

BUYING YOUR DREAM CAR:

Insider Tips from Premier Financial Services



FINANCING YOUR DREAM CAR: CONSIDER ALL YOUR ALTERNATIVES

If a serious enthusiast has the financial means to write a check for \$100,000, for \$1 million or even \$10 million to purchase a late-model exotic or a vintage car at auction, through a dealer or private seller, then why wouldn't they? Most likely, because sophisticated buyers understand that it can be far more advantageous to use some form of financing to preserve cashflow; particularly when interest rates are at historic lows.

Which form of financing is right for you? This final edition of our "Buy/Sell" series examines the key considerations in financing a classic or exotic car purchased privately. It also provides some comfort for private sellers, who might believe that a buyer's financing arrangement can affect the pricing or speed of the transaction.

The relative ease of obtaining financing – both for new as well as previously owned vehicles – is no doubt critical to sustaining the collector-car hobby and exotic car business, because most people who love those cars do not have unlimited disposable income. From Beetles to Bugattis, Mustangs to McLarens, and Porsches to Pegasos, financing helps to put dream cars in driveways.

For Some, Cash is Always King

Some people will always prefer to purchase their cars with cash, thereby avoiding interest payments. And some people believe that cash is only way to buy a car, because any type of financing suggests you can't really afford the car. But if that same "cash only" principal were applied to mortgages, most people would not be living in their current homes. Financing for any large purchase enables people to take full advantage of their current financial assets and earning power, and to benefit from the good credit they have earned over time.

Financing Quick Tips

These guidelines can improve your chances of success when considering financing alternatives for your dream car:

- For some buyers, cash is king. But they should explore all options.
- Low monthly payments often involve long duration financing.
- Traditional closed-end leasing will not work for many exotic and vintage car owners.
- Leasing can be a viable option for previously owned exotic and classic cars.
- Purchase a car because you will enjoy driving it, not as an investment opportunity.



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If you are a die-hard cash car buyer, we respect that point of view. We only ask that you keep an open mind, and appreciate that there are many individuals who do have the cash to purchase any car (or collection of cars) that they desire; but instead, choose some form of financing. There are several sound economic reasons why they do, which we will cover.

Borrowing for a Dream

If you attend auctions, you can't miss the banners and ads promising super-low monthly payments to drive the classic car of your dreams. Drive a Ferrari F360 Spider home for the monthly payment of a new BMW 5 Series? Sign me up!

Indeed, financing of all types has opened the door to classic car enjoyment for a large portion of the market. If you buy wisely, it's even possible (but certainly not assured) that appreciation on a particular collectible car may help to offset the interest payments over time. (We're not including insurance, maintenance and repairs, since those are fixed ownership costs, no matter how you pay for a car.)

There is a caveat that can burst the bubble of an appealingly low payment: it usually comes with a long-term contract, even as long as 96 - 144 months. "The problem with that," according to Doug Ewing, Vice President of Sales for Premier Financial Services, "is that most customers for exotics

and vintage cars will keep them for only 18 - 24 months. Serious car enthusiasts simply love cars, and always want to drive new marques and models."

"Some finance companies will arrange long-term contracts, so payments can be lower; but you're not paying down any principal at all if you're only keeping a car for 18-24 months," cautions Ewing.

If you purchase a high-end car with a long-term loan but keep it for only two years, remember you've paid any sales tax right up front, along with a boatload of front-loaded interest. Unless the car appreciates significantly in two years, it could mean a loss when selling. Some vintage models may appreciate during that period; however, most late-model exotics and high-end luxury cars generally depreciate, and some more quickly than others.

Home Equity Loans? That Pathway to Ownership is Gone

For decades, car enthusiasts of all economic means borrowed against the equity in their homes to purchase a collector car (or cars). You could get a low interest rate, choose your term and, in some cases, the interest could be tax-deductible. Meanwhile, if you bought well, the car's value might have increased, in some cases significantly.

The appeal of that option basically

came to a screeching halt with the passing of the Tax Cuts and Jobs Act of 2017. The new tax law suspends the deduction on home equity loan interest until the year 2026, except when using the loan to "buy, build or substantially improve" the home against which you are borrowing, according to the IRS.

Does adding a new garage to house your collection count as a substantial home improvement? Ask your tax advisor before you start construction.

Understanding the Basics of Leasing

Unfortunately, there's a significant amount of misinformation and misunderstanding about lease financing. The #1 myth regarding car leasing is that it is complicated, restrictive and costly. The #2 myth is that there is only ONE type of leasing. The #3 myth is that leasing is only for new cars.

"We never suggest that leasing is appropriate for every situation. It's simply another tool in the tool box to obtain and finance a car," says Ewing, who has been with Premier Financial Services for 20 years.

First, it's important to understand that the type of leasing that works for vintage and high-end pre-owned cars is not the same as the traditional "closed end" lease used for most new vehicles. In that type of arrangement, monthly payments are based on a set term,



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typically 36-48 months. At the end of that term, you can either buy the car for the pre-set "residual" price, lease another car from the same dealer, or simply walk away.

