

FARM LOANS AND SUPPORT · PART 3 OF 10

Farm equipment finance: chattel mortgage, lease and hire purchase

By Nick Clunes · Updated 26 October 2026 · 9 minute read

SHORT ANSWER

Most farm machinery is financed by a chattel mortgage, hire purchase or a lease. The main difference is who owns the gear during the contract, which also changes the GST and tax treatment, so ask your accountant. Compare the rate, fees, balloon and early payout cost of each quote, and keep the term within the working life of the machine.

The dealer has a tractor quote on the bench and three finance options stapled to the back. One has a lower monthly payment, one has a balloon, and one is a lease. They all look about the same until you work out what each one costs over five years.

I started as a personal and business banker at Greater Bank, and I've worked in commercial and equipment finance since 2018. This guide explains how farm equipment finance generally works. It isn't advice on which structure or lender suits you. Read each lender's terms and compare offers.

What equipment finance is

Equipment finance pays for machinery and vehicles: tractors, headers, seeders, utes, trucks and spray rigs. The machine itself is usually the security (the asset the lender can take and sell if you don't pay). Moneysmart describes a secured loan as one backed by an asset that the lender may sell to get its money back.

Because the gear is the security, you often don't need to offer land. That makes equipment finance a common first loan for new entrants.

The GRDC names the main types as a lease, chattel mortgage, equipment loan or hire purchase. They mostly differ in who owns the machine during the contract.

Chattel mortgage

A chattel is a movable item, like a tractor. With a chattel mortgage, you buy the tractor and own it from day one. The lender lends you the money and takes a mortgage over the tractor as security.

The Commonwealth Bank's guide to asset finance describes it this way: you buy and own the asset, and the asset is security for the loan. You make fixed repayments over the term. The guide says a balloon can be added to lower the regular repayments. When the loan is paid off, the lender's mortgage is removed.

Hire purchase

With hire purchase, the lender buys the tractor and owns it while you pay it off. You use it as if it were yours. The Commonwealth Bank guide says that after your last payment you own the asset outright.

If you miss repayments, the guide says the lender may take the asset back. That's true of a chattel mortgage too, because the tractor is security either way.

Finance lease

With a finance lease, the lender buys the tractor and leases it to you for a set period. You make lease payments and use the machine. The lender owns it during the lease.

Leases often have a residual (a set amount at the end, like a balloon). Lease contracts vary a lot on what happens at the end. You might pay the residual and keep the gear, hand it back, or roll into a new lease. Read that part of the contract slowly.

Who owns the equipment

Structure	Who owns it during the contract	At the end
Chattel mortgage	You	You keep it; the lender's mortgage is removed
Hire purchase	The lender	You own it after the last payment
Finance lease	The lender	Depends on the contract; often pay a residual to keep it

Balloons and residuals

A balloon or residual is a lump sum left owing at the end of the contract. It lowers the regular repayments because you aren't paying off the whole price during the term.

Moneysmart's car loans page says balloons are also called residual payments. It warns that you repay the lump sum with interest, so the total cost is generally higher. It says to check you can cover the lump sum before choosing one.

The GRDC gives an example of a harvester on a 60-month contract with a 40% balloon. At the end, the owner can pay the balloon when they sell the machine, or refinance it. A balloon is fine if you've planned for it. It hurts when it falls due in a poor year.

Terms and the life of the machine

The GRDC says the debt should be lined up with the asset's useful life (the time it keeps earning its keep on the farm). Repayments should finish before the machine is worn out. It also says it's unusual to find asset finance contracts longer than 60 months.

That's why a balloon is common on long-lived gear. A tractor that works well for ten years might be financed over five years with a balloon at the end. The danger is a balloon on a machine that is worn out by the time it falls due. Then you owe money on gear you need to replace.

What to compare between quotes

Put each quote side by side and compare the same things.

1. **The interest rate.** Ask if it's fixed or variable. Most equipment finance has fixed repayments.
2. **Fees.** Moneysmart lists common fees: establishment, broker, dealer or introducer fees, and monthly service or missed-payment fees. Ask who is involved and what fees are included before you sign.
3. **The balloon or residual.** A lower repayment with a big balloon can cost more in total.
4. **Early payout.** Ask what it costs to pay the loan off early, for example if you sell or trade the machine. Fixed-rate contracts can have a break cost.
5. **The total cost.** Ask for the total of all repayments, the balloon and fees. That one number makes quotes easy to compare.
6. **Repayment timing.** Some lenders let repayments fall after harvest or sales. Check whether that's on offer and what it costs.

For personal car loans, Moneysmart says lenders must give a comparison rate (one figure that includes interest and fees). If a business quote doesn't show one, use the total cost instead.

A worked example: the same tractor, two ways

This is an invented mixed farm near Dubbo, and the figures are illustrative. The farm is buying a tractor for \$180,000 before GST. The rate of 8% a year is made up for the example. It isn't a quote from any lender. Repayments are monthly over 5 years (60 months), and fees are left out to keep it simple.

