

LET'S TALK MONEY

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PRACTICAL ASPECTS TO CONSIDER WHEN APPLYING FOR VEHICLE AND ASSET FINANCE

The Bank and the client have a shared responsibility to ensure that all internal and external factors are considered when applying for or considering vehicle and asset finance. All these factors have a significant impact on the affordability of the client to repay the loan and may influence the Bank's decision to approve or decline the application.

Clients often disregard certain cost items when preparing their monthly cash flow budgets such as fuel, insurance, maintenance and interest rates.

FUEL

The true impact of fuel expenses are seldom taken into consideration. Take an example of a person currently driving a light sedan vehicle with a fuel consumption of 10 liter per 100 kilometer. Should this person now wish to replace this vehicle with an SUV, the average fuel consumption can easily increase to 15 liter per 100 kilometer. Should this person drive an average of 1000 kilometer per month, his fuel expense for the sedan at P 4.44/l is P 444.00 and for the SUV he would spend P 666.00, an additional fuel expense of P 222.00 per month. The impact can also be devastating to the client's cashflow should fuel prices increase to mid 2008 levels again.

INSURANCE

Insurance is probably one of the most important expenses to consider when buying a vehicle. A vehicle utilized for private purposes with an insurance value of P60 000, compared to a vehicle with an insurance value of P120 000, will cost the client approximately P675 per month extra to insure depending on the claim free group.

MAINTENANCE

Most new vehicles are sold with a comprehensive maintenance plan, which poses almost no additional expense to the client, service plan which attracts maintenance fee only, warranties that covers certain parts of the vehicle within the first year depending on the make. In the case of used vehicles, the general condition and model of the vehicle, as well as the total number of kilometers traveled by the vehicle should be considered carefully. Services and general maintenance on such vehicles should be provided for in the client's budget.

INTEREST RATES

Interest rate increases by Banks follow on an increase in the bank rate by the Bank of Botswana. It is imperative for clients always to be prepared for possible interest rate increases and the impact on their cash flow budgets. The prudent approach is not to utilize the maximum amount that the Bank is willing to advance, but to rather only take 90% of it.

CRITICAL FACTORS CONSIDERED BY BANKS WHEN EVALUATING APPLICATIONS FOR VEHICLE AND ASSETS FINANCE:

- Does the applicant have a fixed monthly income?
- How long has the client been employed at the same employer?
- Does the applicant have a clean credit bureau reference?
- Is the debt service ratio/affordability for the client within the lending criteria
- Have cheques of the client been dishonoured by banks in the past?
- Are credit references at other institutions satisfactory?
- Has the applicant been insolvent in the past?
- Is the applicant purchasing the vehicle from one of the Bank's approved vehicle dealers?
- The equity between the model of the vehicle, the deposit provided by the client and the value of the vehicle must always be considered.

These are just some of the major aspects to consider when applying for vehicle and asset finance. Please contact our Vehicle and Asset Finance professional team at 3671500 or simply email us at info@bankgaborone.co.bw.

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