



# **Asset Finance Guide For Small Businesses**

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## 1. Financing your business

Whether starting up a new business or growing it to the next stage, finance is an important consideration. Every business needs machinery, vehicles, plant and IT equipment to either set up or expand. And all businesses have two options. Either buy the asset outright or finance it in some way...

The recession brought tighter lending decisions and the withdrawal of many overdrafts which heavily impacted upon SME's - the lifeblood of the UK's economy.

Credo Asset Finance is passionate about providing affordable and fast finance to SME's. And in an uncertain economic climate, I believe Asset Finance is a great budgeting tool to help with cash flow and reduce risk within a business.

This report explains more about Asset Finance and how it can help your business. But it also provides the advantages and disadvantages of Leasing and HP as well as buying outright. So you can clearly see what option is right for you.

We hope you find this report useful. If you have your own experiences of Asset Finance or any suggestions, we would love to hear from you.

Simon Gray



Managing Director

**Credo Asset Finance Ltd**

## **2. What is Asset Finance?**

Asset Finance provides affordable finance when purchasing a vehicle, office & IT equipment, plant or machinery for a business. It uses a wide range of finance options – the most popular two being leasing and Hire Purchase.

The process involves an Asset Finance company liaising with suppliers and finance houses to find the best deal for your circumstances.

The benefits of Asset Finance include improved cash flow and fast and affordable finance on assets you might not otherwise purchase.

### **How Asset Finance can help your business**

Businesses of all sizes can benefit from Asset Finance including sole traders, partnerships and limited companies. Our website, [www.credoassetfinance.com](http://www.credoassetfinance.com), lists some Frequently Asked Questions and a jargon buster you might find useful to read.

Here is an example of how Asset Finance helped one business;

### **Asset Finance helps Langtry Furniture grow**

One company to take advantage of Asset Finance is Langtry Furniture in Newmarket who required finance for a £27,500 Computer Numerical Control machine (CNC).

Langtry Furniture manufacture and fits bespoke furniture for clients including Queens College in Cambridge. They required an automated machine that loads CAD (Computer Aided Design) drawings to improve furniture production time.

Tony Jones, Director of Langtry Furniture adds; “I hadn’t previously heard of Asset Finance but Credo’s finance worked out 5% cheaper and they offered me a more personal service than I think the bank would have.”

The new machinery has speeded up operations by 50% and opened up a different route to market as the company can now offer a new service.

### 3. To buy or not to buy...

With anything in life, there are advantages and disadvantages. So we have explained the pros and cons of Leasing and Hire Purchase compared to buying outright;

<b>Leasing / Hire Purchase</b>	<b>Advantages</b>	<b>Disadvantages</b>
	<ul style="list-style-type: none"> <li>• An Asset Finance company usually has better, bespoke and cheaper deals</li> <li>• You can forecast your cash flow</li> <li>• The interest rate you pay is often lower than a bank loan or overdraft</li> <li>• Asset Finance saves time as there are no long forms to fill in and no proof of affordability for items less than £25,000</li> <li>• You don't pay broker fees</li> <li>• With HP, tax relief on the interest makes it even more affordable</li> <li>• Leasing payments are fully deductible against tax</li> <li>• On Leasing, VAT can be spread rather than having to find the vat up front</li> <li>• Keeps your bank overdraft and cash available for working capital (you can't finance advertising and staff costs on Asset Finance), helping your business to expand</li> <li>• Leaves banks free for any other borrowing you may require, when they look at total exposures.</li> </ul>	<ul style="list-style-type: none"> <li>• You never actually own the asset unless you opt for Hire Purchase where you own it once you have made all payments</li> <li>• You may have to put down a deposit</li> <li>• Interest is charged on the debt</li> <li>• You may have to pay an interest penalty if you settle early</li> <li>• If you default badly, the vehicle or equipment may be repossessed</li> <li>• You cannot sell the Asset without clearing the finance.</li> </ul>

Outright purchase	Advantages	Disadvantages
	<ul style="list-style-type: none"> <li>• You own the asset outright, you can do what you want with it and it cannot be repossessed</li> <li>• You can claim capital allowances</li> <li>• You're not tying yourself into long contracts</li> <li>• You may pay less in the long run</li> <li>• If times get tougher you can sell the Asset and get the cash back.</li> </ul>	<ul style="list-style-type: none"> <li>• You're spending your capital upfront on an asset you may not need in the future</li> <li>• You'll reduce your cash flow</li> <li>• Your asset will depreciate so you will sell it for less money than you paid for it</li> <li>• You may need to dip into your overdraft and this could be withdrawn by your bank</li> <li>• You may lose interest receivable</li> <li>• Trying to raise money on an asset after you have already purchased outright is difficult and more expensive.</li> </ul>

### Doing the maths

Let's look at the differences in practical terms and compare the costings. Here we show the difference in funding methods when acquiring some machinery costing £20,000 + Vat. We'll assume it is a small, Ltd company, vat registered and we're using writing down allowances at 20%.

