



Understanding Rentals

“Do you want to pay me R100 000.00 or R2 597.00 rental a month for this printer?”

“R2 597.00 but please explain?”

“It is simple, let me get you approved and you can have this printer here next week.”

Salivating “Its that easy “ This is you I am talking about!

Thinks “A sucker is born everyday” “Just fill in this form and you will be printing in no time”

Sound familiar?

Now I personally have nothing against rentals and they form a necessary part of the financial backbone of business

However due to inadequate disclosure, by the person pushing the rental, most customers are unwittingly **seduced** into signing rental deals without really understanding what they are committing to.

1. There are some very basic questions that need answering by the salesman before you commit yourself
2. Secondly there are some dangerous clauses that you need to remove from the standard rental contracts.
3. Finally you need to understand the ramifications of long term rentals when it comes to upgrading and settling any outstanding amounts.

1: Basic answers you need from the rental salesman.

■ Q1.What is the interest rate?

- Now most sales persons will deny there is any interest in a rental agreement as there is no capital and interest amount mentioned in the contract. **This is just smoke and mirror stuff.** (The thing that makes magicians famous and looses your shirt or worse still your pants &.....)

There is interest, it is just applied as a lump sum addition to the whole deal and is not accounted for separately. If the salesman does not know the interest rate ask them to phone the financing company or show you the rate sheet from the financing company. **(yes you are entitled to see it).** The salesperson will now be squirming, but remember this is your money not his or hers.

There are only two amounts mentioned in a rental, the monthly amount and the number of payments. You also know the cash price of the machine From these you can calculate the effective interest rate. **Be careful to look for an escalation clause! See below**

If they are unable or unwilling to help, you can do the calculation yourself using Open Office or Xcel using the **RATE** function. **NPER** is the the number of payments. **PMT** is the monthly amount **PV** is the amount being borrowed (make it a negative number) **Type** is 1 for beginning of month 0 for end (makes a big difference) This will calculate a monthly interest rate. Multiply this by 12 and format the column as percentage and you have the effective interest rate per annum.

NPER	PMT	PV	Type	Monthly	Annual
36	3585	-100000	1	1.54%	18.50%

Calculate the difference between the prime rate (at the time of writing this, it is was



14.5%) and phone your bank manager immediately and ask them what rate of interest they would give you on a similar size deal. **Prime plus ?** If its much better than the rate you just calculated, stop the negotiations right now or tell the sales person to go talk to the rental institution to match the rate quoted by your bank manager.

■ Q2. Ownership?

- Do you become the owner of the of the product at the end of the rental. **No, stop negotiating now and walk away!**

Yes, if you pay R1 or on paying your final payment. Get this in writing before you sign anything. **I stress get this in writing do not sign any document without this confirmation in writing.** For legal reasons it cannot be stipulated in a rental agreement but it can be given to you as a separate document. At this risk of sounding like a school teacher **get this in writing first.**

■ 2: **Clauses to watch out for and to remove. NB!!!!!!!**

a. Escalation clause: there is a standard clause that stipulates a 15% escalation per annum increase in the premiums, **remove it. If you choose to leave this clause in the salespersons company is making you pay up to an extra R28 000 per R100 000 you borrow and you are financing this windfall and they are laughing at you!**

Remember the bank pays out the the deal based on the monthly amount and the term. So if the salesperson bumps the premium the bank pays out more and you are footing the bill.

This is the by far most dangerous clause in a rental agreement as you are paying for other peoples holidays

If you have agreed to an escalation make sure you do the maths and that you are only paying for the the amount that you agreed to. I have included standard rates at 4% above prime (BELOW) for you to quickly see if you are being ripped off. **Please check for your own sake.**

- **b.Ownership clause**, make sure ownership passes to you, discussed above. Make sure that the same applies when upgrading.
- **c.Upgrading:** Manor from heaven I can keep upgrading my machine and stay with the latest technology. **Watch out there is a huge sting in the tail!**

If you review the figures below, you will see that this concept makes no sense at all as the settlement figures on your equipment stay in front of the market price for almost 90% of the term of the rental.

My recommendation is if you you wish to pay for your equipment over a longer period than 3 years that you do not even consider rentals but look at an Installment sale instead.

Five minutes of reviewing the figures below will show you that you are in a loosing position on settlement figures for most rentals, until the final 9 months of the rental, so how this ever became a selling feature I have no idea.



