Holman

Driving What's Right

FREE YOUR FLEET

Open-End Leasing, the Alternative in the Leasing Market

Focus on Open-End Leasing

There have never been as many possibilities to manage vehicle fleets. Only a fraction of these possibilities are being used, though. One of the new interesting options in fleet financing, for example, is open-end leasing.

Taking a closer look at the open-end principle is worthwhile, because it offers not just general savings potential. With open-end leasing you can get rid of annoying or harmful limitations. For instance, of some unplanned extra charges at the end of the contract term, complex agreements, rigid parameters in leasing contracts, or unnecessary margins. Find out more about this on the following pages.

This white paper explains to you what open-end leasing is and how especially functional fleets can profit from it.

What is the challenge in classic closed-end leasing?

Classic closed-end leasing seems to be the perfect solution: choose the contract term and mileage, done! It looks reasonable and clearly regulated. Especially during the tendering process, people often only focus on the most inexpensive leasing rate. But the devil is in the details, more precisely: in the contracts. **What looks like a bargain in the beginning can end up being quite expensive.** After all, a car can rarely be used exactly as planned. As a result, closed-end leasing may result in costs which are not always recognizable in contract clauses at first glance: every kilometer driven costs more. But every kilometer you drive less does not cost correspondingly less. Kilometers are compensated at a lower rate and are moreover capped. Added to this are added reduced value payments for damages.
All this can add up until the original calculation no longer applies. Many fleet managers simply take that as a given as something without alternative. **But there is an alternative: open-end leasing**

Why closed-end leasing often costs you more than originally planned

%

The leasing rate in closed-end leasing looks cheaper

€

Closed-end leasing may be more expensive due to hidden costs

What is open-end leasing?

Open-end leasing* is open leasing with flexible contracts. This results in advantages during the different phases of the vehicle's business cycle:

1. **A flexible contract** is concluded. Instead of often nontransparent "calculations," a repayment plan with maximum transparency is agreed upon. Since not every car is used in the same way, an optimized, individual financing contract is set up for each vehicle.

2. **During the contract term,** open-end leasing offers reliably consistent monthly payments where all benefits are clearly defined. The term already becomes flexible after just three months – after that period, the contract may be terminated at any time by paying off the remaining debt.

3. **After the end of the term** we do not issue a reduced value invoice as it does not reflect the loss in value. The vehicle is sold, and the difference between the remaining debt and the sale value belongs to the customer.

*In this white paper, open-end leasing is defined as a flexible full amortization contract; the terms of our product FlexLease apply.

In 2017 Holman Fleet redefined open-end leasing in Germany with its product FlexLease.

Advantages of the open-end leasing product FlexLease in the vehicle's life cycle

1. At the conclusion of the contract:

- Flexible full amortization financing contract (like lease purchase)
- Fixed amortization schedule for maximum transparency
- Individual financing agreement per vehicle

2. During the contract term:

- Consistent monthly payments
- May be canceled at any time after 3 months, full flexibility

3. After the end of the term:

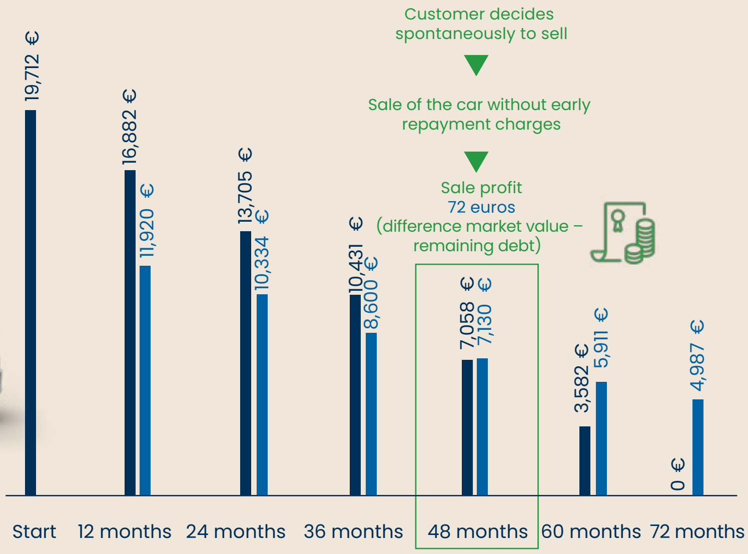
- Accordingly, the difference between the sale proceeds and the remaining debt belongs to you