That type of conventional leasing arrangement often does not work well for late-model exotics or vintage marques, where many customers like to switch cars after a short period. It's for those cars that leasing offers many advantages, but it requires a particular type of lease that's tailored to this market and customer.

In fact, leasing may not be a foreign concept for new high-end and exotic cars, but it is still unfamiliar to many as a tool for acquiring pre-owned exotics or vintage models. To the uninitiated, it might seem unusual to lease a Ferrari 250 GT Lusso, Mercedes-Benz 300 SL Gullwing, Aston Martin DB5 or Lamborghini Diablo, but the concept bears a closer look for many collectors.

"What enthusiasts require is a hybrid leasing product," says Ewing, describing the Premier Financial Services Simple Lease program. "It's structured around a simple-interest balloon note. But Premier holds the car's title, so it is a lease, providing a high degree of ownership flexibility and all the tax advantages of any other lease."

In most states, the customer pays the sales tax only on the down payment (if any) and on each monthly payment, versus paying

tax on the full vehicle price upfront, as with a cash purchase or loan.

"In certain states, such as California, there's no sales tax credit on trade-ins, so if you stay in the vehicle for only 18-24 months, you pay all that sales tax up front and get nothing back," adds Ewing.

With conventional leasing, a short term like 24 months makes the monthly payment too high to be appealing to most customers. So Premier generally bases its leases on a 60-month term, which lowers the payment.

"Premier's payments are typically less than any finance deal," says Ewing.

Flexibility and Transparency are Essential

The key to making the leasing concept work for those who like to switch cars often, Ewing explains, is that the Premier allows the customer to terminate their lease at any time after the 12th monthly payment by paying off the balance, plus one monthly payment.

Owners also have the option to switch cars within their lease without penalty, simply by paying any difference in value between the two cars. The lease's residual value and payments remain unchanged.

Contrary to another leasing myth, there are no hidden fees. At the end of the lease term, the balance

due is the agreed-upon residual value, the disposition fee, and any applicable sales tax if the owner decides to purchase the car. By configuring leases in that manner, there are no surprises when the lease term is up. Premier provides an amortization schedule from lease inception, so you know where you stand at all times.

Reducing Bottom Line Cost

Often conventional new-car leases require a down payment (referred to as a "cap cost reduction"), but this can vary with Premier's leases. For vintage cars, it is 20% down to help protect against market fluctuations. The down payment can vary with late-model luxury and exotic cars on several factors, including the customer's financial standing and the vehicle they select," according to Ewing.

"At some point, our customers are either buying the car or trading it in," he says. "We set a realistic and usually conservative residual, so the client has no unpleasant surprises at lease end. It's a fair formula for both sides of the transaction, and much better than being locked in with a closed-end lease product."

If a car appreciates in value over the lease term, the customer can keep any profit. This is more likely with vintage cars, and while it occasionally happens with some late-model exotics, Ewing



cautions that it's not the case with most cars today. He suggests that, "Values of exotic and vintage cars constantly fluctuate, and most enthusiasts should buy cars because they will enjoy driving them, not because they expect them to appreciate in value."

Taking Care of Business

If you are self-employed and can justify some percentage or all of a high-end luxury or exotic car's usage for business purposes, there may be tax advantages to leasing versus purchasing with cash or financing. If the car is leased under a business name, not necessarily a corporate entity, pre-tax dollars may be used to pay for the lease.

"It's also going to be significantly better than taking the 57.5¢ per mile IRS deduction for business travel, particularly when you're only driving a few thousand miles per year," Ewing says.

As the fine print goes, consult your accountant or financial advisor before making any tax-related decisions.

Putting Sellers at Ease

Ewing understands that some car sellers may feel some trepidation about transactions involving leasing, most often because they don't understand how it works, or mistakenly believe the process will affect the agreed sale price.

"There is a lot of fraud out there, so sellers can understandably be somewhat leery," he says. "At Premier, we get both parties on the phone and explain the process step-by-step. We'll provide the seller with references, if they need additional assurances." The leasing process, explains Ewing, is streamlined so that most deals can be done in one day.

When the client is approved, we call the seller to arrange the vehicle inspection, and also to explain the process," he says. "Once our client signs the lease documents online via DocuSign and has insurance in place, we will arrange for funding and transfer of ownership with the seller so that all parties are protected."

Whatever means you choose to pay for the pleasure of driving a vintage or exotic car, you can make the financing transaction and ownership experience as enjoyable and risk-averse as possible by factoring in all costs, including shipping, insurance, maintenance and repairs.

Stepping out of the mainstream luxury auto experience to enjoy these amazing machines can be very rewarding, not only in terms of driving pleasure, but also as a pathway to camaraderie and lasting friendships with other serious car enthusiasts.



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