

GLOSSARY OF LEASING TERMS

ACCEPTANCE CERTIFICATE



A critical item of lease documentation which shows the lessee has accepted the equipment and the lease can start.

ANNUAL PERCENTAGE RATE (APR)



The annual rate charged for borrowing (or made by investing), expressed as a single percentage that represents the actual yearly cost of funds over the term of a loan. This includes any fees or additional costs associated with the transaction.

BALLOON RENTAL



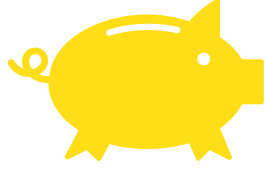
A large rental payment payable by the lessee upon expiry of a leasing agreement.

CO-TERMINUS



Used when equipment has been added to a lease and the additional rentals have been calculated so they end at the same time as the existing contract period.

COST OF FUNDS



The interest rate at which the funder can borrow.

DOCUMENT FEE



A fee collected at the start of a leasing agreement by a finance company, to cover set-up costs.

END-OF-TERM OPTIONS



Options in the lease agreement governing the treatment of leased assets at the end of the lease term. Common end-of-term options include sale of the equipment, renewing the lease, or returning the equipment to the lessor.

EARLY TERMINATION



If the lessee wants to exit from a lease before the end of its primary (i.e. non-cancellable) term, the lessor may agree a termination sum based on the remaining unpaid rentals.

EXTENSION RENTAL



The rental for which the lessee may continue to use the equipment for a further specified period once the primary term of the lease has expired.

FAIR MARKET VALUE



The value of an asset if it were to be sold in an arms-length transaction between a willing buyer and a willing seller.

FINANCE LEASE



A lease that meets certain criteria established by the accounting rule-making body (SSAP21 and FRS5 in the UK). Such a lease has the characteristics of a purchase, and is required to be shown as an asset and a related obligation on the balance sheet of the lessee.

FLAT INTEREST RATE



The interest rate that applies to the total principal of the loan, it does not take account of the fact that in most cases (an exception would be an interest only mortgage) the capital outstanding will be reduced over the term of the lease or loan and as such does not reflect the true interest cost.

FULL-SERVICE LEASE (BUNDLED LEASE)



A lease that includes additional services such as maintenance and insurance, paid for by the lessor, the cost of which is built into the lease payments. Sometimes termed a 'bundled' lease.

FULL PAY-OUT LEASE



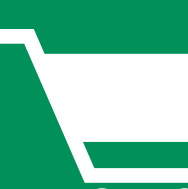
A lease where the lessor recovers, through the lease payments, all costs incurred in the lease plus an acceptable rate of return, without any reliance upon the leased equipment's future residual value.

GUARANTEED RESIDUAL VALUE



A guarantee from a party other than the lessor that the leased equipment will be worth a pre-determined amount at the end of the lease.

HIRE PURCHASE



A lease agreement which provides the hirer with an option to purchase the equipment upon expiry of the agreement providing all payments due have been properly paid. The purchase price is set at the outset and will depend on the anticipated value of the asset and the amount of capital repaid during the agreement.

LEASE RATE



The monthly, quarterly or annual cost of renting £1,000 worth of equipment for a certain term.

LEASE TERM OR PERIOD



The fixed duration of the lease in its main or primary period of lease.

MASTER LEASE AGREEMENT



A lease agreement that contains all the main or boiler plate provisions governing leasing between two parties. It doesn't refer to specific assets or financial terms, which are captured in separate lease contracts still subject to the terms in the master lease agreement.

OFF-BALANCE SHEET FINANCING



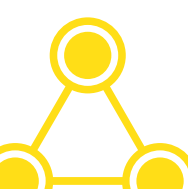
Any form of financing, such as an operating lease, that, for financial reporting purposes, doesn't have to be reported on a firm's balance sheet.

OPERATING LEASE



An agreement that also meets certain criteria established by the accounting rule-making body (SSAP21 and FRS5 in the UK). Such a lease need not be shown on the balance sheet of the lessee. Usually the lessor has taken a significant residual position in the lease pricing, so must salvage the equipment for a certain value at the end of the lease term to earn its rate of return.

PAYMENT PROFILE



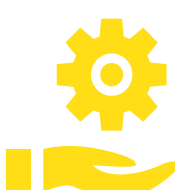
Often used to describe the number and frequency of rental payments involved in a leasing agreement e.g. a five year agreement involving 20 quarterly payments is commonly referred to as '1+19' where '1' represents a single initial quarterly payment.

PUT OPTION PRICE



The price the supplier of equipment might be offered by the finance company to re-purchase the equipment upon termination of the agreement.

PURCHASE OPTION



An option to purchase the asset at the end of the lease term for a fixed amount or at the future fair market value of the leased equipment.

RESIDUAL VALUE



The amount the lessor expects to receive from the sale of leased equipment when it is returned at the end of the lease period. Any shortfall is for the risk of the lessor.

SALE AND LEASEBACK



Where the party selling the equipment to the lessor is also entering into a subsequent lease of the same equipment. It's a common way for companies to raise cash.

TERMINATION SUM



The sum required by the lessor to end a lease before the end of its primary term.

SSAP21 (STATEMENT OF ACCOUNTING PRACTICE NO.21)

Along with its various amendments and interpretations, combined with FRS5, it specifies the proper classification, accounting and reporting of leases by lessors and lessees.