

Asset Finance

Asset Finance is a type of secured finance that allows businesses to lease or purchase vehicles, plant, machinery and equipment.



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Glossary of Asset Finance Terms

Welcome to Propel's Glossary of Asset Finance Terms. We understand that navigating the world of asset finance and related concepts can be overwhelming with so much industry-specific terminology. That's why we've created this resource to help you better understand the key terms and jargon commonly used in the asset finance industry. Whether you're new to asset finance or looking to expand your knowledge, this glossary aims to provide simplified and concise explanations of these terms. With Propel's commitment to clarity and transparency, we hope this glossary will serve as a valuable reference to enhance your understanding of asset finance.

Administration Fee

An Administration Fee, sometimes referred to as a Documentation Fee, is a charge that covers the expenses associated with setting up the finance and issuing the documents (for HP and Finance agreements). The cost of this fee is included in the Total Amount Payable when calculating the Annual Percentage Rate (APR), as expressed in an HP or finance lease agreement.

Advance Payment

An Advance Payment is where a customer pays a number of the lease payments upfront. This reduces the total amount borrowed; and thus lowers the amount of the monthly rentals to be repaid over the life of the agreement.

Agreement

An Agreement is a formal deal between individuals or organisations where they agree to do or not do something, which can be enforced by law. An asset finance agreement is a contract between a customer and a finance provider that allows the customer to use an asset while making regular payments over a specified period.

Amortisation

Amortisation is the gradual decrease in the amount outstanding due under an asset finance agreement over time. Typically the rentals due under a finance lease, or instalments due under an HP agreement are in fixed amounts for each period (typically monthly or quarterly). These amounts include both capital repayment and interest. In the early stages of an asset finance agreement, a higher proportion of the periodic payment is applied to interest due and a lower portion to capital repayment, whereas later in the life of the agreement a higher proportion of the periodic payment is applied to capital repayment. As a result of this, the amortisation of the capital outstanding increases throughout the term of the finance agreement.

Annual Service Fee

An Annual Service Fee is a yearly charge for administration made by the asset finance company on lease or HP agreements.

Annual Percentage Rate (APR)

APR stands for Annual Percentage Rate. This is the total cost of borrowing, expressed as a yearly interest rate. It includes not only the interest charged, but also any additional fees or charges associated with the borrowing. The APR provides a standardised way to compare the costs of different financial products, allowing customers to make more informed decisions when borrowing money.

Arrears

Arrears refers to unpaid or overdue payments that should have been made according to the agreed payment schedule. It means that the customer has fallen behind in making the required payments for the financed asset.



Asset

Assets are the Goods owned by individuals or businesses that have commercial value and can provide future benefits. These can include cars, equipment and plant & machinery. Assets are resources that can be converted into cash and are listed on a company's balance sheet.

Asset Finance

Asset Finance is a type of secured financing that allows businesses to lease or purchase vehicles, plant, machinery, and equipment. Through a Finance Lease, businesses can lease the use of assets and make regular payments for their use. With Hire Purchase, businesses can buy assets through instalment payments while using them by making all the payments and by paying the Option to Purchase Fee. These popular finance options allow businesses to use or acquire necessary assets without paying for them up front in full, supporting their cash flow and growth.

Asset Refinance

Asset Refinance is a way to unlock cash from existing assets owned by the business. It involves selling the asset to a finance company based on its current value. The customer then leases that same asset back from the finance company (and pays regular lease payments), or buys the asset back by paying instalments under a Hire Purchase arrangement.

BACS

BACS stands for Bankers' Automated Clearing Services. It is an electronic payment system used in the UK that allows for the secure transfer of funds from one bank account to another.

Balloon Payment

A Balloon Payment is a lump sum that is due at the end of the term of an HP agreement. It is usually higher than the regular payments made throughout the agreement. This type of payment allows for lower monthly payments during the term; and requires either paying the balloon amount in full or refinancing the remaining balance at the end.

Base Rate

The Bank of England (BOE) is the UK's central bank, which sets the BOE Base Rate. This is a standardised interest rate that affects borrowing costs and serves as a reference for other banks to set their own interest rates.

Book Value

Book Value is the recorded value of a fixed asset, such as a machine or equipment, on a company's balance sheet. It represents the original cost of the asset, less any depreciation that has been accounted for.

Borrowing

Borrowing is when a customer (the borrower) receives money or resources from someone else with the agreement to pay it back, often with interest, over a specific period of time.

Broker

An intermediary who arranges finance for customers, usually via a panel of different lenders. All brokers who introduce customers to Propel are regulated by the Financial Conduct Authority.