Sample calculation

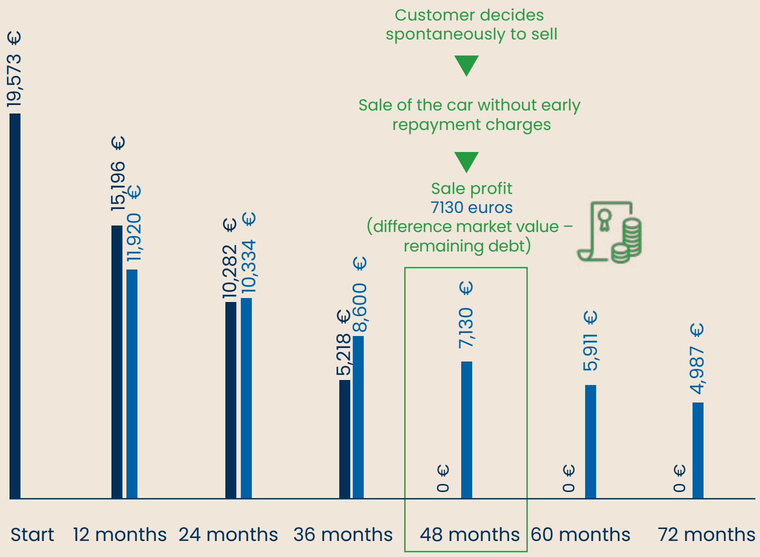
But what does “flexible contract agreement” mean in concrete terms? **Let’s take a look at the following sample calculation:**

A van can be leased over 72 months, for instance. The advantage: low rates. But when the vehicle is sold before the end of the lease, the sale pro-ceeds are lower for the cus-tomer, as the debt was paid off slowly.

Holman FlexLease – example of an early sale of Van 1, term 72 months, leasing rate EUR 303, **EUR 72 credit**



Holman FlexLease – example of an early sale of Van 2, term 48 months, EUR 441 leasing rate, **EUR 7,130 credit**



Another option: The customer signs a contract for 48 months and therefore pays higher monthly rates, but accordingly receives higher sale proceeds in return.

For both decisions applies: Open-end leasing may be terminated at any time after 3 months – as already men-tioned, without penalty. The difference between the sale proceeds and the remaining debt is yours. This gives you freedom for strategic decisions.

Closed-end- vs. open-end leasing – what’s the difference?

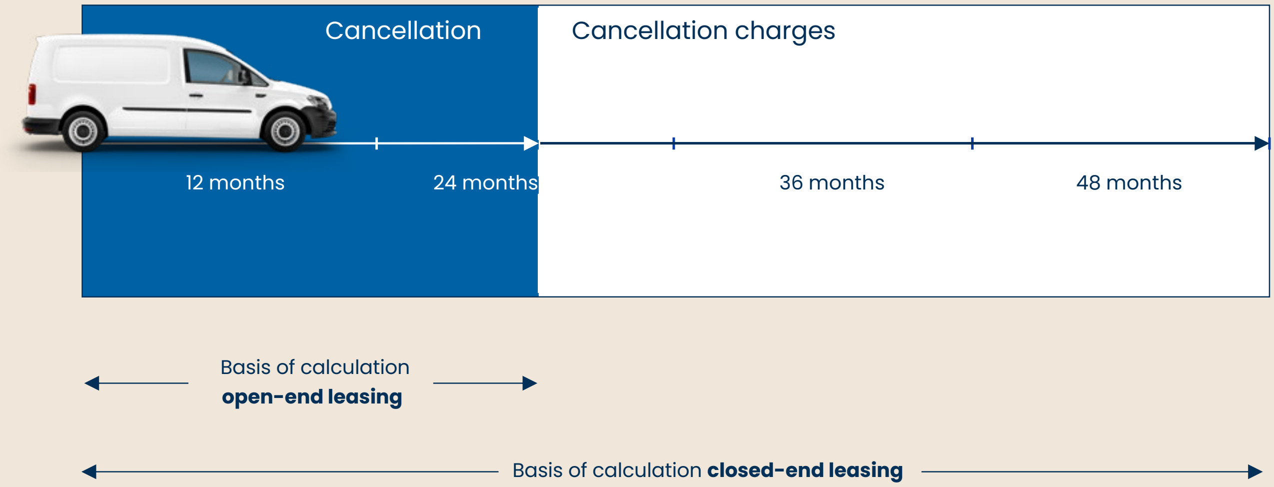
To better understand open-end leasing and thus our product FlexLease, a direct quick comparison of the contract clauses is worthwhile. We will explain the differences in detail on the following pages.

