



## OVERVIEW OF MILEAGE PENALTIES

If you have mileage penalties in your business truck leases, you should refinance now. It has come to my attention while refinancing a pair of shredding trucks that there may be a lease company in the shredding industry that has fairly stringent mileage penalties.

In this case, the mileage penalty is adding about \$3,600 per year (\$300 per month) to the cost of the lease. On a prorated basis, for each mile after 1,250 miles per month, the shredding company is going to have to pay 15 cents per mile to the leasing company. The shredding company who pointed this out to me was thinking that at the end of the lease, they were going to pay \$1.00 in order to buy the truck. After the mileage penalty, the payoff at the end will exceed \$18,000 based on their current miles per month driven.

By increasing the buyout in this subtle way, the yield the shredding company was paying increased from 13.0% to over 16%.

### CHECK FOR YOURSELF

If you are in such a lease, then order your early payoff quote now. Then you will see if the penalty amount is "buried" in the payoff figure, then ask for a breakdown. Show the payoff to your CPA or Attorney to see what they think. Buy an amortization program or calculator, so you can distinguish yourself, what the rate is and what the simple interest payoff should be. Upon request, I will send a rate calculator to you written in excel, so you can see for yourself.

### NOT INDUSTRY STANDARD

I have been in the equipment financing and leasing business for 25 years, and not once have I seen a mileage penalty in any vocational truck lease such as a shredder truck.

I am a broker. If I was faced with brokering transactions to a leasing company that had such a provision, I would "fire" that leasing company and go find a better financing source for my customers. That is the benefit of working with a broker. Brokers aren't stuck with selling terms and conditions they don't believe in. Consequently, you aren't stuck with inappropriate terms and conditions in your lease.

### PAYOFF NOW OR PAYOFF LATER:

I was told that the mileage penalty was prorated from the first day of the lease. You could break it down to a daily basis. If you average more than 42 miles per day, you are in the penalty. If you paid off the lease early, your penalty would be prorated based on how long the lease existed.

However, by paying off the lease early, your "penalty" stops on that day. You will no longer be penalized for each mile you drive over 42 miles per day. If you payoff at the end of the first year and you incur a \$3,600 penalty, you are saving yourself \$14,400 (\$3,600 times the remaining four (4) years.)

### DETAILS

Here is how the penalty works. Suppose a shredding company is paying off his truck after the first year on lease and he or she put 39,000 miles on the truck during that year.

Actual Mileage	39,000
Mileage restriction per year	<u>-15,000</u>

Overage in miles, subject to penalty	24,000
Penalty per mile	.15
<b><i>Penalty</i></b>	<b><i>\$3,600</i></b>

**VERBAL REPRESENTATIONS:**

There are no binding verbal representations in business to business leases. The last paragraph of most leases address that specific issue in the following manner. "By signing below, you agree that there are no binding verbal representations and the only binding terms and conditions of the lease are the ones written in this agreement". You can try to rely on their good nature to honor the verbal misrepresentations, but why would they give up the \$10,000 to \$20,000 you promised to pay them. This is even more of a problem if your lease is immediately assigned to a third party leasing company, as was the case with the company listed above. That third party leasing company bought the "paper", based on how it is written. Why would they even consider honoring someone else's verbal representation?

Call me if you have any questions.  
800-239-3814