

Regulated Fixed Term Operating Lease



About this information

You should read this document and all the information we provide to you carefully, so that you can decide whether this product is right for your needs and circumstances.

This document provides key information that will help you understand our Regulated Fixed Term Operating Lease product. It does not contain all the information about the agreement you will enter into with us.

If you have been provided with information on this product by an equipment dealer or finance broker, you are encouraged to take it away and consider it carefully. The dealer/broker does not act as our agent.

How a Regulated Fixed Term Operating Lease works

A Fixed Term Operating Lease is a financing product whereby you hire equipment, owned by DLL, for a fixed period, which is usually shorter than the useful economic life of the equipment. This funding method assumes the equipment will continue to be serviceable after the agreement finishes and as such we invest in its future value.

DLL will have legal ownership of the equipment throughout the term of the agreement and may register this interest with HPI Ltd. You have quiet enjoyment of the equipment throughout the period.

The equipment will be handed back to us at the end of the fixed term and we accept the risk that the value of the equipment at the end of the fixed term could be less than was expected at the outset. To protect the future value of the equipment, at the end of the lease there will be several pre-agreed return conditions that the equipment must meet when it is returned to us and any additional sums payable if you have used the equipment more than stipulated in the agreement.

The accounting, tax and VAT treatment of operating leases can be complicated. You should seek advice from your accountant, financial and, or legal advisor before entering into any financial transaction. It is possible that a contract may not qualify as an operating lease to you.

Operating Leases are provided by De Lage Landen Leasing Ltd (we/us) – a subsidiary of Cooperatieve Rabobank U.A., headquartered in The Netherlands and licensed with the European Central Bank.

If, after reading this document, you require further information or have any questions, we encourage you to contact us. Details of how to do this are provided at the foot of this document.

Product features

- You have use of the equipment without investing capital.
- An alternative line of credit.
- Payments over the term, cover only the anticipated depreciation in value of the equipment, plus financing costs, and are therefore, lower than those of a Full Payout Finance Lease or Hire Purchase agreement.
- Equipment is acquired by us (the lessor) and we pay your nominated supplier the price you have agreed (plus VAT).
- VAT is paid by you (the customer) on lease payments throughout the term, at the prevailing rate.
- VAT is reclaimable by you, providing your business is VAT registered with His Majesty's Revenue & Customs.
- You pay fixed payments, even if corporation tax rates change.
- The payment amount is subject to changes in the VAT rate.
- Fixed term period (typically 24 – 60 months) is less than the anticipated economic life of the equipment.
- You claim the lease payments as a trading expense against taxable income (straight line accounting method applies).
- The lease cannot be terminated by us, unless you fail to comply with the terms and conditions of the lease agreement.
- You do not own the equipment.
- Equipment must be returned to us at the end of the term in accordance with the agreed return conditions.

Frequently asked questions

What is a Regulated Fixed Term Operating Lease?

- A lease is a contract between two parties, where one party, the lessor (DLL), allows the other party, the lessee (you), use of their equipment for a fixed period in exchange for regular payments.
- An operating lease is a lease where the net present value of the payments equates to substantially less than the fair market value of the equipment at the start of the lease.
 - **There are other criteria that can make a Lease an Operating Lease. For accounting purposes, you should check with your accountant or financial advisor.**
- The lease agreement is regulated by the Consumer Credit Act 1974 (as amended) if:
 - It is a business hire agreement where the total rentals payable (plus VAT) is up to £25,000 during the fixed term; and
 - You are a sole trader, partnership of three partners or less, or an unincorporated body such as a club or society.

Can I select the supplier of the equipment?

- You control the buying process by selecting the supplier and provided they are approved by us, we pay them for the equipment you select, at the price you have agreed.
 - Some manufacturers and dealers support the sale of their equipment and/or underwrite residual values for the equipment to enable us to provide preferential financing terms.
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How can the Fixed Term Operating Lease be used?

