



Why use Asset Finance?



What is asset finance?

Asset finance is a type of finance used by businesses to obtain the equipment they need to grow. It usually involves paying a regular charge for use of the asset over an agreed period of time, thus avoiding the full cost of buying outright. The most common types of asset finance are *leasing* and *hire purchase*.

Leasing gives the customer access to new equipment by way of renting it for a contracted period, without owning the asset.

How it works - The leasing company (lessor) buys and owns the equipment on behalf of the customer (lessee). The customer pays a rental for the use of the equipment over a pre-determined period.

There are two main types of lease:

Under a **finance lease**, the value of the asset appears on the lessee's balance sheet and the rental payments pass through the profit and loss account. The full value of the equipment is repaid to the lessor, plus interest, over the lease period.

An operating lease may be more appropriate if the customer does not need the equipment for its entire working life. Payments (which appear in the customer's profit and loss account) are made to the lessor for the use of the equipment while it is needed. The leasing company may retain responsibility for maintenance and is likely to take the equipment back at the end of the lease period. As the customer only keeps the asset for a very limited period, it is not shown on the lessee's balance sheet.

Hire Purchase (HP) allows the customer to buy the equipment on credit.

How it works - The finance company purchases the asset on behalf of the customer. The finance company owns the asset until the final instalment is paid, at which point the customer is given the option to buy it for a nominal sum.

Why use asset finance?

Asset finance can be used to fund any asset – ranging from telephones and photocopiers to forklift trucks and aircraft. It could be the perfect solution if your business needs new equipment that might otherwise be unaffordable.

The various forms of asset finance provide a number of advantages for the customer:

- They give businesses access to the equipment they need without incurring the cash flow disadvantage of an outright purchase
- Finance agreements can often be tailored to the business' needs, with flexibility on both the term and repayment schedule
- Leasing and HP are excellent budgeting tools as payments are usually fixed, allowing improved cash flow management
- Asset finance providers often specialise in a particular type of asset about which they have expert knowledge

The importance of asset finance to business growth

The FLA is the trade association for the asset, consumer and motor finance sectors in the UK. In 2013, our members provided £22 billion of asset finance to businesses and the public sector, representing almost 30% of all fixed capital investment (excluding property and own-account software) in the UK.

Of the total new business written by FLA asset finance providers in 2013, £12.6 billion was provided to support business investment by SMEs. The success rate companies applying for asset finance is 87% – high compared with other forms of finance.

Where to find asset finance providers

Around 90% of asset finance providers in the UK are members of the Finance & Leasing Association (FLA). You can find them listed on our website.

The FLA's Business Code

Doing business with an FLA member means you are dealing with a reputable firm, whose agreements are subject to the FLA's Business Code. The Code sets out the standards that FLA members will meet when providing asset finance to businesses and the public sector. If problems do arise and a customer feels that a member firm has not complied with the Code, they can contact the FLA and take advantage of our conciliation service.

Finance & Leasing Association



Get In Touch

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