



THE ULTIMATE GUIDE TO

ASSET AND EQUIPMENT

FINANCE 2020

CHOOSING THE RIGHT TYPE OF ASSET/EQUIPMENT FINANCE CAN HELP YOU SAVE BOTH TIME AND MONEY.

Upgrading your business's current assets/equipment always has its benefits. However, most don't have the working capital available for an outright purchase. In this instance, financing is the best option. Of course, traditional forms of financing can be an alternative, such as a business loan or line of credit, however it is widely popular to acquire goods using asset/equipment finance options.

> What is Asset & Equipment Finance?

Put simply, asset & equipment finance is where you or your business obtain a loan to purchase goods used wholly or predominantly for business use, such as motor vehicles, tools, agriculture equipment, trucks, excavators.. you name it!

The two most popular form of loans are a Chattel Mortgage or a Finance Lease.

Chattel Mortgage

A Chattel Mortgage is a popular finance option amongst business owners and operators. A Chattel Mortgage is utilised when the financed asset is used wholly or predominantly for business use.

- ✓ You own the financed asset up front
- ✓ Ability to claim interest and depreciation costs
- ✓ GST on purchase price claimable up front in most cases
- ✓ Option to set a balloon/residual at the end of the loan term
- ✓ Lower interest rates compared to unsecured loans

Finance Lease

Just like a Chattel Mortgage, a Finance Lease is also an option for financing assets used for business use. With a Finance Lease, the financier purchases the equipment on behalf of the lessee.

The financier remains the owner of the goods until the end of the lease where you can opt to pay the residual amount outright to take ownership.

- ✓ Amount financed is the cost of goods, less GST
- ✓ Flexible contract terms
- ✓ Repayments are tax deductible, depending on the status and circumstances of your business
- ✓ Lower interest rates compared to unsecured loans

If you were to take advantage of the Australian Governments Instant Asset Write Off Scheme, a Chattel Mortgage is your option to go with as you are the owner of the goods from the outset.

It is always a good idea to seek advice from your accountant before deciding which type of product is right for you and your business.

WHETHER YOU ARE IN THE MARKET FOR A NEW VEHICLE, COMPUTER SERVERS OR EVEN A NEW TRACTOR, WE'VE GOT YOU COVERED.

> Business Related Asset/Equipment Examples



You are a **Farmer** who needs a new **planter** to grow more crops.



You own a **Landscaping** company and require a new **mower** to keep up with the demand.



You own an **IT Company** and require additional **servers/hardware** to service your customers.



You are a **Mechanic** and require a new **work van** to establish a mobile service.



You are an apprentice **Plumber** and require a new **work ute** to carry your tools of trade.

> Who can borrow?

It is a common misconception that because a Chattel Mortgage or Finance Lease is a commercial product you need to be an ABN Holder to obtain this type of finance.

This type of finance is definitely common for companies, sole traders and trusts, however if you are a full time employee who uses an asset (generally a vehicle) for predominant business use (50 % or more), you too have access to a commercial finance facility.

If you have recently started a business, you may find it a bit tricky to secure finance especially if you don't have financials available. It is not out of the question though. There are a number of non-bank lenders out there who are happy to consider your application.

> How much can I borrow?

The amount you can borrow is dependent on several factors. Each lender has a specific risk appetite and generally take the following in to consideration;

- ✦ Your annual turnover
- ✦ The amount of time you have been in business
- ✦ Your credit score
- ✦ If the asset is new or used
- ✦ The type of equipment/asset you are financing

LOAN STRUCTURE AND FEE'S

> Term of Loan & Balloon Payments

After doing some of your own research, you have probably found that the maximum loan term on either a Chattel Mortgage or a Finance Lease is 5 years. This is the case for most assets, however, if you are purchasing used assets then the term of loan will be dependent on the age of the goods. As a rule of thumb, the age of the asset cannot exceed 12 years by the end of the loan term. So, if we have an asset that is already 8 years old, the max loan term for finance would be 4 years.

