Bundles of Money

money matters *Are you absolutely certain you're making the most of all your collateral? By Steve Mulligan*

It's hard to run a business on good intentions. You need capital. The trouble is, many owner-operators are short on assets when they need credit to buy a new truck, leaving them scrambling to pledge anything as collateral, even their Doug Gilmour-autographed hockey card.

Collateral is a way a bank or finance company can ensure that it will recoup its losses should you fail to pay. Lenders determine how much collateral they need based on what's called a loan-to-value ratio: the amount borrowed divided by the value of the collateral.

If you're a sole proprietor and you sign a sales agreement to buy a new truck, that piece of paper is a personal guarantee that you'll pay the lender back.

If your business is incorporated, you'll be asked to sign either a continuing or specific guarantee to be approved for a loan or lease. A specific guarantee deals with only the equipment you're buying, while a continuing guarantee adds all subsequent purchases or leases made with the finance company into the equation.

In both cases the equipment you're buying serves as collateral—if you can't repay the loan, the lender will repossess your truck. Some finance contracts might also include a general security agreement, which holds your personal property as collateral.

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Odds are, the biggest personal asset you have is the equity in your home. Maybe that makes you uneasy, but consider how one of our clients seized on an opportunity to tie the financing on his home and truck together and stands to save big.

Our client wanted to refinance the mortgage on his house. His bank wouldn't negotiate a low rate, so he went to a licensed mortgage broker. The broker saw that the man was shopping for a truck and suggested that the mortgage on the house and the financing for the vehicle be overlapped.

By working the two deals as one, our client saved $13,170 in interest on his home mortgage over the next five years.

But that's just the start.

The client had $22,000 for a down payment, or 17 per cent of the new-truck purchase price. He could get a loan for the remaining $108,000 through the truck manufacturer's finance arm, paying 8.5 per cent interest over four years.

So he increased the mortgage on his house by $15,000 and used the cash to raise the down payment on the truck to 28 per cent of the new truck's price.

With 28 per cent down, our client was in a much stronger position to secure financing for the rest of the truck purchase. With the mortgage broker's help, he got a loan with a third-party equipment finance specialty firm for 7.5 per cent—a full percentage point less than offered at the dealership.

The combined finance costs for the truck loan and larger mortgage were $4,900 less over four years than what the client would have paid had he opted for a standard financing arrangement.

The added effort to arrange all of this? Nothing. The mortgage broker did the work. In fact the broker negotiated for the desk fees to be waived as the truck-finance company was anxious to secure our client's deal, a further savings of $350.

As an accounting firm, our clients range from big fleets to owner-operators, so we've seen many different approaches to financing trucks. The bottom line?

When you're buying a truck, plan to spend as much time and energy on how you'll pay for it as you do spec'ing the vehicle itself. ▲

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