	Option A: no balloon	Option B: 30% balloon
Amount financed	\$180,000	\$180,000
Balloon at the end	\$0	\$54,000
Monthly repayment	\$3,649.75	\$2,914.83
Repayments a year	\$43,797	\$34,978
Total of 60 repayments	\$218,985	\$174,890
Total paid, including balloon	\$218,985	\$228,890
Interest paid	\$38,985	\$48,890

The checks: 30% of \$180,000 is \$54,000. For Option B, \$174,890 plus the \$54,000 balloon is \$228,890. Take away the \$180,000 price and the interest is \$48,890. For Option A, \$218,985 less \$180,000 is \$38,985.

Option B costs \$735 a month less, which is about \$8,819 a year easier on the cashflow. But it costs \$9,905 more in interest over the five years. It also leaves \$54,000 to find at the end of year five.

Neither is right or wrong. If the tractor will still be worth more than \$54,000 in five years, and the cashflow is tight now, Option B can make sense. If the cashflow can carry the higher repayment, Option A is cheaper.

You can run your own figures with the repayment schedule tool. Then put the repayments into the cashflow forecaster to see what they do to the overdraft.

GST and tax: ask your accountant

The GST and tax treatment differs between structures, and it depends on how your business accounts for GST. The ATO's page on hire purchase and leasing gives some of the rules at a general level.

- **Hire purchase.** For agreements from 1 July 2012, the ATO says all parts of the deal are taxable. It says you can generally claim the GST credit up front, rather than as each payment is made.
- **Leases.** The ATO says each lease payment is generally treated as a separate purchase. You claim the GST in each payment as it falls due or is paid.

Who claims depreciation, and whether payments are deductible, also changes with the structure. These are tax questions for your accountant. Ask them before you sign, not after.

Before you buy second-hand

If you're buying used gear privately, search the Personal Property Securities Register (PPSR) first. The PPSR says you can search it when buying valuable second-hand goods like farm equipment. That shows whether the gear still has finance owing on it and could be repossessed.

Who can arrange it

Farm CFO by Clunes Rural doesn't arrange loans. I can model the purchase in your budget and cashflow first. If you then want equipment finance, Levelhead Business Advisors, run by the same company, can arrange it. It earns a commission from the lender, which you'll see in writing before you go ahead, and you're free to use any lender. More detail is on the equipment finance page.

For other types of farm finance, see what loans are available to farmers and overdrafts and seasonal finance. If your finance contract has conditions you need to meet, read farm loan covenants.

Where to get help

- **The ATO and your accountant:** for GST, depreciation and tax on each structure.
- **A solicitor:** for anything in the contract you don't understand, and for any guarantee. The Banking Code says a guarantor should consider independent legal and financial advice.
- **Rural Financial Counselling Service:** free, independent financial help for farmers, on 1300 771 741.
- **Regional Investment Corporation:** for government farm loans, on 1800 875 675. See RIC loans explained.
- **NSW DPIRD Farm Business Resilience Program:** workshops and coaching on business planning. Check the NSW Government page for what's running.

If you'd like to see whether a big machine fits before you sign, the Farm Optimiser at \$3,100 plus GST looks at your costs, operating practices and balance sheet, and ranks what to change. For a quicker check of where you stand, the Farm Health Check is \$850 plus GST.

Common questions

Who owns the tractor under a chattel mortgage?

You do. You buy the tractor and the lender takes a mortgage over it as security. Under hire purchase and a finance lease, the lender owns it during the contract.

What is a balloon payment?

A balloon, also called a residual, is a lump sum owed at the end of the contract. It lowers the regular repayments, but you pay interest on it the whole time, so the total cost is generally higher.

How long can I finance farm machinery for?

The GRDC says asset finance contracts rarely run beyond 60 months. Longer-lived gear is often handled with a balloon that is paid out or refinanced at the end. The repayments should finish within the machine's useful life.

Can I claim the GST on financed equipment?

It depends on the structure and your GST accounting. The ATO has specific GST rules for hire purchase and for leases. Ask your accountant before you sign.

Should I check the PPSR before buying used gear?

Yes. The PPSR says you can search it when buying valuable second-hand goods such as farm equipment, to check they're free of financed debt. If a lender has a registered interest, the gear could be repossessed.

Sources

1. GRDC, Financing: debt structuring and asset life cycles fact sheet (2018)
2. Commonwealth Bank, What is asset finance? (types of finance for business)
3. ATO, GST: hire purchase and leasing
4. ASIC Moneysmart, Car loans
5. ASIC Moneysmart, Glossary: secured loan
6. PPSR, Farming and agriculture
7. Australian Banking Association, 2025 Banking Code of Practice (screen reader version)
8. Agriculture Victoria, Rural Financial Counselling Service
9. Regional Investment Corporation, Contact us
10. NSW Government, Farm Business Resilience Program

General information only, not financial, tax or credit advice. Worked examples use made-up figures.