

Asset Finance

Our products could help finance a wide range of non-property fixed assets for your business.

The Basics

We can finance most types of commercial vehicle, plant and equipment. Our main products are Hire Purchase and Finance Lease. For both products, we take ownership of the assets and you will have use of them on either hire purchase or lease terms for an agreed period.

Under a Hire Purchase agreement, if you have complied with the terms, ownership of the asset may pass to you following the final payment and any option to purchase fee which will be set out clearly in the agreement.

Under a Finance Lease agreement, ownership of the asset does not pass to you at any point. If you have complied with the terms of the lease agreement, you will normally be able to (i) extend the hire period into a secondary period for a rental amount (which is usually a relatively small amount and will be set out in the agreement); or (ii) sell the asset to an unconnected, independent third party by acting as our selling agent. Where the asset is sold as our agent, you can keep an agreed percentage (usually a significant proportion) of the net sale proceeds subject to the relevant terms and conditions.

There are certain tax and accounting differences between Hire Purchase and Finance Lease. Tax and accounting treatment can vary depending on several factors. You are responsible for obtaining your own professional accounting, tax, legal and other advice.

In some instances, we may decide that we do not wish to take ownership of a particular asset or assets. If that is the case, we would not be able to offer Hire Purchase or Finance Lease. However, we may be able to consider alternative finance by way of Asset Loan secured by a Chattels Mortgage over the asset.

The asset we are being asked to finance must be specific and easily identifiable. We usually finance new assets, but we are able to consider second hand or used assets. Our assessment will consider the nature of the asset and its resale potential. We will exercise our commercial judgment and discretion to determine whether we are able to offer you a product and will take account of relevant information available to us.

Hire Purchase & Finance Lease

How it works

For us to consider Hire Purchase or Finance Lease funding, you will need to contact us before you purchase the asset and provide us with details of the asset. If you have recently purchased an asset and would like finance on the asset, we may be able to consider such a request by purchasing the asset from you and hiring or leasing the asset back to you. Minimum borrowing £100,000 – either as a single transaction or over the course of the year.

We will usually purchase the asset from the supplier and pay them directly. You still negotiate the terms of purchase with the supplier but the sales invoice will need to be addressed to us. In some cases we may need to review the terms of purchase.

We will have legal ownership of the asset. In the case of Hire Purchase, you will be able to obtain legal ownership of the asset at the end of the agreement by exercising the option to purchase provided you have complied with the terms of your agreement with us in the meantime.

In making our decision to agree to purchase an asset, we will consider your financial circumstances, the type of asset we are asked to finance, the supplier of the asset and any other relevant circumstances.

We may require additional security. This will depend on the individual circumstances of any transaction. Examples of additional security that may be required are:

- Debenture.
- Guarantee – a cross company guarantee by a parent company or associated company
- Fixed Charge over specific assets
- HSBC strongly recommends that you seek the advice of your solicitor or other legal adviser before signing any security documents.



What you need to pay us

Hire Purchase

We will normally require a deposit from you – this is usually a percentage of the asset cost plus the VAT (if applicable) payable on the purchase price (the finance agreement with us will constitute a separate supply of services for VAT purposes). The asset cost that is financed can, in some cases, include limited additional costs which are above the actual asset value. Examples include freight or transport costs and installation costs amongst others. The amount of deposit will vary depending on the circumstances of the transaction. If you are part exchanging other goods with the supplier this may be acceptable to act as the deposit.

This will allow you to hire the goods for an agreed period. This will include an interest charge on the balance. An arrangement fee might also be payable on or before the agreement beginning. The fees and interest rate applied will be made clear to you before you enter into the agreement.

You can spread the regular payments (usually monthly) over an agreed repayment period. Interest will either be charged on a fixed or variable rate.

