



# THE MOTOR VEHICLE FINANCE HANDBOOK

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What You Need to Know



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# Why the handbook was created

When arranging finance for your motor vehicle it is important to:

- Look beyond the headline interest rate
- Understand the true cost of the finance
- Ensure the right product is used for the finance

Motor Vehicle Finance is complex and can be costly if the wrong product, or structure is chosen.

When purchasing a motor vehicle, there are many factors to be considered - this Handbook is designed to help you:

- Understand the different financing options
- Avoid common pitfalls and expensive mistakes
- Choose the right vehicle for your needs

The Handbook has been created for business owners or employees, who use their motor vehicles at least 50% for business purposes.



# Why use a Motor Vehicle Finance Broker?

A Motor Vehicle Finance Broker offers those looking for finance two important advantages:

- Highly competitive finance through access to the total market instead of individual lenders. Market access provides choice and the benefits of competition
- Helping you navigate the complexity and choose the right product and structure for your circumstances. Our experience ensures you avoid expensive mistakes and provides peace of mind



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# Greater choice & more options

A key advantage of using a Finance Broker for the purchase of motor vehicles and trucks is the access you gain to different financing options - these include:

- **No Financials Finance** - Hassle free fast access to the finance you need
- **Wheeled Equipment Rollover Finance** - ideal if you have motor vehicles or trucks that regularly need to be updated. In most instances no financials are required
- **Residual Refinance** - this allows you to refinance the Residual from a maturing contract for a further term
- **Secondhand Equipment Finance** - available for motor vehicles and trucks up to 15 years old
- **Specialised Vehicle Finance** - if your vehicle needs to be modified or is specialised, we have financiers who can assist
- **Purchase by Private Sale** - at times an opportunity arises to purchase a great vehicle by way of Private Sale. Again we have access to financiers that can assist



# Avoid the headline interest rate trap

When seeking finance to purchase a motor vehicle or truck, it is important to understand the true cost of the finance.

In this sector, it is easy to fall prey to misleading headline interest rates or the big one, zero interest rates!

Too often a low interest rate, or zero interest, proves illusory! If you dig a bit deeper the seemingly low interest rate, is offset by:

- Additional fees and charges
- A higher purchase price
- A prior year build date - future resale value will be based on the year of manufacture, not the Compliance Plate
- A higher Balloon, (Residual), payment that could result in negative equity
- Expensive "extras" which may have little value when you sell the vehicle
- Unpopular colours or models
- Plus, more

The vehicle finance market is competitive and great rates are available - but it is important to ensure you are comparing "apples to apples".



# The low monthly repayment trap

Another tool used to attract buyers is to offer what appears to be low weekly repayments.

Unfortunately, too often, this is achieved by having a higher Balloon, (Residual), payment.

Because of this

- The borrower ends up paying more interest than would be the case if the repayments were higher
- In some cases the Residual, (Balloon), will be greater than the vehicle value at the end of the term - resulting in negative equity



If the repayments seem too good to be true, it is important to investigate further before you sign any finance contract.

The reason for this being, if you after you have drawn the loan you realise the lower repayments come with a higher overall cost of finance it can be very expensive to break the contract.

This is because when you take out a loan with a fixed rate, the Lender enters agreements with third parties to lock in the rate for the term of the loan. If you break the contract the Lender will likely incur “break costs” - which will be passed on to you.

## Did You Know?

Unlike Financiers, Banks and Finance Brokers, Dealership Finance is unregulated!

# The emotional trap

We go to the dealership, test drive the car, specify the extras, negotiate the price and are then offered what seems to be attractive finance!

In our excited state, we quickly read the contract without properly understanding it - only to have our illusion shattered later when we work out the true cost of the finance!

To avoid the "emotional trap" we encourage all our clients to arrange a pre-approval of their finance before commencing the search for the vehicle.

Not only will this provide peace of mind - it will also put you in a stronger negotiating position!

# Add it to my home loan trap

It may seem like a good idea to simply add the cost of your new vehicle to your Home Loan to save money on interest.

