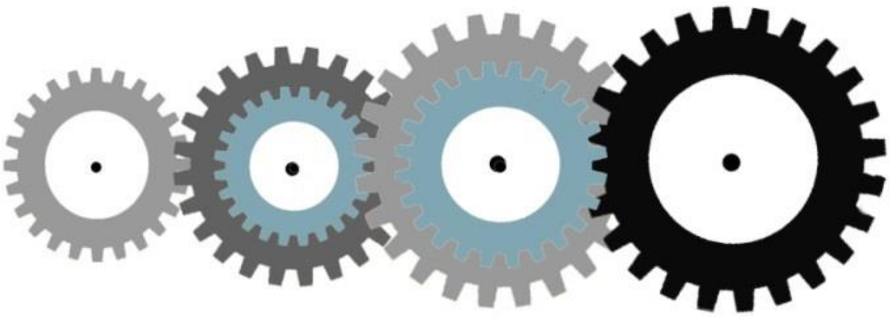
Equipment Connect

THE NUTS AND BOLTS OF EQUIPMENT FINANCE



INTRODUCTION: GAIN AN EDGE WITH EQUIPMENT FINANCE

Unlike a standard bank loan, equipment finance is a tailor-made financial product that allows your business to acquire equipment. Because the finance is used to acquire a specific revenue generating asset and because the funder usually has a right to recover that equipment, the finance is more affordable and more flexible versus traditional finance.

By using equipment finance, you are aligning future revenue streams with matching finance costs and this helps overall reduce risk for your business. Another advantage of equipment finance is that you retain future options to draw a bank loan for growth or marketing opportunities.

WHY IS ARRANGING EQUIPMENT FINANCE TYPICALLY SO SLOW AND PAINFUL?

SME business owners often complain that equipment finance can takes many days or even weeks to set up. Because of disjointed technology, too much paper and too many intermediaries, equipment finance providers have struggled to offer customers fast, reliable finance. With the advent of fintech and new platform-based technologies this is changing. Our platform will deliver next day financing across the Construction, Recycling, Manufacturing and Printing industries in a clear, transparent manner.

EQUIPMENT FINANCE OPTION ONE: FINANCE LEASE

Leasing, simply put, is borrowing an asset rather than borrowing the money to buy the asset. In equipment finance, a lessor who owns the asset will loan the asset to a business, the lessee.

Finance Leasing is an excellent option for a business who do not want to deal with an asset at the end of it's life. The lessor remains the legal owner of the asset but economic ownership of the asset transfers to the lessee (the business). The lessee is not entitled to claim capital allowances for the asset but must account for the leased asset as an asset on its balance sheet with a matching liability representing the sum of future due lease payments. Typically, the finance lease will run for the 80-95% of the useful economic life of the equipment and at termination a secondary lease will be entered for a nominal amount or the asset will be sold with partial payment made to the SME.

Advantages:

- ✓ The VAT can be fully financed with its burden spread out over the life of the lease.
- ✓ The business has the security of full control of the asset for term but with a clearly defined end date.
- ✓ The business has fixed regular payments which helps with planning. A servicing plan is often included.

Disadvantages:

- × Because a finance lease requires more administration on the part of the lessor (the lender of the asset), finance lease rates have traditionally been more expensive.
- × Typically, less flexibility for the lessee versus hire purchase contract. No right to buy the asset.

EQUIPMENT FINANCE OPTION TWO: HIRE PURCHASE AGREEMENT

Hire Purchase is the most popular form of equipment finance here in the UK and offers business greater flexibility. With Hire Purchase, a business agrees to pay for a new asset in instalments and then at an agreed future date has the option of making one additional payment to acquire the asset. Until the asset is acquired, it remains under legal ownership of the lessor. **For a business that really understands the equipment they require and would like to own the asset in the latter part of its economic life, a hire purchase contract is a great option.**

Advantages:

- ✓ Your business has the right to buy the equipment for a modest amount in the future.
- ✓ Servicing and maintenance plans can usually be built into the contract.
- ✓ You are entitled to claim capital allowances on the depreciation of the equipment. For a profitable business this is clearly a crucial.

Disadvantages:

- × VAT must be paid upfront. There are on occasions options to finance the VAT separately.
- × Similar to Finance Leasing, the asset is capitalised on the balance sheet of business.

EQUIPMENT FINANCE OPTION THREE: A SECURED LOAN

The simplest form of equipment finance is a straightforward loan but where the lender has security of the equipment being bought by way of registering a legal fixed charge against the asset. In the event your company goes fails, the lender will enforce his security and seek to repossess the equipment. The interest on the loan is generally fixed. Secured lending is not very common within equipment finance because businesses generally prefer not to have full economic ownership of the asset. Also, other factors including asset security and taxation benefits have historically constrained straight secured lending.

Advantages:

- ✓ Generally, the most flexible option that allows you to prepay easily.
- ✓ Less administration than other options.
- ✓ VAT can be financed.
- ✓ Capital allowances can be claimed.

Disadvantages:

- × The full residual value risk sits with your company. If the equipment is worth less than you expect in the future, this will negatively impact your company's financial results.
- × Similar to Finance Leasing, the asset is capitalised on the balance sheet of business.
- × Can be expensive versus hire purchase and other forms of
- × Often the slowest form of equipment finance.

THE HIDDEN TRAPS - WHAT TO LOOK OUT FOR

Many people will be surprised to learn that in the world of commercial finance there is a lack of regulation to ensure transparent and fair marketing. Unlike consumer finance there is often no requirement to display a clear, all-inclusive interest rate and typically, there is a lack of transparency on extra costs. We see the following five traps as

1. A MISLEADING INTEREST RATE

   Not all interest rates are equal. You should always ask to see the APR. Why? Two reasons. Firstly, an APR rate considers the timing of your repayments and secondly, an APR rate includes all fees and charges.

2. ‘BAKED IN’ CHARGES AND FEES

The financial services industry is notorious for extra charges and fees. Specifically, we would highlight the importance of identifying costs relating to 1.) Brokerage commission if you are using a finance broker – **this can be as much as 10% of the equipment cost**. 2.) Early termination or prepayment fees 3.) Secondary lease fees – this is important if you wish to continue using the asset at termination of the primary lease 4.) Fees around late payments and admin fees relating to changing payment plan.

3. EXPENSIVE BREAK CLAUSES

Most small and medium enterprises thrive on flexibility and on occasion may wish to terminate a finance lease early or delay a purchase under a HP agreement. Its important that you fully assess the costs in this scenario.

4. OVERPRICED INSURANCE

Insurance against accidental damage, theft or fire is often mandatory with high value equipment finance. This, of course, makes sense because the funder needs to protect their asset while on lease. Nonetheless, its important to ensure you are always receiving a fair insurance quote. Many funders and brokers capture a huge portion of the premium as sales commission and this can be avoided if you arrange your own insurance.

OUR PLATFORM: HOW WE CAN HELP YOUR BUSINESS

The EquipmentConnect platform allows you to access equipment finance from wealth managers, who by their nature, offer very **competitive funding**.

The platform works in tandem with your equipment supplier, so the entire process is **as easy as possible.** The platform holds all the details on the equipment and by using the latest and best technology we can provide an experience that is much better than the traditional broker, bank or leasing company route. **Furthermore, the process is fast, with finance delivered on a next day basis.**

The team at EquipmentConnect are always available on 020 3950 1545 or info@equipmentconnect.co.uk to answer any questions you may have.

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