Understanding why businesses lease

Running a business relies on cash flow so why not use someone else's and keep yours where you can get at it. Even very large businesses with great cash reserves typically borrow funds for motor vehicles, their managers preferring to use cash flow rather than tie up capital with Ownership.

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When you buy

You pay for the entire cost of a vehicle regardless of how many kilometres you drive it or how long you keep it.

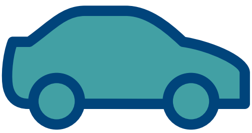
Monthly payments may be **higher** than leasing. You typically make a down payment, pay sales taxes in cash or roll them into your loan, and pay an interest rate determined by your loan company based on your credit score. You make your first payment a month after you sign your contract. Later, you may decide to sell or trade the vehicle for its depreciated resale or trade value.

When you lease

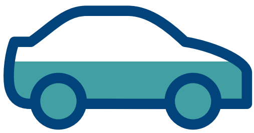
You pay only a portion of a vehicle's cost, which is the part that you 'use up' during the time you're driving it.

Leasing is a form of financing – it is not the same as renting. You make your first payment at the time you sign your contract – for the month ahead. At lease-end, you may either **return the vehicle, or purchase it.**

Lease-versus-Buy Example
What you pay:



$20,000 Buy



$7,000 Lease

As an example, when you **BUY, you pay the entire $20,000,** plus possible fees, plus interest on any borrowed funds. You own the car at the end of your loan, although its value is less than the $20,000 you initially paid. And if you choose to add the cost of the vehicle to your mortgage using a 25 year repayment period and a 5.75% mortgage lending rate as an example, you could pay over $30,000 (over the full term). The likelihood of you actually keeping the vehicle for the full term is low which means if you sell (usually for less than what you bought it for) you keep paying for it through your mortgage for the next 20 odd years.

If you **LEASE a $20,000 car that will have, say, an estimated resale value of $13,000 after 36 months, you only pay for the $7000 difference** (this is called depreciation), plus finance charges and any additional services. At the end of your lease, you return the vehicle or it could be available for purchase.

This difference is fundamentally why leasing offers significantly lower monthly payments than buying.

Lease payments are made up of two parts: a depreciation charge and a finance charge.

The depreciation part of each monthly payment compensates the leasing company for the portion of the vehicle's value that is lost during your lease. The finance part is interest on the money the lease company has tied up in the car while you're driving it. In effect, you are borrowing the money that the lease company used to buy the car from the dealer. You repay part of that money in monthly payments, and repay the remainder when you either buy or return the vehicle at lease-end.

Loan payments also have two parts: a principal charge and a finance charge, similar to lease payments.

A loan company or bank issues money directly to you or a dealer, and you agree to repay that money, with interest, over time. The principal charge pays off the full vehicle purchase price over the length of the loan, while finance charge is loan interest on monthly unpaid balance. The finance company or bank will hold the vehicle's legal title until the loan has been completely repaid. Any lending can affect a company's credit rating and removes access to vital cash flow that could be better invested in the business or other areas.

No Up-front Cash Outlay

Vehicle leasing requires no down payment, which makes getting into a new car not only affordable but it frees up your cash for other things.

Lower Monthly Payments Than Lending

Because you only pay for the portion of the car that you actually use, your monthly lease payments are 30%–60% lower than for a purchase loan for the same car and same term.

More Car, More Often

Since monthly lease payments are lower than with buying, you get more car for your money and drive a new vehicle every two to four years, depending on the term length of your lease.

No Maintenance Headaches

A fully maintained operating lease manages all maintenance issues right down to accident management – a one call service that takes care of the damaged vehicle by getting it to the repairer, arranging for the driver to get back on the road and overseeing the repair process – keeping you up-to-date along the way.

Financial and Administration benefits

Leasing provides access to a total fleet management solution. Outsourcing of vehicles, transport charges, tyres and servicing etc. are no longer a worry.
You have cash/credit available to put into other areas rather than being tied up in a depreciating asset.

Comprehensive reporting is available that can provide you with fuel usage, carbon emissions etc and the ability to identify cost saving areas. Because the lease rate is classified as an operating expense, it may be tax deductible.

The term 'Lease' usually infers what is more accurately known as an Operating Lease. This is a fixed term rental agreement with an allowance for a certain amount of mileage over the contract term on the vehicle of your choice.

There are several different variations of Leases.

Fully Maintained Operating Lease

The Fully Maintained Operating Lease removes the administrative hassles of managing a vehicle/s while providing all of the financial benefits of leasing. A Fully Maintained Operating Lease includes servicing, maintenance, relicensing, accident management, fuels cards (optional) and WOF's in one easy monthly payment. At the end of the Lease contract, the vehicle is simply returned to FleetPartners.

Finance Lease

A Finance Lease is a fixed monthly rental payment, over an agreed lease term. You have the choice of a 'zero residual value' or 'agreed residual value' at the end of the lease. FleetPartners maintain ownership of the vehicle over the lease term and until all payments have been made. On the receipt of the final payment, FleetPartners will transfer ownership of the vehicle to you.

EzyDrive

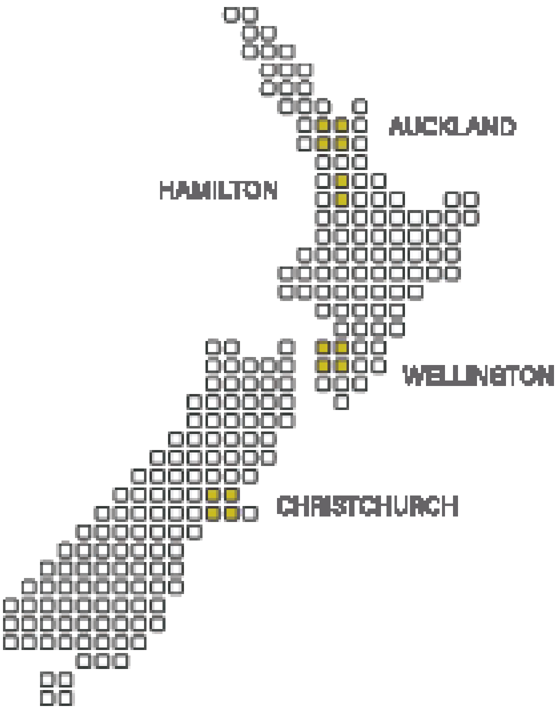
A product utilising pre-leased vehicles and incorporates all the benefits of a Fully Maintained Operating Lease with potential savings in lease rental and FBT value due to a lower market value at the commencement of the lease. EzyDrive also offers the choice of term from 12 months* with an early termination and no penalties at 7 months*, up to the maximum term of 45 months.

Sale and Leaseback

FleetPartners assess your fleet to determine which vehicles have passed their optimum economic life and which remain financially and operationally viable. FleetPartners then purchase some or all of your fleet at an agreed market or book value. FleetPartners then lease these vehicles back to you on a fully maintained basis, structured in a way to suit you and provides replacement options for unsuitable vehicles. A Sale and Leaseback can provide you with reduced FBT costs and an immediate cash injection.

Talk to your local dealership about leasing today or call FleetPartners on 0800 372 632 to find out more.

FleetPartners – providing flexible vehicle solutions to New Zealand businesses for over 30 years. Offices in Auckland, Hamilton, Wellington and Christchurch.



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