

Asset finance

A Guest Article by Graham Allen
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Asset finance in a down economy

In a “credit crunch” market like that of 2008, banks increasingly tighten their lending criteria. So what other options does the commercial customer have for acquiring assets for business use?

The market in asset finance is a huge one. Some 40% of all business-critical assets are funded this way. However, this also means that 60% are not funded by means of this option, although it can be both beneficial and fiscally astute for all types of business.

How does asset finance work?

Many businesses still choose to telephone the bank when they are in the market for new machinery, vehicles, production lines, telephony, IT and countless other fixed assets that are utilised in the business.

The main problem with this is that your bank will consider your application only while taking into account overall bank exposure. This may also include a property loan, trade finance, invoice discounting, working capital such as overdrafts, and also short-term loans.

The bank will always view its group exposure before considering whether to provide asset finance. This can mean that decisions are (a) slow and (b) very conservative.

A popular option

Independent asset finance is popular as it acts as a standalone facility. It may well be sourced through a competitor bank or subsidiary, and this has the advantage of limiting exposure to one lender.

Banks frequently talk of “headroom”. This relates to the amount of room left for group facilities. You may find that the ability to source further funding is compromised by squeezes on banking headroom.

Two categories

There are essentially two main categories of asset finance: hire purchase and leasing. The costing of both facilities is essentially the same. The main difference is how the tax allowances are calculated.

With hire purchase there is a 20% writing down allowance (WDA) annually set against taxable profits. With leasing, 100% of the rental is allowable against

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taxable profits. Hire purchase may be included in the 100% annual investment allowance (AIA).

Although you should talk to your accountant about your tax position, most companies choose ownership of assets such as machinery, vehicles and plant, and hence take the hire purchase route. On the other hand, highly depreciating assets such as computers, telephony and furniture are traditionally leased.

Where to go for advice

For clients that may not have a history of asset finance, a credit crunch market undoubtedly makes it more difficult to get such funding. Also, most finance houses have “favourite” assets and may shy away from anything outside those narrow categories.

We recommend that you look to companies with excellent market knowledge and access to a broad range of funders – that is, companies that are well placed to offer highly sophisticated and competitive funding packages.

Graham Allen
Director – Allied Finance

If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.