

### UNDERSTANDING FINANCE – EQUIPMENT & VEHICLES

Most business owners will use a form of finance for the purchase of equipment or vehicles during their business life. Their choices will normally be:

- Lease
- Commercial hire purchase
- Chattel Mortgage

From time to time we may need to pay out the finance contract before its due date. As part of this we request a “payout” amount from the financier. Unfortunately most financiers do not alert you at this time that there is an additional charge incorporated in the payout amount for forgone interest. This amount (financiers insist it is not a penalty!) is provided for in the original contract you signed. There are several points to note if you anticipate paying finance agreements out early:

1. Consider the term of the finance. If vehicles are replaced every 3 years then do not finance for a longer period, just adjust the balloon or residual.
2. Prior to finalising the disposal of the asset ask the financier if there is any additional charge (Rule of 72 calculation) included in the payout amount.
3. Seek to negotiate the charge amount prior to the disposal of the asset. Sometimes financiers are negotiable.