However, unless you increase your repayments to ensure the loan is paid off in the same timeframe as a Chattel Mortgage, it can become very expensive!

Life and our circumstances can change. Unless you are exceptionally disciplined, you could find:

- Despite the lower rate - the vehicle ends up costing you a lot more than would have been the case with a Chattel Mortgage
- That by the time the car needs to be replaced, you still owe money on it and you have negative equity

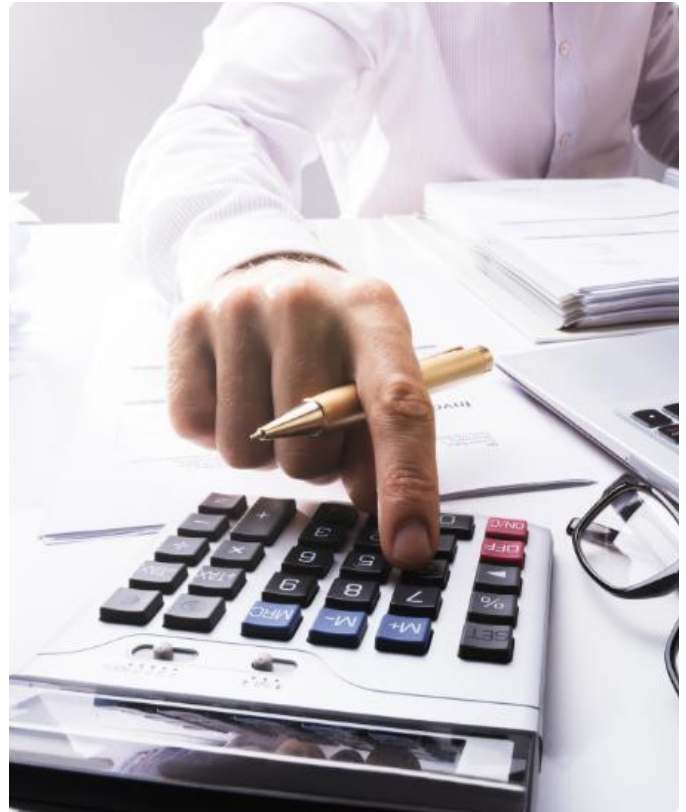


# Understand the true cost of finance

When you have determined the specifications of the vehicle (including the year it was built) there is a practical way work out the true cost of the finance:

- Multiply the monthly repayments by the term (say \$x by 48)
- Add all fees and charge
- Finally add the Balloon, (Residual), payment

This will allow you to understand the true cost of the finance and compare "apples to apples"



## Vehicle finance options

The two most popular types of Motor Vehicle Finance are:

- Chattel Mortgage
- Novated Lease

Both are very different products from an ownership, GST, and tax perspective. The key differences being:

- With a Chattel Mortgage you own the vehicle
- With a Novated Lease, the finance company owns the vehicle and leases it to you for the term of the finance

# Chattel Mortgage

With a Chattel Mortgage you own the vehicle and the finance company registers a charge (Chattel Mortgage) over the vehicle.

When the contract is finalised, the Chattel Mortgage, is removed.

Key features include:

- Terms one to 5 years
- Residual, (Balloon), payments from 0% up to 60% depending on the vehicle
- Fixed interest rate
- No ongoing fees
- Interest and depreciation may be tax deductible to the extent of business use
- Businesses may be able to claim the full GST credit input (to the extent of business use) on their next Business Activity Statement

At the end of the term you have the option to:

- Pay the Residual value and take ownership of the vehicle
- Refinance the Residual, and with a new contract

Apart from the interest rate, choosing the right Residual, (Balloon), is critical to reduce the risk of negative equity at the end of the term.



# Novated Lease

A Novated Lease is a three-way agreement between an employee, the employer and a finance company.

With the Novated Lease, the vehicle is owned by the finance company and leased to the employee for an agreed term.

