



## HOW DO YOU KNOW IF THE RATE YOU HAVE BEEN TOLD IS ACCURATE?

How do you know that the rate you are quoted is accurate? Most people assume it is accurate and some figure that when they see the documents, the rate will be listed there. The rate is not listed on lease documents. You can be told anything the sales person is willing to say. There is NO TRUTH IN LENDING in business to business transactions.

The reason for this article is give you the tools to protect yourself from being misled. I personally have interviewed a shredding company owner who was told the "rate is 9.5%", when in fact, it was OVER 13%. The shredding company owner didn't know. He assumed he got a straight answer to his question about rate. The leasing company was recommended to him by the vendor, so why would he feel the need to be cautious?

**CHECK THE RATE YOURSELF:** There are a number of ways to check the rate yourself. For very little money, you can get a financial calculator. HP and Texas Instruments both make them. They are simple to use, but if you have trouble with them, call me and I can walk you through the calculation. Some cell phones now come with financial calculators. Most people have a spreadsheet program with a rate calculator formula built in. If you contact me, I will send you a "rate calculator" in the common program called EXCEL.

**ADD-ON RATE:** Like I said above, there is no TRUTH IN LENDING laws in business to business transactions. The truth in lending laws were derived to prevent abuses by predatory lenders. One of the tricks the lenders used was quoting a rate, which was calculated using the ADD-ON formula. It is illegal to quote this rate in consumer lending. It is NOT illegal to quote it in business to business transactions. The ADD-ON rate is calculated in the following way. Add up all the payments. Then subtract out the balance to finance. Take the difference, which is the interest, and divide by the number of years. That would give the interest per year. Divide that number by the balance to finance and that would give you the ADD-ON interest. The longer the term, the closer the ADD-ON interest rate is to HALF the real interest rate. EXAMPLE: suppose a truck balance to finance is \$200,000 and the sum of the payments are \$270,000. The interest in the transaction is \$70,000. So far that is all accurate. Divide the interest of \$70,000 by the five year term and you get \$14,000, which is 7% of the balance to finance. The ADD-ON rate is 7%. The real interest rate is 13%.

**DOCUMENTATION FEES:** Another way to mislead people on the rate (beside just plain lying), is with documentation fees. On a 60 month transaction, a documentation fee of 1.5% adds about 7/10 to the rate. In other words, the real rate of the transaction listed above is not 13%, but really 13.7% assuming the total of all documentation fees is 1.5% of the balance to finance. (for example, all the documentation fees are about \$3,000 on a \$200,000 balance to finance transaction).

**MILEAGE PENALTIES:** Another way to mislead people as to the rate is to have mileage penalties. If mileage penalties equated to \$2,700 per year or \$13,500 over the life of the lease, the transaction listed above is not really 13% or 13.7%, but really 15.2%. Remember, this customer was quoted a rate of 9.5% or less.

**LENDER OF LAST RESORT:** If you have to do business with the lender of last resort, and you have no other choice, then that is the way it goes. However, if you are choosing one lender over another based on faulty information, then you should make yourself better informed.

To request a rate calculator in excel, contact David Murray at [dmurray@evergreenfinancial.com](mailto:dmurray@evergreenfinancial.com)

<b>SAMPLE DATA</b>	
Truck Cost	200,000
Terms of Financing	
Payment	4,500
Term	60
Number of payments in advance	1
Down Payment	-
Lease Acquisition Fee	699
Gap Insurance	1,843
Tracking fee	259
UCC fee	199
Documentation Fee	
Residual/Buyout	1
Mileage Penalty (See lease documents)	
Mileage Penalty Limit over term of lease	75,000
Mileage Penalty per mile over limit	0.18
Estimated miles to be driven during the term of the lease	150,000

<b>THE REMAINING DATA IS CALCULATED</b>	
Total initial costs	7,500
Total sum of payments (w/o Mileage Penalty)	273,001
Total sum of payments (with Mileage Penalty)	286,501
Rate without fees and penalties	13.0%
Rate addiing in the fees	13.7%
Rate addiing in the fees and mileage penalties	15.2%
Mileage Penalty	13,500.00

Call me if you have any questions.  
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