Capital

Capital refers to the financial resources or funds that are available for use in a business or investment. In asset finance, capital may also refer to the initial lump sum used for acquiring an asset.

Capital Allowances

Capital Allowances are tax deductions that businesses can claim on the cost of certain assets they acquire. They can help reduce a business's taxable income and lower its tax liability. Capital Allowances encourage businesses to invest in assets by providing tax relief on capital expenditures.

Capital Expenditure (CapEx)

Capital Expenditure (also known as CapEx) refers to the money a company spends on acquiring or improving long-term assets. It includes purchases of equipment and technology that will benefit the business over an extended period. CapEx is different from day-to-day expenses; and is intended to enhance productivity and generate future income.

Cash Flow

Cash Flow refers to the movement of money into and out of a business. Positive cash flow means more money is coming in than going out.

CHAPS

CHAPS (Clearing House Automated Payment System) is a UK payment system that allows for same-day bank-to-bank transfers of large amounts of money. It ensures secure and guaranteed transactions within the UK, making it suitable for time-sensitive payments.

Charges

Charges are the costs or fees associated with obtaining and managing the finance for the asset. These charges can include interest, administration fees, documentation fees, and other specified fees. They are an important consideration for customers as they add to the overall cost of financing the asset.

Consumer Credit Act 1974

The Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006) is a law that protects consumers in credit and hire purchase agreements. The Act covers agreements between finance companies, individuals, sole traders, small partnerships, and unincorporated associations, but not agreements with corporate bodies like limited companies.

Consumer Duty

Under the FCA's Consumer Duty, firms must adhere to a new Consumer Principle that requires them to ensure good outcomes for retail customers. This duty encompasses four areas: products and services, price and value, consumer understanding, and consumer support. Throughout the customer journey, firms must consider customer needs and behaviours - including vulnerability considerations, and provide evidence of meeting these outcomes.

Credit History

Credit History is a record of how well someone has managed their borrowing and repaid debts in the past. Finance providers use this information to evaluate a person's or business's creditworthiness and determine if they are likely to repay future debts on time.

Credit Reference Agency

A Credit Reference Agency is a company that collects and stores information about a person's or business's credit agreements and payment track record. Lenders and employers use this information to assess creditworthiness and make decisions about loans, rentals, and other financial matters.

Debt Collection Fee

A charge made by a finance provider or debt collection company when collecting an overdue debt. It is an additional fee separate from the original debt amount and covers the costs of collection.

Debtor

A debtor is a person, business, or entity that owes money or has a financial obligation to another party. They are the party that has borrowed funds, received goods or services on credit, or has an outstanding payment due to be made. In simple terms, a debtor is someone who owes money to someone else.

Default

Default means not keeping the promises made in the agreement, like missing payments or not following the terms of the agreement. If the customer is experiencing problems paying, it is important that they contact the finance company to see how they can assist.

Deposit

A Deposit is an upfront cash payment made towards an asset. It will therefore lower the amount of finance required; and shows the customer's (borrower's) commitment to repay. The larger the deposit paid by the customer, the greater the risk to the lender is mitigated. This is because most assets reduce significantly in value once they are no longer new.

Depreciation

Depreciation of an asset means that its value goes down over time. It happens because of things like wear and tear or becoming outdated, also known as obsolescence.

Directors Guarantee

A Director's Guarantee is an agreement where a company director becomes personally responsible for repaying the debt if the company cannot do so. It means the director acts as a guarantor for the business finance and may have to use personal funds to repay the debt. Such a guarantee may also be provided by another business linked to the borrowing company, such as a parent company, via a cross-company guarantee instead of a director's guarantee.

Disposal

This means giving away or selling an asset when it is no longer needed.

Documentation Fee (Please see Administration Fee)

Early Settlement

Early Settlement refers to when a customer pays off a finance agreement before the agreed term. This allows the customer to potentially save on a proportion of the interest that would have been charged for the remaining period of the agreement.

Early Termination

Early Termination means ending the agreement before the agreed time. It can happen if a customer wants to finish the agreement early for different reasons. There may be fees or penalties involved, and the customer might need to pay off the remaining balance as well as returning the asset to the lender in good working condition.

Economic Life

The Economic Life of an asset is the estimated time it will remain useful before it becomes more cost-effective to replace it rather than continue to maintain it.

Fair Market Value

Fair Market Value is the reasonable price an asset would typically sell for in the marketplace, assuming both buyers and sellers have sufficient knowledge and a reasonable timeframe to complete the transaction.

Fair Processing Notice

A Fair Processing Notice, also known as a Privacy Notice, is a document required by Data Protection laws. It provides individuals with information about how their personal data is collected, used, and protected by an organisation. It ensures transparency and helps people understand how their data is handled.

