

## Lease vs. Loan

Lease	Loan
<ul style="list-style-type: none"><li>• Potential Tax Advantages</li><li>• Frees up Capital</li><li>• Preserves Credit Lines</li><li>• Fixed Payments/ Rate</li><li>• Simple Application/ Quick approvals</li><li>• No Additional Collateral</li><li>• Leases do not show up on your credit report</li><li>• Leases on equipment that qualify as an operating lease (FMV) do not appear on the balance sheet, which can improve financial ratios</li></ul>	<ul style="list-style-type: none"><li>• Reduces Available Credit Lines</li><li>• Extensive Documentation required/ Long approval process</li><li>• Extensive Monthly Reporting</li><li>• Often Requires Additional Collateral</li><li>• Often Requires Down Payment (10-20%)</li><li>• Not Flexible</li><li>• Bank Loans can be Cancelled by Lender at anytime</li><li>• Interest rates may not be fixed</li><li>• Negative Impact on Balance Sheet</li></ul>

### *Advantages of Equipment Leasing Over Equipment Loans*

When you need business equipment you need to decide if you want to seek equipment loans or an equipment lease. When you take out a loan you must provide a down payment that is from 10-20% of the total value of the property. When you lease equipment you make a small initial payment that is often as low as 1% of the value of the property.

When you take out equipment loans you use valuable cash reserves. You also reduce your line of available credit with every loan you take out. When you lease equipment you spread out smaller payments over a longer period of time. Your lease rate is based on the expected depreciation of the equipment you need to lease. Your rate is also based on the term of your lease, the type of equipment, and your credit history.

Equipment loans are for the lifetime of the equipment. When you take out a loan you essentially agree to own the equipment. With a lease plan you don't have to keep the equipment. In fact, leasing offers you the chance to upgrade your equipment every couple of years. This is a great way to avoid the extreme expense of replacing outdated equipment every couple of years.

According to recent statistics as much as 80% companies in the United States lease some if not all of their equipment. This is becoming a more and more popular choice for small businesses, start-up businesses, and businesses that are experiencing growth. When you lease instead of taking out a loan, you give your business room to breathe while you define your role in the marketplace.

*Line-of-credits/ equity lines* are another option with bank financing. They're intended to be for short-term expenses, cash flow, or purchases you plan to pay off in one year. Using these for equipment purchases reduces your access to additional working capital, which may be the difference between success and failure of your business. Also, the rates associated with line-

of-credits are adjustable. With the rising of interest rates, it may end up being a decision you regret.

## *Leasing Advantages*

### **Leasing offers numerous advantages over other financing methods:**

**Tax treatment.** The IRS does not consider an operating lease or a true lease to be a purchase, but rather a tax-deductible overhead expense. Therefore, you can deduct 100% of your lease payments. Equipment purchased with a bank loan must be depreciated over a period of years, which often exceeds the useful life of the equipment.

**Balance sheet management.** Because an operating lease is not considered a long-term debt or liability, it does not appear as debt on your financial statement, thus making you more attractive to traditional lenders when you need them by improving your financial ratios. All loans or cash purchases must appear on your balance sheet.

**Fixed Rates.** Leases have rates that are fixed. Most term loans are adjustable. All equity-lines/line-of-credits are adjustable.

**Less money down.** With leasing, there is very little money down - perhaps only the first and last month's payment is due at the time of the lease. Since a lease does not require a down payment, it is equivalent to 100% financing. That means that you will have more money to invest in revenue-generating activities. Most term loans require a 10-20% down payment.

**Personal Credit.** Leases do not show up on your personal credit report. Bank loans will show up on your credit report and may keep you from getting further credit or being able to buy a car or a house-or obtain another lease.

**Speed/Less paperwork.** Leasing can allow you to respond quickly to new opportunities with minimal documentation consisting of just a one-page application. Most of the time we will approve your application within one hour and you can have your equipment very quickly. Most loans require corporate and personal tax returns and approvals times usually exceeds a week.

**Improved Cash Forecasting.** The lessee knows the amount and number of lease payments so they can accurately forecast the cash requirements for equipment.

**Flexible end of term options.** Return, renew or purchase.

**Finance your Soft cost.** You can finance up to 35% of soft cost (training, leasehold improvements, shipping, etc.) on your lease.

**Immediate write-off of the dollars spent.** Therefore, the equipment does not have to be depreciated over five to seven years, as you would do with a loan.

**Upgraded technology.** If the nature of your industry demands that you have the latest technology, a short-term operating lease can help you get the equipment and keep your cash. Lease equipment that you expect to depreciate quickly. Your risk of getting caught with obsolete equipment is lower because you can upgrade or add equipment to meet your ever-changing needs.

**Asset management.** A lease provides the use of equipment for specific periods of time at fixed payments. The lessor assumes and manages the risk of equipment ownership.

**Flexibility.** As your business grows and your needs change, you can add or upgrade at any point during the lease term through add-on or master leases. If you anticipate growth, be sure to negotiate that option when you structure your lease program. You also have the option to include installation, maintenance and other services, if needed.

**Customized solutions.** A variety of leasing products are available, allowing you to tailor a program to fit your month-to-month or year-to-year cash flow needs. You are able to customize a program to address your needs and requirements - cash flow, budget, transaction structure, cyclical fluctuations, etc. Some leases allow you, for example, to miss one or more payment without a penalty, an important feature for seasonal businesses.