

Learning the leasing lingo



Handy Hint

Speed up the 'lease buying process' by obtaining a pre-approved credit limit beforehand. This way your finances are organised before you shop around!

If you're looking for equipment or vehicle finance, it's useful to understand the terminology used in the industry. We've reviewed all the leasing products so you can get the best leasing deal!

Lease

All equipment and vehicle finance structures are usually called 'leases'. A lease however is only one of a number of financing structures. In fact, leases form a very small percentage of all finance deals.

A finance lease is an agreement where the financier owns the goods and the user rents these goods from the financier. For example, this may include a car or laptop. As a user, you must show the lease on your balance sheet as an asset with a corresponding liability.

Finance Lease agreements state a residual or lump sum amount that represents the potential sale price of the goods at the end of the lease term.

Asset Purchase

Also known as Hire Purchase, an asset purchase agreement is where assets are technically hired until the last payment of the agreement is made. After full payment you become the outright owner of the asset.

Commercial Hire Purchase agreements are quite attractive because they are very flexible. An unlimited deposit amount can be made by cash or trade-in. You can also choose full repayment over the term or a lump sum (balloon) payment at the end of the agreement, reducing your monthly commitment and assisting cash flow.

Chattel Mortgage

Chattel mortgage is an alternative product to a lease or an asset purchase for equipment and vehicle finance. For a chattel mortgage you, as the user, buy the goods directly from a supplier. The financier then takes a charge over the goods in the form of a mortgage.

Residual value

A residual value is the estimated value of a leased asset at the end of the lease period. It's the last lump sum payment at the end of a lease term.

Balloon payments

A balloon payment is just another repayment (at a different value) and can be set to a maximum value as set down for lease residuals. No minimum requirements apply. Balloon payments are optional and apply to asset purchase and chattel mortgage financing only.

Novated Lease

A Novated Lease is where an employee leases a car and then sub-leases (novates) it to their employer who pays the lease rentals. The employer agrees to have the lease novated to them while the employee remains in their employment. If the employer fails to pay, the employee is still fully liable for the debt, constituting a default.

Operating Lease

An Operating Lease is a pure rental agreement, with no documented residual. The goods can be returned to the financier when the agreement expires.

Operating Leases are usually limited to motor vehicles, computers and multi-purpose industrial equipment such as forklifts. This is because they have a sufficiently sizeable second hand market. A reasonable estimate of future value can be made.

Pre-Approved Credit Limits

Pre-approved credit limits are pre-arranged finance limits put in place for future financing requirements. They can be for single assets (generally motor vehicles) or for multiple assets purchased over a period of time. These are normally valid for a maximum of 90 days.

Revolving Credit Limits

Revolving credit limits are similar to pre-approved credit limits but allow for the limit to be reused when finance is repaid. Every twelve months the financier will review the facility.

To find out which leasing product is suitable for your needs many factors need to be considered. Contact your adviser to discuss your financing requirements and options.