- Fixed rate agreements
 - Each payment is for interest and a reduction in the capital amount outstanding. The interest portion of the payments is usually greater at the beginning of the agreement. The interest rate is fixed.
- Variable rate agreements – we offer two options
 - Fully variable – Your payment is for capital. Interest is charged separately at the variable rate agreed (usually calculated at a percentage above the Bank of England base rate from time to time Subject to a minimum rate of 0%) against the day-to-day outstanding balance.
 - Flexiterm – You pay fixed instalments of capital plus estimated interest. Any difference between estimated and actual interest (usually calculated at the rate agreed being a percentage above Bank of England base rate from time to time subject to a minimum rate of 0%) is accommodated by adjusting the period of the agreement (or the amount of last payment) prior to the final payment falling due.

- **Drop Lock Endorsement** – this is used in conjunction with our variable rate finance products where you can convert the variable rate agreement (once during the finance period) into a fixed rate agreement, if you feel that the Bank of England Base Rate is increasing/may be increasing. If you decide to proceed with converting the existing agreement into a fixed rate agreement, there will be a fee payable for arranging this which will be agreed in advance.

Once the finance agreement is in place, we will send you a VAT invoice and a copy of the signed agreement. You should keep this safe.

Finance Lease

This will allow you to make regular rental payments (usually monthly or quarterly). Rental payments are usually payable in advance.

Depending on the circumstances of the agreement, we may require additional rental payments to be paid in advance. An arrangement fee will also be payable on or before the agreement begins. All rental payments are subject to VAT.

Rental payments can either be on a fixed or variable interest basis:

- Fixed interest
 - Rental payments are fixed for the period of the lease and are not influenced by changes in the Bank of England base rate or any other reference base rate. The interest element of the payments is usually greater at the beginning of the agreement.
- Variable interest
 - Rental payments are usually calculated based on an assumed Bank of England base rate and are held at the same level throughout the lease period.
 - Quarterly adjustments are made depending on any changes to the difference between the actual and assumed Bank of England base rate. Adjustment dates are 31st January 30th April 31st July and 31st October.
 - If the Bank of England base rate is higher than the assumed rate in the previous quarter, you will need to make an additional payment. If it has been lower, we will pay you a rebate of rental payments. If the amount is less than £50 it will be rolled over until the next adjustment date.
 - Adjustments are calculated against the “Notional Capital Outstanding” – this is similar to the outstanding balance using the original assumed Bank of England base rate and is set out in more detail in the lease agreement.

We provide you with VAT invoices for all rental payments.

In certain circumstances, lease rentals may be adjusted should there be any changes in tax treatment including movements in corporation tax rates and capital allowances and, if this is the case, we will promptly provide you with appropriate additional information but, for the avoidance of doubt, we do not provide any advice in relation to the tax, accounting or legal implications.

What you need to know

You should carefully read and consider the agreement so that you fully understand your rights and obligations. If you are in doubt as to your rights and obligations under the agreement, we strongly recommend that you seek independent legal advice.

You must look after the assets and ensure our interest as legal owner is protected. This typically includes (but is not limited to):

- maintaining full and adequate insurance and complying with insurance policy terms
- ensuring that we are noted (or joint insured if required) on the insurance policy
- maintenance of the assets in line with manufacturer recommendations
- not allowing the assets out of your control (unless we have permitted this)
- not encumbering the assets or allowing any other party to obtain any rights over them
- ensuring any legal or regulatory requirements in relation to the assets are complied with
- keeping the assets in good condition, fair wear and tear excepted
- unless we give you permission, keeping the assets in the UK (unless they are vehicles/or trailers which can go to EU countries for short periods or Norway and Switzerland)
- unless we give you permission, not making material alterations to the assets.

Subject to the terms of the agreement, you will also be responsible for any loss we may incur as owner arising out of the assets or the agreement.

The payments on your agreement must be paid on the date agreed by direct debit.

If you default under the agreement by missing or not making the payments when they are due or otherwise breaching the agreement, we do have the right to terminate the hiring under the agreement and demand full repayment of a termination amount. If you are unable to pay this sum, we have certain rights under the agreement and we may take appropriate action to repossess the assets and sell them. If we do not recover the full balance of the termination amount by selling the asset, you will remain liable to pay any shortfall. The termination amount will be calculated based on the remaining payments (including any arrears) plus any costs we incur, less any relevant discount calculated in accordance with the terms of your agreement with us.