Closed-end leasing		Open-end FlexLease
>50% of vehicles* in Germany follow this principle		95% of vehicles* in the U.S. follow this principle
Fixed.	Contract term & kilometers driven	Flexible after 3 months
Recalculation of the rate may increase margin.	Adjustment of contract	No adjustment necessary
Charing for damage and reduced values at end of contract term	Contract billing	Transparent calculation of remaining debt
Increases the lessor’s remarketing profit	Tacit extension	Increases your remarketing profit
Remarketing profit remains with lessor	Remarketing profit	Remarketing profit after deduction of remaining debt belongs 100% to customer

*of the relevant fleet market

In this way you avoid financial disadvantages on account of early cancellation of the contract

Open-end leasing becomes flexible after just three months and is redeemable at any time thereafter. This is not possible in closed-end leasing. If, as in our example, the 48-month contract term is reduced to 24 months, cancellation charges may apply. This adds up in case of a large fleet – and it is conducive to rigid fleet management. Yet flexible management is much more efficient and should not be prevented – as most of us have found out since the exceptional year 2020 at the latest. Go ahead and free your fleet from contract term restrictions and drive your vehicle as long as your company needs it.



How to get
the residual value margin

Closed-end leasing

Closed-end lessors use a projected residual value to calculate the leasing rate. However, “projected” does not necessarily mean “actual.” Calculated over the total fleet size, vehicles often have a higher market value and therefore are typically sold for a higher amount than the calculated residual value on which the leasing contract is based. **It is the lessor that benefits from the profit, not the customer.**

Open-end leasing

This is different in open-end leasing. Here the actual sales proceeds apply. And they are 100% yours! This gives you more financial freedom for your fleet.

The profit remains with the customer.

How to decrease the reduced market value

Usually people say: All's well that ends well. This does not always apply to leasing. Often the vehicle is classified as inferior by the lessor and the customer must compensate for these reduced values. The problem in assessing reduced values of vehicles is fittingly described by ADAC, the German AAA: "According to the leasing terms the lessee must pay for the reduced value of the car when it is excessively worn. **Problem: There are no objective criteria for defining excessive wear and tear.** Consequently, the determination of the reduced value is one of the most frequent bones of contention between lessee and lessor. Even experts can have differing opinions about this."* Here, too, the open-end solution FlexLease from Holman offers a fair arrangement: **In traditional leasing contracts, lessors often charge flat fees for certain types of damage** which do not reflect the actual cost of removal or reduced value. **This is not the case with FlexLease.** Free your fleet from nontransparent damage settlements.

*https://www.adac.de/rund-ums-fahrzeug/auto-kaufen-verkaufen/finanzierung-leasing/fahrzeugrueckgabe/

Closed-end leasing

Lessors often charge flat fees for certain types of damage that do not reflect the actual cost of removal or the actual reduced value.

Open-end leasing

The car is sold at market value.

