

# [Look Before You Leap Into an Equipment Lease]

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Interest in leasing has grown as companies explore alternative sources of capital. The challenging economic environment has led to a tightening of credit availability at a time when preserving cash flow has become more important to many businesses.

Many companies are exploring leasing as a complement to existing finance sources. About 80% of businesses in the United States utilize equipment leasing or financing to fund their operations, according to the Equipment Leasing and Finance Association (ELFA).

If you are considering leasing new equipment, be sure to consider four key factors before choosing your leasing partner and finalizing the program:

## #1 KNOW YOUR LESSOR

Like many industries, the equipment leasing industry is comprised of thousands of competitors – and no two companies or contracts are the same. The lessor's business practices and track record are often more important to the economics than the monthly payment.

The difference between lessors often manifests itself at the end of the lease, when the lessee may return or purchase the equipment. Be sure to check references and talk with customers who have completed the end-of-lease process with the lessor you're considering. This small safety check at the beginning of the lease can help avoid pitfalls and unpleasant surprises at lease-end.

## #2 BEWARE OF SIMPLIFIED PROPOSALS

Some less reputable lessors disclose only a rate or a monthly payment in their proposal. Unless the proposal specifically addresses all economic factors in the lease, it may not provide sufficient information to evaluate the total cost of the lease. Be sure to get all of the required information before accepting a proposal.

A complete proposal should answer all of the following questions, including:

- + Does the lease require a deposit? If so, will it be applied to the lease payments?
- + Are there any hidden costs specified in the final paperwork that are not included in the proposal?
- + Are there any additional payments due before the lease begins?
- + How is the lease rate factor indexed? How could it fluctuate before funding?
- + What are the end-of-lease options? What flexibility is available?
- + How much advance notice must the lessee give to exercise end-of-lease options?
- + How is the purchase price determined at lease-end?

### #3 LEASE APPROPRIATE EQUIPMENT

Leasing is often most appropriate for assets that are likely to be refreshed on a regular basis. Leasing IT equipment has become increasingly popular in recent years as organizations recognize the benefits of regular technology upgrades. Since IT equipment is a rapidly depreciating asset, and the costs of maintaining old equipment is high, leasing enables companies to preserve cash. Leasing also ensures that a company's employees have the best tools for maximum productivity. Finally, since there are established secondary markets for IT equipment, determining fair value at lease-end is straightforward in a properly structured lease.

### #4 TAKE ADVANTAGE OF ADDITIONAL SERVICES

Some leasing companies simply provide capital. Others provide comprehensive asset management solutions. In the current economic environment, this difference may become increasingly important as companies are forced to accomplish more with fewer employees.

Some lessors provide project management services to coordinate multiple equipment suppliers on complex projects. Some lessors provide technology trade-in programs to help lessees manage their asset lifecycle strategy. Some leasing companies offer the ability to track equipment, leases and payments online, including the option to make electronic payments and securely store lease information.

A leasing partner should take the time to understand your organization's accounting considerations, budgetary needs, and acquisition process. With this information, a customized service package can be crafted to optimize your equipment finance program.

A properly structured leasing program can be a beneficial financial strategy. But, it's important to look before you leap. Before finalizing any equipment leasing arrangement, you should feel confident that your leasing partner has your long-term interests in mind. Choose a leasing company that will take the time to understand your business, your financial strategy, and your equipment refresh needs.

#### About First American Equipment Finance

First American Equipment Finance is wholly owned subsidiary of Los Angeles, CA-based City National Bank, the 24<sup>th</sup> largest commercial bank in the United States. First American is ranked among the 100 largest leasing companies in the United States, and provides commercial equipment leasing and financing for clients in all 50 states. First American was recognized eight times on the *Inc. Magazine's* 500/5000 listing of the fastest growing companies in the United States, and twice as the Best Place to Work in New York State (10-249 employees). First American serves the largest, most creditworthy and sophisticated commercial borrowers throughout the United States. 