Our rights of termination are set out in the agreement with you and include (but are not limited to):

- Failure to pay instalments/rentals when due
- Breach of the terms of the agreement

- Becoming insolvent or appointing an administrator, receiver or liquidator
- Change of control

You have no automatic right of early termination. However, if your circumstances change and you would like to terminate your agreement early, we may consider such a request taking into account your circumstances. If we agree to early termination this will require you to pay a settlement figure that we will calculate taking account of the outstanding balance and the fact that the agreement is being ended early.

Tax and accounting treatment applicable can vary depending upon many factors. You are responsible for obtaining your own professional accounting, tax, legal and other professional advice. The table below is illustrative only and HSBC does not confirm the accuracy or completeness of this information:

	Hire Purchase	Finance Lease
Possible accounting treatment	Balance sheet - asset & liability on balance sheet	Balance sheet - Asset & liability on balance sheet
	P&L - Asset depreciation / interest expense	P&L - Asset depreciation / interest expense
Tax deductions that may be permitted	Capital allowances	Accounting depreciation or capital allowances
	Interest	Interest
Usual Vat treatment	Vat charged on full value of assets up front	Vat charged on each rental

Asset Loan

We may decide that we do not wish to, or it is sometimes not possible for us to take legal ownership of an asset. This can be for various reasons based on our commercial appetite and/or our internal policies and/or procedures. The most common reason is that you are simply refinancing an asset that you already own. Another reason that may arise is that the supply may take place in another country (resulting in associated VAT registration implications) although alternative solutions exist that we can discuss with you in this circumstance.

We may offer to finance the asset by way of loan rather than Hire Purchase or Finance Lease. If so, then we will provide an Asset Loan and take a fixed charge over the asset by way of a Chattels Mortgage.

A Chattels Mortgage is like a mortgage over a property and will be registered at Companies House. The Chattels Mortgage is taken over relevant fixed assets (not property) as security in support of the Asset Loan. Certain costs may be payable by you which you will be informed of before entering the agreement.

You will need to provide us with proof of your legal ownership of the asset. It may be that we need to take additional steps to confirm that you own the relevant asset.

This will provide the agreed amount by way of a loan. There is no VAT on a loan agreement. To assess the loan amount, it may be necessary to have the asset independently valued which will be at your cost. The loan can be fixed rate or fully variable:

- Fixed rate agreements
 - Each payment is for interest and a reduction in the capital amount outstanding. The interest rate is fixed.
- Fully variable rate agreements
 - You make payments of capital. Interest is usually calculated separately at the variable rate agreed (a percentage above Bank of England base rate from time to time subject to a minimum rate of 0%) against the day-to-day outstanding balance.

Whilst you will own the asset, you must protect our interest in the asset as mortgagee. This includes (but is not limited to):

- maintaining full and adequate insurance and complying with insurance policy terms.
- ensuring that we are noted (or joint insured if required) on the insurance policy.
- maintenance of the assets in line with manufacturer recommendations.
- not allowing the assets out of your control (unless we have permitted this).
- not encumbering the assets or allowing any other party to obtain any rights over them.
- ensuring any legal or regulatory requirements in relation to the assets are complied with.

- keeping the assets in good condition, fair wear and tear excepted.
- unless we give you permission, keeping the assets in the UK and not making material alterations to the assets.

Circumstances in which we can terminate the loan agreement include (but are not limited to):

- failure to pay instalments when due.
- breach of the terms of the Asset Loan agreement or the Chattels Mortgage.
- becoming insolvent or appointing an administrator, receiver or liquidator.
- change of control.

The amount payable to us on a termination will be determined by us and will include all sums which are then outstanding at the date of termination of the Asset Loan.

If you do not pay us the termination sum, we can enforce our charge over the asset by taking possession of it and selling it as mortgagee in possession. This may involve a legal process in some circumstances. We would seek to recover all relevant costs incurred.

Should you require assistance with anything in relation to a finance agreement during its life, we would be happy to discuss your requirements. There may be a charge for certain requests but we will always inform you of any such charge before any requests are actioned.

Please tell us your specific requirements and we will be able to inform you of the product options available to you based on the information you provide to us.

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