A bizarre real-life example:
VW Passat, 59 months, 239,500 km, retail value €6,000 – to have to pay €1,656.30 for reduced value?

vom 18.07.2017

Nicht akzeptierter Zustand / Ausstehende Reparaturen

Bezeichnung des Schadens / Rep.-Weg	Rep.Kost brutto	Anrechnung	Minderwert in EUR brutto	netto
Service laut Bordcomputer fällig, erneuern (Bild 7)	420	voll	-420	-352,94
Tür vorne links Innen, eingedellt, Smart (Bild 8)	120	voll	-120	-100,84
Seitenteil hinten links, zerkratzt, Smart (Bild 9)	120	voll	-120	-100,84
Türkante hinten links, Anstoßspuren (auslegen) (Bild 10)	20	voll	-20	-16,81
Sitzpolster, verschmutzt, reinigen (Bild 11)	70	voll	-70	-58,82
Stoßfänger hinten unterhalb, verschrammt, erneuern (Bild 12)	211	anteilig	-74	-62,18
Unterbodenschutzschraube, rausgerissen, instandsetzen (Bild 13)	50	voll	-50	-42,02
Kotfuegel vorne links, deformiert, instandsetzen + lackieren	640	anteilig	-224	-188,24
Motorhaube, eingedellt, drücken	130	voll	-130	-109,24
Tuer vorne links, deformiert, instandsetzen +				

Minderwert **-1.656,30**

Ausstattung (FZG-unabhängig und zu 100 %)

	Code
Winterradsatz auf LM-Zubehör Felgen "Ronal" KBA: 45819 mit Bereifung 205/55 R16 91H Profil:4/4/5/5	1

Reifenbewertung

	Profiltiefe	Art	Minderwert in EUR brutto	netto
vorne links	2 mm	SO	-108,00	-90,76
vorne rechts	2 mm	SO	-108,00	-90,76
Legende		S/ Sommer /O Original	**-216,00**	**-181,52**

Minderwert merkantil

Merkantil geschätzt (steuerneutral) **-400 EUR**

Hinweise

Alle Beträge (ausgenommen eines evtl. aufgeführten merkantilen Minderwertes) beinhalten die gesetzliche Mehrwertsteuer. Minderwerte sind brutto und netto ausgewiesen.
Alle systemseitig ermittelten Werte können Auf- oder Abrundungen enthalten.

Der Sachverständige

Dieses Dokument wurde elektronisch gefertigt und ist auch ohne Unterschrift gültig.

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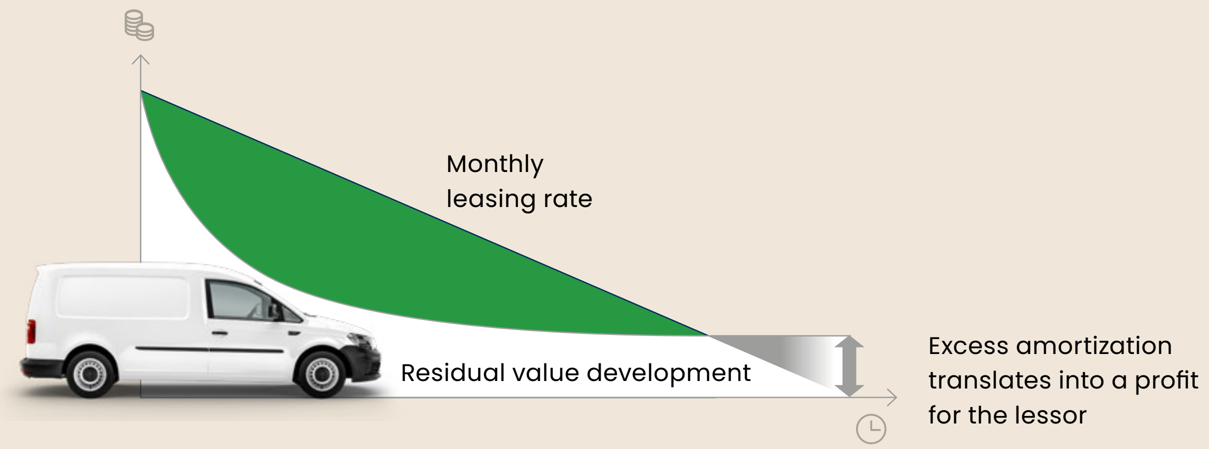
How to benefit from a tacit extension of contract