Installment sale							
Capital	Term months	Prime interest rate	4% above prime	Monthly Interest rate	Monthly payment	Total to be paid	Interest paid
R-100,001.00	36	14.50%	18.50%	1.54%	R 3,585.14	R 129,064.93	R 29,063.93
R-100,001.00	48	14.50%	18.50%	1.54%	R 2,918.72	R 140,098.76	R 40,097.76
R-100,001.00	60	14.50%	18.50%	1.54%	R 2,527.68	R 151,660.69	R 51,659.69
Rental							
Capital	Term months	Prime interest rate	4% above prime	Monthly Interest rate	Monthly payment	Total to be paid	Interest paid
R-100,001.00	36	14.50%	18.50%	1.54%	R 3,585.00	R 129,060.00	R 29,059.00
R-100,001.00	48	14.50%	18.50%	1.54%	R 2,919.00	R 140,112.00	R 40,111.00
R-100,001.00	60	14.50%	18.50%	1.54%	R 2,528.00	R 151,680.00	R 51,679.00
Theoretical settlement figures per 100k							
	Month Number	Installment Sale	Rental	Installment Sale	Rental	Installment Sale	Rental
		36 Months	36 Months	48 Months	48 Months	60 months	60 months
	1	R 100,000.00	R 129,060.00	R 100,000.00	R 140,098.76	R 100,000.00	R 151,680.00
	2	R 97,901.27	R 121,890.00	R 98,577.96	R 134,274.00	R 98,975.04	R 146,624.00
	3	R 95,770.19	R 118,305.00	R 97,134.00	R 131,355.00	R 97,934.27	R 144,096.00
	4	R 93,606.26	R 114,720.00	R 95,667.78	R 128,436.00	R 96,877.46	R 141,568.00
	5	R 91,408.96	R 111,135.00	R 94,178.95	R 125,517.00	R 95,804.35	R 139,040.00
	6	R 89,177.79	R 107,550.00	R 92,667.17	R 122,598.00	R 94,714.71	R 136,512.00
	7	R 86,912.22	R 103,965.00	R 91,132.08	R 119,679.00	R 93,608.26	R 133,984.00
	8	R 84,611.73	R 100,380.00	R 89,573.33	R 116,760.00	R 92,484.76	R 131,456.00
	9	R 82,275.77	R 96,795.00	R 87,990.54	R 113,841.00	R 91,343.93	R 128,928.00
	10	R 79,903.79	R 93,210.00	R 86,383.36	R 110,922.00	R 90,185.52	R 126,400.00
	11	R 77,495.25	R 89,625.00	R 84,751.40	R 108,003.00	R 89,009.25	R 123,872.00
Year 1	12	R 75,049.57	R 86,040.00	R 83,094.27	R 105,084.00	R 87,814.84	R 121,344.00
	13	R 72,566.20	R 82,455.00	R 81,411.61	R 102,165.00	R 86,602.03	R 118,816.00
	14	R 70,044.53	R 78,870.00	R 79,703.00	R 99,246.00	R 85,370.51	R 116,288.00
	15	R 67,483.99	R 75,285.00	R 77,968.04	R 96,327.00	R 84,120.01	R 113,760.00
	16	R 64,883.98	R 71,700.00	R 76,206.35	R 93,408.00	R 82,850.23	R 111,232.00
	17	R 62,243.88	R 68,115.00	R 74,417.49	R 90,489.00	R 81,560.87	R 108,704.00
	18	R 59,563.08	R 64,530.00	R 72,601.05	R 87,570.00	R 80,251.63	R 106,176.00
	19	R 56,840.95	R 60,945.00	R 70,756.61	R 84,651.00	R 78,922.22	R 103,648.00
	20	R 54,076.86	R 57,360.00	R 68,883.74	R 81,732.00	R 77,572.30	R 101,120.00
	21	R 51,270.15	R 53,775.00	R 66,981.99	R 78,813.00	R 76,201.58	R 98,592.00
	22	R 48,420.18	R 50,190.00	R 65,050.92	R 75,894.00	R 74,809.72	R 96,064.00
	23	R 45,526.26	R 46,605.00	R 63,090.08	R 72,975.00	R 73,396.41	R 93,536.00
Year 2	24	R 42,587.73	R 43,020.00	R 61,099.02	R 70,056.00	R 71,961.30	R 91,008.00
	25	R 39,603.90	R 39,435.00	R 59,077.25	R 67,137.00	R 70,504.07	R 88,480.00
	26	R 36,574.07	R 35,850.00	R 57,024.32	R 64,218.00	R 69,024.38	R 85,952.00
	27	R 33,497.53	R 32,265.00	R 54,939.74	R 61,299.00	R 67,521.88	R 83,424.00
	28	R 30,373.55	R 28,680.00	R 52,823.02	R 58,380.00	R 65,996.21	R 80,896.00
	29	R 27,201.42	R 25,095.00	R 50,673.67	R 55,461.00	R 64,447.02	R 78,368.00
	30	R 23,980.38	R 21,510.00	R 48,491.19	R 52,542.00	R 62,873.94	R 75,840.00
	31	R 20,709.69	R 17,925.00	R 46,275.05	R 49,623.00	R 61,276.62	R 73,312.00
	32	R 17,388.57	R 14,340.00	R 44,024.75	R 46,704.00	R 59,654.67	R 70,784.00
	33	R 14,016.25	R 10,755.00	R 41,739.76	R 43,785.00	R 58,007.71	R 68,256.00
	34	R 10,591.94	R 7,170.00	R 39,419.55	R 40,866.00	R 56,335.37	R 65,728.00
	35	R 7,114.84	R 3,585.00	R 37,063.56	R 37,947.00	R 54,637.24	R 63,200.00
Year 3	36	R 3,584.14	R 0.00	R 34,671.25	R 35,028.00	R 52,912.93	R 60,672.00



