



**BERG
FINANCIAL SERVICES**

NEWSLETTER

Buying a Car
What are your Finance Options?

Practically all of us, at some time in our lives, find that we would like to purchase a Motor Vehicle. If we want a modern, reliable, attractive Car to satisfy our needs then most of us will need to obtain Finance to enable us to do this.

It is very important that you do your homework before you enter into a Finance arrangement. There are many different options available and numerous Finance Providers that all offer a myriad of products and services. It is vital that your individual situation be assessed to determine the best alternative for you.

Berg Financial Services can help you to understand the 'big picture' and lead you through the maze of jargon. We can narrow down your choices by discussing your individual budget and goals and having a broad knowledge of Banks and Finance Providers individual policies. BFS can work with you to select the most cost effective Loan alternative for your lifestyle.

Different Loan products have different features and benefits, and if purchasing a Motor Vehicle for Business Use there are tax advantages to consider.

Listed below are brief overviews of some different Finance options.

Car for Personal Use

Personal Loan

There are two types of personal loans. They may be used to purchase many items from a car to furniture. In most cases Personal Loans are not available for amounts under \$5,000-.

Secured Personal Loan

A Secured Personal Loan is a loan that is granted with the borrower putting up some form of security. In many cases a person who has taken out a Personal Loan to buy a car or to buy a boat may use that as their collateral (security).

Unsecured Personal Loan

An Unsecured Personal Loan requires no security on the borrowers part. These are often available to customers who have a long standing relationship with a clean record at a Bank or Finance Provider.

You can also have someone, a parent or friend who can be a guarantor on your loan application. This means that should you default on your Personal Loan then they will be liable for the outstanding balance. A guarantor loan is considered unsecured as there is nothing physical (car) provided as security.

Car Loan

A Car Loan is a particular type of loan used specifically for the purchase of a motor vehicle. The motor vehicle may be new or used.

With a Car Loan, the car being purchased is used as security against the Loan Contract. This means that the Finance Provider reserves the right to repossess and/or sell the motor vehicle to redeem costs if you fall behind in the repayments of your loan. This is known as having a 'Charge' over the vehicle.

Interest Rates for a secured Car Loan are generally lower than an unsecured Personal Loan because the risk of loss by the Finance Provider is reduced.

Increase your Home Loan

If you own or are paying off a property, and you have enough equity in this property to support your application then you can increase the amount of your Home Loan to purchase a motor vehicle.

Equity is the term given to the portion of your property that you actually own, as opposed to the amount that is mortgaged as security against a Home Loan. For example, if your property is valued at \$400,000- and the amount that you owe is \$200,000- then your equity in this property would be \$200,000-. (value – mortgage = equity).

Home Loan interest rates can be up to 5% less than Personal Loan rates, so this is a cost saving option.

Car for Business Use

Small Business, Partnerships and Companies who are looking for a Motor Vehicle that will be used predominantly for business may be eligible for the following type of Loans.

Commercial Hire Purchase (CHP) / Asset Purchase

Commercial Hire Purchase, sometimes referred to as Asset Purchase, is a loan used by business to purchase motor vehicles and/or other operating equipment. NO capital outlay is required which means that the business cash flow is not affected up front and 100% of the purchase price may be borrowed. An optional deposit (or trade in) may be paid which will help to reduce the amount of the repayments over the term of the contract.

With CHP the Lender holds the title of the car as security until all monies have been repaid.

Benefits include –

Fixed Interest Rates and set monthly repayments

Terms from 1 to 5 years with or without a predetermined residual amount (known as a Balloon) to be paid at end of contract

Repayments are GST exempt

Interest charged and depreciation of the vehicle is tax deductible

Interest Rates are generally lower because lending is secured with a charge over the vehicle

Lease

A Finance Lease or Motor Vehicle Lease is an arrangement between the Finance Provider (Lessor) and the client (Lessee) whereby the Finance Provider agrees to rent a motor vehicle over a set term with a predetermined residual value. NO capital outlay is required which means that the business cash flow is not affected up front.

During the term of the contract the Lessee has the use of the car and pays the Lessor rent (lease payments) for that purpose. The Lessor owns the Car until the residual is paid out.

Benefits include –

Fixed Interest Rates and set monthly repayments

Terms from 1 to 5 years with or without a predetermined residual amount (known as a Balloon) to be paid at end of contract

GST on the purchase price of the Motor Vehicle is claimed back by the Lessor on client's behalf which lowers the amount financed to the purchase price minus GST

GST on monthly repayments is claimable

Lease payments are usually 100% tax deductible

Generally lower Interest Rates due to the Lease being secured against the Vehicle

Novated Lease

A Novated Lease is a three way agreement between the Finance Provider, your employer and you (the employee). This is very similar to a Finance Lease however your employer agrees to make the repayments from your "pre tax" salary, thus reducing your taxable income. If you cease employment, the vehicle ownership as well as the finance commitments remain with you, you can take the Novated Lease with you to your new employer.

Benefits include –

The Leased Vehicle is yours to use 100% of the time, it is not the company car

Terms from 1 to 5 years

Greater flexibility with choice of car

Option to own the Vehicle at the end of the contract term

Financing of the Vehicle is with "pre tax" dollars

Shows commitment by employee to the employer

If at the end of the contract term the car is sold and a profit is made, the profit is yours to keep

A Fully Maintained Novated Lease is also available where all operating costs of vehicle are covered by Finance Provider; this includes insurance, registration, fuel, tyres, and services. Of course a Fully Maintained Novated Lease would have higher repayments.

Chattel Mortgage

Chattel Mortgage is essentially a Mortgage over the vehicle being financed. Chattel Mortgage is classed as a cash sale in that the car becomes yours on purchase and the finance provider takes a mortgage over the vehicle (chattels). A Chattel Mortgage allows the purchaser to claim back GST on the vehicles purchase price through their next BAS.

The Chattel Mortgage is a flexible option where you can choose to finance the full purchase price or you can include a deposit and/or trade in to reduce your commitment. A residual payment may be placed at the end of the contract or you can structure your repayments to clear the debt in full over the agreed term.

Benefits include –

Interest charged and depreciation of the vehicle is tax deductible

NO capital outlay is required which means that the business cash flow is not affected up front

Flexible terms 1 to 5 years

After full payment of contract ownership of goods is transferred to you

Repayments are GST exempt

Generally lower Interest Rates due to the Chattel Mortgage being secured against the Vehicle

Did you know?

Top 10 Tips for Fuel Efficient Driving as issued by Australian Government - Department of the Environment, Water, Heritage and the Arts.

1 Minimise your vehicle use.

2 Drive in the right gear. Drop back a gear or two when going up hills.

- 3 Drive smoothly. Avoid peak hour rush.
- 4 Minimise fuel wasted in idling. Turn the ignition off when held up.
- 5 Don't speed.
- 6 Minimise aerodynamic drag. Remove roof and bike racks when not in use, wind windows up.
- 7 Look after your vehicle's tyres. Regularly check tyre pressure.
- 8 Use air conditioning sparingly. At speeds of over 80km per hour though, air conditioning makes better fuel efficiency sense than having windows down.
- 9 Travel light. Your car is not a mobile store room.
- 10 Keep your vehicle in good condition. Maintain regular services.



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