There are also guidelines in place for balloon amounts and residual values. On a Chattel Mortgage a balloon payment is optional. Of course, if you choose to have a balloon, your monthly repayments will be lower. Before deciding if a balloon is appropriate, you would need to consider the following;

- ✦ Effective life of the asset
- ✦ Proposed usage
- ✦ Predicted value at loan end

With a Finance Lease, you'll have a residual value at the end of the loan term and this is calculated in accordance with the ATO.

The values are set by the ATO and are a percentage of the amount financed;

- ✦ 1 year term – 65.63%
- ✦ 2 year term – 56.25%
- ✦ 3 year term – 46.88%
- ✦ 4 year term – 37.50%
- ✦ 5 year term – 28.13%

Once your loan term has ended, you have a few options available to you with regards to the payment of your balloon/residual. Options include;

- ✦ Pay the balloon/residual in full
- ✦ Sell/Trade the asset and finance again on a new asset
- ✦ Refinance the balloon/residual for a further term.

> Interest Rates

If we could suggest anything we would say not to get too hung up or fixated on an interest rate. You are better off going in with an idea of how much you can afford to pay per month instead.

A rate of 3.99% sounds great doesn't it? If someone then came to you with a rate of 4.5% you would think that sounds a bit high in comparison. The difference in cost on a \$50,000 loan over 5 years would be roughly **\$10.00** per month. It certainly isn't a huge difference is it?

> Fee's

There are normally fee's associated when establishing an asset/equipment finance loan. Generally, you will have an Establishment Fee and/or an Origination Fee. The amount you will pay will depend on the lender chosen. You have the option to finance the fee or pay this amount upfront.

WHAT SORT OF INFORMATION IS REQUIRED FOR AN APPROVAL?

> Application Process

Different lenders require different supporting documentation for their applications.

If you want to be extra prepared, below is a list of documents often requested. Not all will be necessary however it is in your best interest to have these items at the ready in the event they are required;

-  Completed Application Form
-  2 years completed financials
-  Interim Financials
-  Most recent BAS
-  Bank Statements (up to 6 months worth)
-  Commitment Schedule (for both the business and guarantors)
-  Proof of Home Ownership
-  Credit Reference for a similar loan type (if available)

The turnaround time for an application to be approved can vary greatly. Generally, a 24 hour timeframe is expected, however this can extend out to 72 hours, sometimes longer.

In most cases, your approval will be valid for 90 days.

> Should I use a broker?

A finance broker has access to a number of financiers, including bank and non-bank lenders. A good broker will set out to understand your unique business needs/setup and will select an appropriate lender based on your circumstances. Going at it alone could take weeks or more, a broker can have everything sorted for you in as little as 48 hours, from application to settlement.

-  A broker will guide you through the whole process.
-  A broker will look for lending solutions that suit your circumstances.
-  A broker will negotiate interest rates on your behalf.
-  A broker speaks the bank's language – they know what they require.

Remember that a finance broker is working for you and not the lender! The aim is to help your business grow!

GET IN TOUCH WITH US TODAY!

Let us help!

If you are looking to acquire assets without using your cash flow, asset/equipment financing will most certainly be the best option for you. Most businesses will qualify for asset/equipment finance. The interest rate, length of loan etc will depend on what you are purchasing and the position of your business.

At BNE Capital, we are dedicated to providing you with competitive solutions to suit your business's asset and equipment finance needs, with an emphasis on delivering a hassle-free personalised service.

With years of experience, we are passionate about helping your business grow. Choosing the right type of asset finance can help save you both time and money. We work with you to completely understand your business and financial situation and assist in finding the right finance solution for you.

Call us for a chat!

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Credit Representative 520876 is authorised under Australian Credit Licence 389328.
Your full financial situation would need to be reviewed prior to acceptance of any offer or product.