	Outright Purchase	Hire Purchase	Leasing
Cash paid (inc vat @ 17.5%)	£23,500.00	£5,500.00	£574.57
Monthly payments	-	48 x £443.67	47 x £574.57
Fees	-	£150.00 + £35.25	£172.50
Total payments	£23,500.00	£26,981.41	£27,579.36
Interest/fee paid/lost	£2,224.06	£3,481.41	£3,472.00
Less Tax Relief @21%	-	£731.10	£4,929.12
Capital Allowance @ 21%	£2,479.68	£2,479.68	-
<b>Total Cost</b>	<b>£19,744.38</b>	<b>£20,270.63</b>	<b>£18,692.88</b>

#### 4. What finance option is right for you?

Here is an explanation of the features of different finance solutions - your Asset Finance company will advise what your best option is:

<b>Hire Purchase (H.P)</b>
• A straightforward repayment facility
• You may pay an initial deposit and the balance and interest is paid off over a set period of time
• You own the asset at the end of the agreement
• Flexible deposits, repayments and payment periods.

<b>Hire Purchase + balloon</b>
• As above but with an amount (balloon) offset to the end of the agreement
• Lower monthly payments
• At the end of the period, you can decide to pay the balloon, part exchange or refinance.

<b>Finance lease</b>
• Technically, the Leasing company own the goods
• VAT is spread across each payment at no interest cost meaning up front deposit much lower
• Small deposit and sometimes lower rentals as the owner claims the writing down allowances
• At the end of the lease, you can realise some of the value of the asset by selling to a third party and retaining up to 99% of the sale proceeds.

<b>Operating lease</b>
• Effective form of leasing for commercial vehicles – i.e. fleets
• You build in a residual value to reduce costs
• Small deposit
• Reduces your cost as the funder or manufacturer takes the risk in the residual value of the equipment and factors this into the rental
• Off Balance sheet – the debt does not show in your liabilities

## 5. **Top tips for buying business assets**

1. **Think about the future of your business.** Buying outright may seem like the best option if you have the money available but think about your future business requirements – i.e. staffing costs and cash flow. You never know when you might need some capital.
2. **Consider whether you want to own the equipment or vehicle.** Consider the tax effects, including VAT and whether you want the debt to appear on your balance sheet.
3. **Shop around!** Get three quotes so you can compare value for money
4. **Beware of deals that sound too good to be true.** With many 0% finance deals, you'll actually pay more for the asset in the first place so it won't necessarily be cheaper.
5. **Always look at the APR and know the total of what you're paying.** APR's take into account all factors including fees etc so the lower the APR – the better the deal.
6. **Do not pay broker fees.** Some banks and brokers may charge you a large set up fee for arranging the finance. Banks often charge a standard 1% fee, sometimes more. On a deal of £50,000, this could be £500 or more. Most Asset Finance lenders charge only between £150 and £250.
7. **Get advice.** Do your homework, make sure you have the best pricing and the right form of finance. Always ask for advice from the Asset Finance provider as they have seen hundreds of similar deals in their time.
8. **Read the small print.** Before you sign anything, carefully read through the terms and conditions so you are certain of your commitments, checking the amount of rental, the period of hire and notice periods.



## **6. Who is Credo Asset Finance?**

Credo Asset Finance provides finance for companies looking to finance assets including vehicles and equipment in order for their business to successfully grow. It also provides finance to individuals looking to finance cars or motor homes.

We are passionate about providing fast and affordable finance to SME's as they account for 99.9 per cent of all enterprises\*. And our customers tell us we're cheaper than many banks and suppliers and we offer a friendly and fast service.

\* Source - Department for Business, Enterprise & Regulatory Reform

### **Where are we?**

Credo Asset Finance has offices in Norwich, Ipswich and Colchester. But we are more than happy to help customers based outside of East Anglia as we can deal with your requirements over the telephone or online.

### **Fast facts**

- Credo Asset Finance was established in 2005
- The company employs 8 people
- Over 2500 customers have been helped since 2005
- We're on track to lend £15m in 2010.

### **Put us to the test!**

Ask us to quote for the next equipment or vehicle you purchase for your business by calling us on **01603 703180** or completing our online form at

[www.credoassetfinance.com](http://www.credoassetfinance.com)

## **7. Success stories**

Here are some examples of businesses that have benefited from Asset Finance:

### **Competitive finance package secured deal**

A finance package can be the difference between winning or losing a customer, so when print and copier specialist Photostatic turned to Credo Asset Finance, it needed a competitive rate.

Photostatic is a Norfolk company that supplies printers and photocopiers to businesses across East Anglia. Its Sales Director, Rodney Greer, audits companies' printing processes to demonstrate how they can save money. So, when a large car dealership required 42 printers, a telephone call was made to Credo Asset Finance to see how they could help.

Two hours later, Photostatic had won the order and the customer was accepted at a rate which saved 5% on the finance rental compared with other providers. Rodney says "It saves me time as I don't have to sort out any of the paperwork. They get far more competitive rates than I ever could as they have clout with leasing companies."

### **Dream car was a reality with affordable finance**

After years of owning motorcycles, Chris Lee's dream was to buy an Audi TT so when it came to financing the purchase, his first consideration was value for money.

As a Director of Whitehall Electrical Limited, a family run business that supplies electrical contracting services, time is precious. With Credo Asset Finance taking care of all of the paperwork, Chris didn't have to leave his office once.

He adds; "I compared Credo Asset Finance to the manufacturers to keep them on their toes but Credo was £20 a month cheaper." This cost saving means Chris will have £720 more in his pocket over three years.

The Audi TT, a 57 plate, two litre fuel injection model arrived just before Christmas, costing £22,500 in total. Chris is delighted with his purchase, adding "I got my dream car, saved money and didn't have to leave my office to arrange it!"



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