Finance Lease (Leasing)

A finance lease is a type of leasing agreement where the business has all of the benefits of using the asset without owning it. It is a long-term arrangement where the business makes fixed payments over a specified period, typically covering most of the asset's useful life. Finance leases are commonly used to obtain the benefits of using assets like vehicles, machinery, or equipment.

Final Payment

The Final Payment is the last payment to be made in a finance agreement. It can include a balloon payment, which is a larger lump sum due at the end, and a voluntary Option to Purchase Fee (in Hire Purchase agreements).

Fixed Asset

A Fixed Asset is a long-term asset that is expected to be used for multiple years. It includes items like buildings, machinery, and vehicles that are essential for business operations and are not intended for immediate sale.

Fixed Rate

A Fixed Rate means that the interest rate stays the same for the entire period of the agreement. This allows customers to have consistent and predictable monthly payments without worrying about changes in interest rates. All finance agreements offered by Propel are fixed rate.

Fixed Term

Fixed Term asset finance is a finance arrangement where the borrower repays the loan or lease for an asset over an agreed period of time. The benefits include predictable monthly payments, the ability to budget effectively, and the assurance that the terms and conditions of the agreement will remain unchanged throughout the agreed term.

Force Majeure

Force Majeure refers to unexpected events that are out of people's control, making it difficult or impossible for them to fulfil their responsibilities. It includes things like natural disasters or wars. Contracts often have Force Majeure clauses that excuse or suspend obligations in these situations.

Goods

Goods are the assets, such as vehicles, machinery and equipment, that are being financed or leased. The borrower has the right to use or own these goods based on the type of finance agreement, either through a Finance Lease or Hire Purchase.

Hire Purchase

A Hire Purchase agreement (often referred to as an HP agreement) is a finance option where individuals or businesses can obtain an asset by making regular payments over a fixed period. At the end of the period, they have the choice to purchase the asset if all payments have been completed and any Option to Purchase Fee has been paid.

Hirer

Hirer refers to the party that enters into a Hire Purchase or Finance Lease Agreement or similar with a finance company.

Indemnity

An Indemnity is a promise to protect someone from financial loss or harm. It means that if certain things happen, the other person will pay for any resulting costs or damages. Finance providers typically include an indemnity clause in their HP or Lease agreements, under which the customer (hirer) accepts responsibility for all risks associated with the asset during the lease agreement, including for example any legal expenses or penalties if someone is injured whilst using the asset being financed. An individual (typically a director of the customer business) or linked company may indemnify the finance provider in relation to any amounts owed by the hirer (see "Director's Guarantee").

Inflation

Inflation is when prices for goods and services rise, making the money purchasing power decrease over time.

Interest Rate

The Interest Rate is the cost the customer pays for borrowing money. It is a percentage charged by the finance company on top of the borrowed amount.

Late Payment Fee

A Late Payment Fee is a charge added when the hirer doesn't pay a debt or financial obligation on time. It is a fee that must be clearly stated to borrowers and should be fair and reasonable.

Landlord's Waiver

An agreement between a finance company and the landlord of the hirer's business premises, which allows the finance company to enter the business premises to inspect and/or remove financed assets. In signing the waiver, the landlord agrees to refrain from creating security or other legal claim against the financed assets in any dispute they may have with the hirer (e.g. over non-payment of rent.)

Lease (See Finance Lease)

Lessee

A Lessee (customer or borrower) is an individual or business that leases or rents equipment or vehicles from the owner (the asset finance company or lessor). They pay regular payments in return for using the equipment or vehicles for a specified period.

Lessor

A Lessor is the owner of the equipment or vehicles (the asset finance company) who leases or rents out to another party (the customer or lessee). They provide the finance and retain ownership while the lessee makes payments to use the equipment or vehicles.

Loan

A Loan is a borrowed amount of money used to purchase an asset. It is expected to be repaid over time, together with additional interest. Propel does not offer standard loan agreements, only Hire Purchase or Finance Lease related products.

Maintenance Payments

Maintenance-inclusive agreements combine the equipment cost and Maintenance Payments into a single regular monthly payment. This simplifies budgeting for customers as they don't have to worry about separate payments for equipment and maintenance services.

Master Lease Agreement

A Master Lease Agreement is a single contract that allows a business to acquire multiple assets without the need for separate leases for each asset. It simplifies the process by providing a convenient agreement, often referred to as an 'umbrella' agreement.

Minimum Term

The Minimum Term is the shortest period of time that the borrower is required to keep and use the financed asset before considering any changes or alternatives. It sets the initial timeframe for the agreement.

Net Book Value

Net Book Value is the value of an asset less its depreciation. It shows how much the asset is worth on the company's books, considering its age and wear.