- A Fixed Term Operating Lease provides you with the use of equipment over a fixed period, for a known regular rental payment.
 - You pay lower periodic payments than a full payout financing product such as Hire Purchase, that cover the anticipated depreciation in value of the equipment over the term plus financing charges.
 - VAT is payable on payments as they fall due at the prevailing rate.
 - The lease must be for approved business equipment.
 - The lease term will be for less than the anticipated economic life of the equipment.
 - We will acquire the equipment you specify, at the price you agree from your nominated supplier.
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Who may a Fixed Term Operating Lease be suitable for?

It may be suitable for any UK based business:

- Where you are a Sole Trader, Partnership of three partners or less, or other unincorporated body such as a Society or Club.
 - Who can demonstrate regular income.
 - Who is looking for lower pre-tax payments, based on the anticipated depreciation in value of the equipment over the lease term.
 - Who is looking to spread the VAT cost over the term of the agreement.
 - Who is looking for fixed term use of equipment, for less than its anticipated economic life.
 - Who does not have the experience, expertise or desire to dispose of the equipment at the end of term.
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What are the benefits of a Fixed Term Operating Lease?

- Convenient, easy application process.
 - Equipment is acquired at net cost. The VAT is chargeable on the payments as they fall due, rather than on the full cost of the equipment (NOTE – VAT rates may change during the term).
 - Lower pre-tax payments compared to a full payout finance lease, where the full cost of the equipment is paid over the fixed term.
 - Typically, no additional collateral or security is required.
 - Unlike a bank overdraft, a lease cannot be terminated by us unless you are in breach of the terms and conditions of the agreement, or a specified termination event occurs.
 - Access to an alternative line of credit for to your main business funding facilities.
 - Lease payments may be deducted as a trading expense against taxable income (straight line method).
 - Rental amounts are fixed and scheduled and help with budgeting and cashflow.
 - Payments will not vary if corporation tax rates change and the amount you pay is fixed unless VAT rates change.
 - Only pay for the depreciation in value over the time you have use of the equipment, plus financing costs.
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Can I claim Capital Allowances?

- You cannot claim capital allowances under an operating lease. Check with your accountant how this agreement will be recorded in your financial statements.
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How do DLL make a decision as to whether to offer a Fixed Term Operating Lease?

To help us decide whether to offer you a operating lease we may use:

- Any information you have given us e.g. business accounts, bank statements.
 - If you have been a customer before, any information we already hold.
 - Information we receive from enquiries.
 - We may also view your credit history with a credit reference agency, or ask them to make enquiries for us.
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What if I change my mind after signing the agreement?

- You have the right to cancel the agreement within 14 days of receiving either a copy of the signed agreement, or notification that the agreement has been signed by us.
 - If you wish to cancel the agreement, you can do so by contacting us in writing at the address provided below.
 - If you cancel the agreement, please note that you would only be cancelling this agreement and not necessarily any agreement for services you have entered into with the supplier and you may still be liable to make them good on the transaction.
 - Once the cancellation period has expired, you cannot unilaterally terminate the agreement. If you have any queries, contact us to discuss your options.
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Will an agreement with DLL affect my credit rating?

- We will ask your permission before making a check on your credit history with a credit reference agency.
 - Our enquiry will show on your record with them and may affect how others subsequently use this information in granting credit to you.
 - If you fail to make payments on the due dates, we will register this with a credit reference bureau. This may affect how others view your creditworthiness.
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How do I make payments?

- To ensure that payments are made on the right date all payments must be made by Direct Debit.
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How will I know how much I must pay?

- Your lease agreement will clearly state the payment amounts, number and frequency, along with the due dates.
 - Return conditions in your agreement will detail any additional fees or charges that may become payable at the end of the lease when the equipment is returned to us.
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What interest rate will I be charged?

