peace of mind! <https://www.ppsr.gov.au/>

## INSURANCE

Insurance is a cost few of us like to bear - until we need to make a claim!

Financed vehicles need to be insured for either replacement or market value. The policy also needs to note the finance company's interest.

Motor Vehicle insurance is a competitive market however, care is needed when choosing a policy:

- Will your no claim bonus be protected in the event of a claim?
- Will you have your choice of repairer? - if not; check out reviews for nominated repairers before signing up
- What excess will you need to pay in the event of a claim?
- Are windscreens included?
- Are there limits on the number of km's you can travel in a year



## CONTRACTS WARRANTIES & GUARANTEES

Before signing any purchase contract, check it carefully to ensure it is correct (colour, specifications, warranties etc.)

They need to be in writing and understood. Verbal promises are hard to enforce!

## PROTECTING THE RE-SALE VALUE

All motor vehicles depreciate; however, it is important to do what you can to preserve its resale value:

Have the car regularly serviced and retain the records garage under cover if possible

Replace worn tyres - these are not only dangerous, but also can damage steering and suspension

Regularly wash and polish the vehicle - don't overlook the underside of doors and the boot

Keep the inside of the car & carpets clean. Protect the surfaces and leather with quality purpose created products

Prior to selling the vehicle, touch up minor damage and/or have small dents removed

## CAR BUYING SERVICE

If you are time poor, or don't like the negotiation process of buying a vehicle, we can introduce you to a Professional Car Buying Service.

It is service some of our clients and team have used.

We receive no payment from the provider, but we love it so much we recommend it to our clients.

Basically, you decide the car you would like, colour and specifications.

The Car Buying Service then negotiate with dealerships across Australia to find you a car at a great price.

They can bring vehicles to you for a test drive. There is no obligation or high-pressure sales tactics.

After the purchase they deliver it to your door!

The Car Buying Service receive payment from the dealership through whom the vehicle is purchased.

## HOW I CAN HELP YOU

Using me for Motor Vehicle Finance offers two important advantages:

Highly competitive finance through access to the total market instead of an individual lender. Market access delivers choice and the benefits of competition.

Someone to help you navigate the process and choose the right product and structure for your circumstances. Our experience ensures you avoid expensive mistakes and provides peace of mind.

All Financiers have different policies and appetites to lend - which can translate through to the interest rate and structure they are prepared to offer.

With 25 year's experience in the industry, I work hard to keep abreast of lender policies and appetite, to deliver benefits for my clients that alone they would find hard to achieve.

I can help you access highly competitive quotes from our panel of motor vehicle financiers then coordinate the whole process to make it as seamless as possible.

## 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 motor vehicle finance and understand what is needed to deliver the right outcomes for my clients.

I love the different facets involved with this type of finance.

With a practical, down to earth approach, I strive to make my client experience as smooth as possible.

In addition to Motor Vehicles, I can also provide finance for:

- Trucks & Trailers
- Yellow Goods (Forklifts, lathes, tractors etc.)
- Earthmoving & Construction Finance
- Commercial and retail fit outs
- Medical and dental equipment
- Manufacturing equipment

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