Key elements include:

- The employer needs to offer salary packaging to employees
- The vehicle costs are paid by the employee from pre-tax income, which can offer tax savings
- The employee can select his/her vehicle of choice and can use the vehicle 100% of the time
- Terms range from 1 to 5 years
- Residuals are governed by ATO guidelines & strictly enforced
- The interest rate & repayments are fixed for term of the lease
- Both the Lease and vehicle are portable should be employee change employment (Providing the new employer offers Salary Packaging)

## Important!

Vehicles need to be used 50% for business purposes

# Start with a budget

Whether it is a motor vehicle, truck or a fleet of vehicles, the starting point is to create a budget to work out:

- What you can comfortably afford in the way of monthly repayments
- For business owners this means including other business and personal borrowings you may have
- If you want to include a deposit to reduce the amount borrowed
- Whether or not your preference is for the loan to include a Residual (Balloon) payment

This in turn will determine what sort of vehicle you can afford to purchase.

It will also help avoid a lot of stress down the track!

# Instant Asset Write Off

As part of the 2021 - 2022 Budget, the federal government extended the Instant Asset Write-Off Scheme until 30th June 2023.

This allows business owners with turnover less than \$50m to write off vehicles purchased, in the current year to the extent the vehicle(s) are used for business purposes.

To qualify, the vehicles need to have been purchased and ready for use by June 2023.

# Decide the type of vehicle

Before approaching dealerships or private sellers, it is important to decide your preferences:

- New or used
- Petrol, diesel, or electric
- Colour
- Specifications - including safety features
- Accessories
- Warranties
- Safety Rating
- To suit both your work & lifestyle
- Servicing costs



For trucks and work vehicles, other considerations include:

- Load and towing capacity
- Engine power and size
- Fuel economy (Litres per 100 km)
- Internal Accomodation (Important for long haul vehicles)
- 2WD or 4WD
- Manual or automatic
- Cost of modifications if needed
- Essential accessories

# New or used?

There is nothing quite like the feeling associated with buying a vehicle. However, outside of budget considerations, there can be advantages buying a used late model vehicle:

- For many vehicles, depreciation is highest in the first couple of years
- The vehicle may still be covered by the manufacturer's warranty
- Dealer Delivery costs are likely to be lower or non-existent
- Insurance costs will be lower



Having decided the type of vehicle you wish to purchase; it is important to do your research before approaching dealerships.

Fortunately, today the web makes it easy to do research and read vehicle reviews. Some of our favourites include:

- [RACV](#)
- [Cars Guide](#)
- [Drive.Com](#)
- [Truck Sales](#)

Surprisingly, many people leave this research phase until after they have purchased the vehicle in the hope it confirms their buying choice!

# The true cost of the vehicle

Whether it is a new or used vehicle, (yes, we can finance 2nd hand vehicles) it is important to understand the true cost of purchasing, maintaining and running the motor vehicle - this can include:

## Depreciation

All vehicles depreciate; however, some retain their value better than others. It is important to understand the future resale value of the vehicle. If needed I can provide some guidance around likely future re-sale value.

## Servicing Costs

These can vary widely. Some new vehicles offer affordable fixed price servicing whilst under warranty. Others, particularly those imported from Europe, can be expensive to service once the initial warranty runs out.

The cost of spare parts and tyres are also important considerations.

## Fuel

The cost of fuel is an increasingly important part of any purchasing decision.

Major changes are on the horizon with many major manufacturers signalling they intend to cease production of petrol vehicles within a few years. Similarly, how large haulage vehicles are fuelled is also likely to change, with a number of manufacturers developing engines to run on liquid hydrogen.

Unfortunately whilst electric vehicles are cheaper to run, the purchasing costs are much higher - and the supporting infrastructure is still playing catch up.

Regardless - the cost of fuel is an important consideration of any purchasing decision.

## Insurance and Registration

Again, these will differ depending on the type for vehicle you purchase, how long you have been driving and your claims history.

# Dealership vs. private



While vehicles purchased privately may at times be cheaper than purchasing through a Dealership, it is not without pitfalls!

Both new and used vehicles purchased through a Dealership should include a warranty. This won't be the case with a private purchase.

Licensed Dealerships are also required to offer a cooling off period - this doesn't apply to a private purchase.