- Interest rates used to calculate the payments are fixed at the outset and will not change once your lease commences.
 - Your payment amounts will be detailed on your lease agreement.
 - We do not disclose the interest rate used in calculating the payments.
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Are there fees payable?

- A documentation fee to cover part of the cost of setting up the agreement may be charged on the start date of the lease agreement. The amount payable will be clearly detailed in the agreement and will be included with the first payment amount.
 - Return conditions will specify what charges or fees may be payable when the equipment is returned at the end of the lease, e.g. excess hours, low track/tyre depth, tyre type, damage beyond reasonable wear and tear.
 - Fees may be charged for various items during the term, e.g. for rescheduling payment dates, providing copy documentation or changing bank details.
 - Contact us for the current list of charges and fees that may be applicable.
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Is there any VAT?

- We purchase the selected equipment from your chosen supplier and pay the net price you have agreed plus VAT.
 - VAT is charged to you at the prevailing rate on each payment as it falls due.
 - Some fees may be subject to VAT at the prevailing rate.
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Is there any commission payable to the supplier/broker?

- Commission may be payable by us to the supplier of the equipment and/or your finance broker and/or any other connected party.
 - Details of any commission paid, including the amount and how it was calculated, can be obtained from the dealer/broker or us upon request.
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What if the equipment is faulty?

- In the first instance, you should speak with the supplier to see if they are able to rectify the problem or suggest another suitable remedy.
 - If the supplier is unable to resolve the issue you should contact us and we will take steps to try and resolve the issue.
 - If the cost of the equipment is below £30,000 you may have a right to take legal action against the supplier, or us, or both, under Section 75 of the Consumer Credit Act. Speak to your legal advisor or contact us to discuss what your rights are.
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What is the residual value of the equipment?

- We, or a third party, will estimate the market value of the equipment at the end of the term based on its expected use and condition. We use this value to calculate the anticipated depreciation in value and the payments charged to you for the use of the equipment over the term.
 - We do not disclose this amount to you.
 - Your payments do not change through the term no matter what happens to the actual market value of the equipment.
 - The actual value of the equipment at the end of the term is our risk. You will not be penalised or benefit if the market value varies from that we assumed at the outset.
 - You have no right to acquire the equipment at any time.
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Can I end the agreement early?

- There is no right to unilaterally terminate the lease agreement early.
 - If you wish to discuss terminating the lease before the end of the term you can do so by contacting us and we will consider your request and advise you of your options.
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What happens if I miss a payment?

- Making timely payments on the due date is a strict condition of the agreement and why we collect payments by Direct Debit from your bank.
 - Failing to make payments on the due dates will mean that you have broken the terms of the agreement.
 - Contact us if you expect to miss a payment to see if we can help.
 - If you fail to make a payment on the due date, we will contact you to discuss your options to bring the agreement back up to date.
 - Failing to make a payment on the due date can affect your credit rating. This may have severe consequences on your ability to obtain future credit. It may make future credit more expensive.
 - We may take action to recover the equipment and any associated costs.
 - Full details of the consequences of missing a payment are outlined in the agreement.
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What happens at the end of the Fixed Term Operating Lease?

- At the end of the Operating Lease, you must return the equipment to us in the condition specified in the return conditions unless we advise you otherwise.
 - We will contact you at least three months before the end of the lease to confirm your option(s) e.g. return of equipment, continued renting of the equipment.
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What are the return conditions at the end of the lease?

- The equipment must be returned to us at the end of the term in accordance with a set of return conditions that will be specified at the start of the lease.
 - You must ensure you understand and agree with the return conditions before you sign the agreement.
 - If the equipment does not meet the specified condition, additional fees and charges will be levied to compensate us for, e.g., excess hours/mileage, reduced tread/track depth, non-compliant tyres, damage beyond fair wear and tear.
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What if I fail to return the equipment on the due date at the end of the lease?

- Failure to return the equipment to the location specified, and in the condition required, may result in legal proceedings including court action. Additional associated costs may also be incurred and be due from you.
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