Nine facts about equipment finance

After 25 years of financing equipment for capital intensive industries, we thought we would share a few facts which will assist business owners in getting this area right.

By Dale Archer
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1) Interest rates can vary by as much as 1 per cent, so it pays to shop around.

Unlike home loans, interest rates on equipment finance are very much open to the competition of a free market. As such, they can often be negotiated down by as much as 1 per cent if sufficient competition is created between financiers so it pays to shop around. A saving of $100 p/m over 60 months is $6000; if your company runs at a 10 per cent margin, that saving is equal to an extra $60,000 in top line income.

2) The only hard security needed is the asset itself, so don't fall into the bank trap.

The only hard security for equipment finance should be the equipment itself. Where a client uses their own bank for equipment finance, there is a very good chance that this loan will be secured (cross collateralised) against other assets including real estate.

3) Spreading your equipment debt across several financiers provides many bonuses.

Equipment finance allows a company to spread a greater portion of the overall debt to a broader base of financiers. This means less exposure to their existing bank, greater competition between financiers to drive lower interest rates, often better approval conditions, and a broader base of competitive lenders to assist in financing future growth.

4) The market has changed with many financiers no longer needing financials to provide finance approvals.

Many financiers have switched to "behavioural" credit assessment instead of looking at historic financial information to approve transactions. If a company has been in existence for 3 years, has a clean credit history and the principal is a property owner, approvals are automatic for up to $150,000 on additional vehicles and selected plant, and up to $500,000 where it is a replacement requirement. The interest rates are just the same as for normal "fully assessed" transactions.

5) Thinking about equipment finance the same way as a credit card limit has its benefits.

Just as in the same manner as you are approved for a "limit" on your credit card, pre-approved bulk facilities for equipment finance can be set up in advance across several financiers and at no cost; making it easier for companies to acquire additional machinery at short notice without having to seek finance approvals in each instance. Facility limits which can be set up for amounts from $200,000 to $3 million and are simply reviewed every year at the time the client has updated financial information.

6) Used Equipment is as easy to finance as New Equipment.

Quality used equipment (which is often substantially cheaper than new gear) can have finance arranged just as easily as new equipment and so presents as an excellent alternative to new equipment.

7) Private Sales can definitely be financed and a lot of money saved.

Competitive equipment finance is easily available where the used equipment is being purchased from a Private Vendor. These private sale equipment finance arrangements do need a couple of additional steps performed, however the savings can be significant compared to new machines or used machines through a dealer. The extra steps are simply an inspection of the goods and a more rigorous PPSR regime to ensure clear title is passed onto the financier.

8) Financing GST is cheaper debt than an overdraft.

GST can, in most instances, be financed as a part of the equipment finance facility if required by the client. This provides what is in essence a very low cost working capital debt which is substantially cheaper than traditional overdraft rates. In the event that the customer does not want to finance the GST long term, but does not want to pay for it out of cash flow at the time of purchase, an extra payment can be made at month 4 of the transaction to coincide with the period where the client has the cash from their subsequent BAS refund.

9) All equipment finance is not the same when it comes to tax deductions.

Although CHP & Chattel Mortgage structures limit a company's tax deductions to the interest & depreciation components of the asset (which is often far less than the physical annual payments of the debt), the prudent and appropriate use of an Equipment Finance Lease can often provide a tax deduction EQUAL to the monthly or annual payments being made under the Lease as the monthly payment itself is the deduction. This is often an underutilised product which is well worth investigating with your accountant and may save significant tax dollars.

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