When the manufacturer experiences delivery problems or in the event of other adversities, returning vehicles on time becomes difficult. As a result, contracts often must be tacitly extended. In concrete terms, this means: **The cars simply keep driving and the leasing fee continues to be paid.**

However, since a vehicle depreciates quickly at the beginning of a contract and then ever more slowly as it ages, this results in over-amortization if payments remain constant, because in closed-end leasing, the assumed residual value is not adjusted to the new reality. This means: With each extra installment paid, the customer pays for the vehicle disproportionately to the actual depreciation. **In the end, the lessor rakes in the resulting profit.**

Closed-end leasing



Open-end leasing

In open-end leasing, the payments are deducted in full from the remaining debt. This increases the sale proceeds, which belong to the customer.

Why **open contracts pay off**

Do you already know how much your vehicle will drive when you sign the contract? Or how long you will need it? Probably not.

Nonetheless, with closed-end leasing you must commit to how and how long you are going to use a vehicle. You probably know what's going to happen: due to the econom-ic situation, cars are needed for shorter or longer periods than contractually stipulated. Or your fleet must quickly build up or reduce its capacity. While it is often possible with closed-end leasing to adjust the contract and thus save money, you do have to pay for the adjustment. Compared to a contract that would have offered the new terms right from the start, this frequently still costs considerably more.

In open-end leasing this problem does not exist. You do not have to adjust the term of the contract. You simply drive the way that's best for your business, and at the end of the contract term you always receive the actual market value when the car is sold. In this way you free your fleet from constraints.

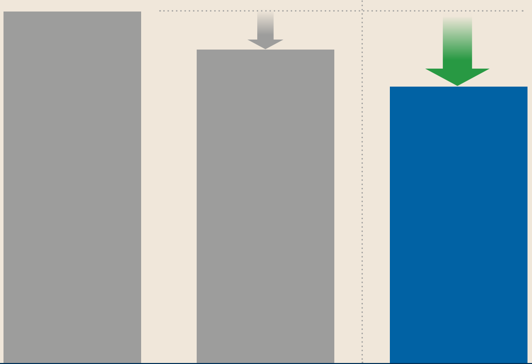
Comparison

Additional cost with closed-end and open-end contracts after contract adjustment

In open-end leasing you only decide on the repayment period. Afterwards you drive as much or as little as possible. When the vehicle is sold later, the actual market value is always achieved.

Closed-end contract
Adjustment to the new kilometers driven brings savings

Open-end contract



100,000 km
Start contract

75,000 km
(adjusted)

Open-end contract corresponds to closed-end contract for 75,000 km

FREE YOUR FLEET

Open-end leasing is a flexible and transparent form of leasing. Even if closed-end leasing can frequently offer lower rates at first glance, there is the danger of ultimately paying considerably more.
The advantages of open-end leasing as with our product FlexLease consist in the freedom you get in running your business and the money you can save in managing your fleet. Hence our expert advice: Free your fleet. We will be pleased to help you calculate the advantages of FlexLease for your fleet. Even if FlexLease should not be the optimum solution, we will find the right financing option for you. You can rely on it.

Holman Driving What's Right

HOLMAN – THE COMPANY BEHIND FLEXLEASE

There have never been as many possibilities to manage fleets. Only a fraction of them are used. As an independent provider, Holman Fleet always wants to look for the best solution for its customers.

As a German subsidiary of a third-generation family business with a 100-year history, we are not only professionals but also good partners and experienced experts whose heart is in the right place. The more than two million vehicles we handle speak to the success of this mentality and make us the world's largest family-run leasing and fleet management service provider.

DO YOU STILL HAVE QUESTIONS? WE ARE HERE FOR YOU.

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https://www.holmanfleet.de/kontakt