

-on-line- update

Issue 7

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FIRE ENGINE LEASES

On-Line has purchased and leased to municipalities more than 60 fire engines, from small pumper trucks to large urban units with multi-storey capability. The municipality negotiates the purchase of the fire truck on behalf of On-Line, including all the terms and conditions. Although most fire engines are purchased complete and f.o.b. destination, some fire engines are assembled by suppliers, with the chassis and pumps etc. being supplied to them from other manufacturers.

Assembly Process

Fire engine assembly suppliers often do not have the financial resources to pay for both the chassis and pump and for the assembly process. As a result, they often will demand that the chassis and pump be paid for upon delivery to the supplier, and that the completed fire engine be paid for upon delivery and acceptance by the municipality.

Initial Lease

In order to facilitate the assembly of the fire engine, On-Line will:

1. Search under the provincial property security registration by serial number to ensure that there are no encumbrances with respect to the chassis and pump, e.g. a manufacturer's lien.
2. If there is an encumbrance of any kind, On-Line will ensure that it has been discharged prior to registering the lease.
3. The signed lease authorizes On-Line to pay the supplier and acknowledges receipt of the chassis and pump, which are being held in trust by the supplier pending completion of the fire engine.

The initial lease will have a term sufficient to allow the complete assembly of the fire engine (e.g. 3 to 6 months). The initial lease will have an interest only payment due as of the maturity date of the initial lease.

Final Lease

A final lease will be executed upon completion and acceptance of the fire engine by the municipality. The final lease will transfer the interest due on the initial lease and the chassis and pump securities to the final lease. In addition, it will add the assembly cost as a security. The final lease will, of course, have monthly payments over a five-year term with a seventy percent (70%) residual value (unless the municipality has a term less than 5 years and/or a different residual guarantee from the supplier).

Renewal Process

On-Line's Leasing Program Agreement with the Municipal Finance Authority (MFA) does not exceed 5 years. Therefore, On-Line cannot provide for the renewal of the final lease with the municipality. However, in order to enroll in the MFA program, the municipality will have already signed a Letter of Understanding which allows for lease renewal.

Fire Engine Life Cycle

Fire Engine Value				
\$100,000	\$70,000	\$49,000	\$34,300	\$24,010
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	5 yrs.	10 yrs.	15 yrs.	20 yrs.
\$907.55	\$635.29	\$444.70	\$311.29	
Monthly Payment				

Generally, a fire engine will have a life of at least 20 years. (Some provincial jurisdictions require that a fire engine be replaced within 20 years.) As a result, municipalities will probably want to renew the lease at 5 year intervals. Each lease renewal will be based upon the residual value. For example, assume a fire engine worth \$100,000. The first renewal will be based upon \$70,000, the second renewal on \$49,000 and the third renewal on \$34,300, and at the end of 20 years, the fire engine's residual value will be \$24,010. At this point the municipality can either pay out the lease, or trade the unit in for a new fire engine, at which point the lease process could begin again.

The monthly payments for the fire engine will reduce in direct proportion to the residual values.

The Letter of Understanding with the MFA also allows for the payout at any time of the remaining principal value of the lease, i.e. the principal portion of the remaining lease payments plus the residual. At the end of each 5 year lease, the remaining principal value is therefore equal to the residual. There is no penalty with respect to an early payout. There is only a \$100 transaction fee in order to cover the costs of discharging the lease agreement under the provincial property security registration.

CLICK PRICING TAB FOR CURRENT LEASE RATE (PRIME MINUS 1%)

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