PS for those of you who require these spread sheets so you can plug in your own figures I will post them to our web site. www.rolanddg.co.za

Year 3	36	R 3,585.14	R 0.00	R 34,671.25	R 35,028.00	R 52,912.93	R 60,672.00
	37			R 32,242.74	R 32,109.00	R 51,162.53	R 58,144.00
	38			R 29,776.12	R 29,190.00	R 49,384.67	R 55,616.00
	39			R 27,271.48	R 26,271.00	R 47,579.39	R 53,088.00
	40			R 24,728.22	R 23,352.00	R 45,746.29	R 50,560.00
	41			R 22,145.76	R 20,433.00	R 43,884.92	R 48,032.00
	42			R 19,523.48	R 17,514.00	R 41,994.86	R 45,504.00
	43			R 16,860.77	R 14,595.00	R 40,075.66	R 42,976.00
	44			R 14,157.02	R 11,676.00	R 38,126.87	R 40,448.00
	45			R 11,411.58	R 8,757.00	R 36,148.04	R 37,920.00
	46			R 8,623.82	R 5,838.00	R 34,138.70	R 35,392.00
	47			R 5,793.08	R 2,919.00	R 32,098.39	R 32,864.00
Year 4	48			R 2,918.70	R 0.00	R 30,026.62	R 30,336.00
	49					R 27,922.91	R 27,808.00
	50					R 25,786.76	R 25,280.00
	51					R 23,617.69	R 22,752.00
	52					R 21,415.17	R 20,224.00
	53					R 19,178.70	R 17,696.00
	54					R 16,907.75	R 15,168.00
	55					R 14,601.79	R 12,640.00
	56					R 12,260.28	R 10,112.00
	57					R 9,882.68	R 7,584.00
	58					R 7,468.41	R 5,056.00
	59					R 5,016.93	R 2,528.00
Year 5	60					R 2,527.65	R 0.00
				36 months	48 months	60 months	
3 Year Upgrade plan: Costs still to be financed per R100k				R 0.00	R 32,109.00	R 58,144.00	

ABSA Rental Rates 12 Oct 2007								
Term	Escalation %	R100 001.00	Year 2	Year 3	Year 4	Year 5	Effective Monthly rate	Effective Int Rate
36	0	3585	3585.00	3585.00			3585.00	18.50%
	5	3432	3603.60	3783.78			3606.46	18.96%
	7.5	3359	3610.93	3881.74			3617.22	19.19%
	10	3287	3615.70	3977.27			3626.66	19.39%
	12	3232	3619.84	4054.22			3635.35	19.57%
	15	3151	3623.65	4167.20			3647.28	19.83%
48	0	2919	2919.00	2919.00	2919.00		2919.00	18.51%
	5	2739	2875.95	3019.75	3170.73		2951.36	19.16%
	7.5	2654	2853.05	3067.03	3297.06		2967.78	19.49%
	10	2571	2828.10	3110.91	3422.00		2983.00	19.80%
	12	2507	2807.84	3144.78	3522.15		2995.44	20.05%
	15	2414	2776.10	3192.52	3671.39		3013.50	20.41%
60	0	2528	2528.00	2528.00	2528.00	2528.00	2528.00	18.51%
	5	2328	2444.40	2566.62	2694.95	2829.70	2572.73	19.37%
	7.5	2234	2401.55	2581.67	2775.29	2983.44	2595.19	19.79%
	10	2143	2357.30	2593.03	2852.33	3137.57	2616.65	20.20%
	12	2073	2321.76	2600.37	2912.42	3261.91	2633.89	20.53%
	15	1973	2268.95	2609.29	3000.69	3450.79	2660.54	21.03%