When purchasing privately it is critical to:

- Confirm the seller actually owns the vehicle
- If the vehicle has been financed and is subject to a charge
- That a current Road Worthy Certificate is held (This also applies to second-hand cars through dealerships)
- That the vehicle is not an insurance write-off
- Have the vehicle inspected, & any necessary work completed by a qualified mechanic you trust, before handing over any money



# Personal Property Security Register

You can use the Personal Property Security Register to confirm ownership of a vehicle, if it is financed, and also whether it is an insurance write off.

(A few years ago, one of our team was looking to buy a second hand car for his daughter.

Three low Km well presented cars, were identified as insurance write-offs via PPSR!)

[PPSR Search](#)



## Contracts, warranties & guarantees

Before signing any purchase contract, check it carefully to ensure it is correct:

- Colour
- Specifications
- Warranties etc
- Ideally - a delivery date

They need to be in writing and understood. Promises are hard to enforce!

# Insurance

Insurance is a cost few of us like to bear - until we need to make a claim!

Financed vehicles need to be insured for either replacement or market value.

The policy also needs to note the Finance company's interest.

Motor Vehicle insurance is a competitive market however care is needed when choosing a policy:

- Will your no claim bonus be protected in the event of a claim?
- Do you have your choice of repairer? If not; check out reviews for nominated repairers before signing up
- What excess will you need to pay in the event of a claim?
- Are windscreens included? (Important - given the cost of replacing screens in modern vehicles which have expensive technology embedded)
- Are there limits on the number of km's you can travel in a year
- For commercial vehicles and trucks - what load limits and towing rating cannot be exceeded?

insurance



# Preserving your resale value

While all vehicles depreciate, it is important to do what you can to preserve its resale value:

- Have the car regularly serviced and retain the records
- Garage under cover if possible
- Replace worn tyres - these are not only dangerous, but also can damage steering and suspension
- Regularly wash and polish the vehicle - don't overlook the underside of doors and the boot
- Keep the inside of the car & carpets clean. Protect the surfaces and leather with quality cleaners / conditioners
- Prior to selling the vehicle touch up minor damage and/or have small dents removed



# Car Buying Service



If you are time poor, or don't like the negotiation process of buying a car, we can introduce you to a professional Car Buying Service.

It is service some of our team have used. We receive no payment from the Service, but we love it so much we recommend it to our clients.

Basically, you decide the car you would like, colour and specifications:

- The Car Buying Service negotiate with dealerships across Australia to find you a car at a great price.
- They can also bring vehicles to you for a test drive, and after the purchase, deliver it to your door!
- The Car Buying Service receive payment from the dealership through which the vehicle is purchased.

# Sharon Piening

As a business owner, I understand the challenges & joy of running a business!

I have an in-depth knowledge of Vehicle Finance and what is needed to deliver the right outcomes for my clients.

I love the complexity and the different facets involved with this type of Finance.

I have a practical, down to earth approach and strive to make my client experience as seamless as possible.



## Strengths

Knowledge of the market and different industry sectors

Exceptional organisational skills

Persistence - I am tenacious when negotiating competitive Finance Packages for my clients

Ability to structure finance to align with cashflow

## Industry Experience

Manufacturing

Retail

Transport

Construction

Medical & Dental

Shopping Centre Fitouts

Restaurants and Cafes

## Contact

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# The 500 Group

The 500 Group are an award winning, Melbourne based, broking firm specialising in arranging finance for business owners.

We strive to build long-term relationships with our clients. To be there for them as their needs change and evolve.

Because we have experienced specialists in each of the equipment, business and home finance segments, we offer our clients one contact point for all their finance needs.

You tell us what you require, we then:

- Undertake research to find the most competitive offers
- Negotiate with Lenders on your behalf & keep you informed
- Prepare a Finance Application to the chosen Lender
- Manage the process through to settlement

This saves time and frees you to focus on what is important - running your business and creating wealth.

In the future if you require finance, be it for equipment, the business, home or investment finance, you simply get in touch and we take it from there.

The finance experts for business owners

The finance experts for  
business owners

[www.the500group.com.au](http://www.the500group.com.au)

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