Non-Regulated (Unregulated)

A Non-Regulated agreement is an agreement that is not governed by the regulations of the Consumer Credit Act 1974 (See Regulated). The Consumer Credit Act does not protect limited companies, local authorities, or partnerships with four or more partners. It also does not regulate consumer credit agreements that require the customer to make payments exceeding £25,000.

Novation Fee

Where an existing finance agreement is substituted for another with exactly the same terms (e.g. if one business is purchased by another), this is called an agreement novation. A Novation Fee is charged when changing or replacing an existing contract with a new one. It covers the administrative costs of making this change in a finance agreement.

Off Balance Sheet Finance

Off Balance Sheet Finance means acquiring or using assets without showing them as debts on the balance sheet.

Option to Purchase Fee (HP agreements only)

An Option to Purchase Fee is a fee that provides the customer with the option to buy the asset at a predetermined price once the agreement term is completed. It is paid after all the payments have been made, and upon payment of this fee, the customer gains full ownership of the asset.

Owner (See Lessor)

Peppercorn Rental

A Peppercorn Rental is a small payment made at the end of a finance lease agreement to allow continued use of the asset. It's usually a nominal amount that keeps the agreement in place while allowing the customer to keep using the asset.

Personal Guarantee (See Directors Guarantee)

Regulated

A Regulated agreement is a credit or hirer agreement that is governed by the Consumer Credit Act 1974 and provides protection to consumers. It covers individuals, sole traders, and small partnerships with up to three partners. The agreement should clearly state the borrower's obligations, rights, repayment terms, and available protection. However, it does not protect incorporated associations such as limited companies, LLPs, PLCs, local authorities or partnerships with four or more partners.

Renewal

Renewal refers to the automatic extension of certain finance agreements beyond the initial minimum period or term. The payments made during this extended period are called renewal payments or secondary rentals. It simplifies the process by allowing the agreement to continue without requiring a new contract or negotiation.

Rental (Finance Lease Only)

A Rental agreement is when a customer pays an asset finance company, like Propel, to use the equipment. The payments made in this agreement are called rentals.

Repayment (Hire Purchase Only)

The regular payments paid under a HP agreement are often referred to as Repayments.

Residual Value

Residual Value is the estimated worth of an asset at the end of its lease or useful life, less the costs of disposal.

Sale and Leaseback (See Asset Refinance)

Security (See collateral)

Term

In an asset finance agreement, the Term refers to the duration of the agreement. It is the length of time during which the hirer makes payments to repay the loan or lease for the asset.

Termination Fee

A Termination Fee is a charge incurred when ending an agreement, whether it is at the planned contract end date or through early termination before the scheduled end date.

Title (Hire Purchase Only)

Title refers to the legal ownership of an asset. The finance provider holds the title until the customer fulfils all payment and obligation requirements, including the Option to Purchase Fee. Once these conditions are met, the customer becomes the legal owner of the asset.

Total Amount Payable

The Total Amount Payable is the complete sum that the borrower must repay under an asset finance agreement. It includes the borrowed amount, interest, fees, and charges. It represents the total cost of the asset over the agreement period.

Underwriting

Underwriting is the process where finance providers or funders conduct checks to evaluate if a customer is eligible for funding. They assess factors such as creditworthiness and financial stability to decide whether to approve or decline the funding application.

Unregulated (See Non-Regulated)

VAT Deferral

When providing finance for assets on Hire Purchase terms, there is typically a requirement for the VAT element of the asset cost to be paid in full up front by customers.

Whilst this VAT is fully recoverable for VAT registered businesses when those assets are purchased solely for business use, this initial VAT outlay (particularly on larger transactions) can negatively impact a customer's short-term cash flow, for up to 3 months, before it can be reclaimed from HMRC (HM Revenue and Customs).

VAT registered customers may therefore apply to Propel to defer payment of the VAT element of an HP agreement for a period of up to 3 months after the date the finance agreement commences, to allow the VAT to be reclaimed from HMRC before being paid to Propel via an increased monthly repayment (usually in month 3).

For Propel to consider granting a VAT deferral request, customers will typically have to provide evidence to Propel that their business' vat payments to HMRC are up to date.

A VAT deferral may not be an option when financing certain assets.

Vendor

In an asset finance agreement, the Vendor is the manufacturer, dealer, or supplier of the asset. The vendor sells the asset to the finance company, which then leases it to the customer.

Working Capital

Working capital is the financial resources and assets a company has to support its daily operations. It's the difference between a company's current assets (like cash and stock) and its current liabilities (like debts and bills). Working capital is a measure of a company's short-term financial health and its ability to cover its expenses.