Lease Vs. Bank
Which Makes More Sense For Your Business?

For most executives and business owners the first consideration is evaluating the objective of the transaction.

- ➔ Is it *owning* the equipment or *using* the equipment that will be the source for future profits to the business?

**"Invest in assets that appreciate in value…
Lease (rent) assets that depreciate in value"**

"Owning" business assets can be particularly beneficial when those assets *appreciate* in value-real estate being the prime example. Most assets like furniture fixtures and equipment only depreciate in value, in most cases fairly rapidly. When the objective is getting the maximum use out of a depreciating asset, it is that "use" that brings profits to the business, not the "appreciation" of the asset itself. Maximize the use…minimize the investment.

Leasing makes business sense and *tax* sense

Most businesses will **write off 100% of their lease expenses.** Bank loans for equipment must be capitalized and only gradually depreciated over a period of 5-10 years!
Operating leases can effectively accelerate those write-offs even faster, putting valuable cash into your pocket sooner.

A Complete Solution

Simplified Leasing can cover as much as 110% of the equipment cost because it *also* covers the delivery, installation and other soft costs—in addition to the equipment itself.
Our preferred leases require no advance payments and our standard leases can require one – two month's rent in advance; there is a UCC filing only against the specific equipment leased.
Occasionally we require an independent third party site inspection to verify serial numbers etc…
At the end of the lease, just return the equipment (with no further obligation!) and upgrade to new equipment, or exercise your lease end option to purchase the equipment for its end of term option ($1, 10% purchase option, or fair market value; and you will have **fully expensed the payments for tax purposes** (unlike a term loan or credit line).

Is That "Prime Rate" Offer a Good Deal?

As you probably know, there is not a single prime rate; rather each bank is free to establish their own "prime" rate- sometimes it is as low as the Wall Street Journal prime, although we've often seen individual bank's prime (their best rates to their best customers), set as much as 4 points above the benchmark WSJ- published rates. Lets assume for the sake of this example that your bank has offered you WSJ prime rate of 4.75%, "plus 2 points."

Let's Talk Rates…

Obtaining a bank loan at such a "lower" rate usually requires that you keep 20-30% of the loan amount in non-interest bearing, compensation balance" accounts at that bank. Using the lower 20% figure for example, the bank is really lending you 80% of their money and 20% of your own money. Some executives/business owners say, "we keep $10-20,000 in their checking account *anyway*…" Perhaps so. But that's *your* business decision, for your convenience, today. With a compensating balance clause in a bank loan, it becomes a *requirement*. Fall below that figure for any reason and *you are in default on your loan*. Change financial institutions or move to a "sweep" account format for example and again *you would be in default*. It's all in the fine print.

What Else Is In The "Fine Print?"

Plenty. The following is a list of issues that have come up for many of our clients examining the same bank vs. lease decision. Here are some "bullet points" to compare and contrast typical commercial bank terms with terms through Simplified Leasing. There are many critical differences.

"Bank Fine Print 101:"

➔ Bank line rates float with interest rates

♦ Lease rates are guaranteed fixed for the term of the lease

♦ Short-term rates are very low now- where will they "float" to during the next 12,18 or 24 months?

➔ Do you have an existing line of credit at the bank?

♦ What effect will a new loan have on the cash available under your business line, for special business opportunities, emergencies etc.? (In most cases your total access to funds will be reduced)

Is It 6.75%, 15% or 26%?

When you compute the real yield on that 6.75% loan offer, you will find it is actually a 26% loan. (Because you're paying interest on 100% of the loan amount, but have only received 80% of the money from the bank, the rest is your own compensating balance being "loaned" back to you). Using the same formula, a 10% compensating balance brings the bank's effective loan rate "down to 15%. Anyway you cut it, that's a far cry from 6.75%!

➔ Is the bank actually offering a credit line or a term loan? There are many key differences:

♦ Most banks require that credit lines be brought to zero at least once every 12 months. They want to reserve the option to call the line should your industry start to "go south," or if the regional economy, or your own business prospects start to "soften" (In their sole opinion).

- Where would you be in the bank elected not to renew 12 months?

➔ Banks typically do not fund more than 75-80% of the net equipment cost.

- At Simplified Leasing we can cover as much as 110% of the cost as, unlike banks, we will include shipping, training, installation, initial maintenance and other "soft" costs.

➔ Banks are far more restrictive than leasing companies, about the equipment they will finance.

- Many banks will only do "hard" collateral (machinery, etc.). Simplified Leasing can provide you with a lease for all kinds of business or commercial equipment, even 100% software transactions.
- Most banks will not even consider "used" equipment. Simplified Leasing specializes in used equipment leases, we do it all the time!

➔ The bank will place a **"blanket lien" on all of your assets.**

- Our UCC will be filed on the *leased* equipment ONLY. Nothing else is encumbered. None of your financial flexibility will be compromised.
- Keep in mind that if the bank were to decline to renew your line (at any point in the term) that those "blanket liens" *would still be in effect*, blocking your attempt to use your own assets as collateral for any new (replacement) funding.

➔ Most banks require ongoing financial disclosure. Make no mistake about it, with a bank line **you have a new "partner"**. Almost every bank will *require* you to submit annual or quarterly financial statements and/or tax returns *for their review*. Further, bank loans are often conditioned on your maintaining certain bank specified key financial ratios. Working capital tests, debt-to-equity, current and quick ratios are commonly used and specified.

- Will this hinder your ability to run your business, as you deem prudent?
- It is routine for banks to restrict your access to any new debt obligations from any other sources without their express consent- and you cannot assume that you will receive it.
- If you fall below the bank's mandated ratios, you will be in default.
- There are absolutely no financial reporting requirements with a lease.

➔ The bank will likely require you to cross-collateralize any new obligation with all of the accounts you maintain at that institution-personal checking, savings, trusts etc. (this is often blurred in the fine print)

- Your lease is a freestanding obligation.

➔ Even if you are not signing "personally" for this obligation with your bank, you may find that any previously signed, personal guarantee is deemed "continuing and unconditional" vis-à-vis all new obligations at that same institution.

➔ Bank fees and closing costs typically run 1-4% of the transaction amount. These fees can have a significant effect on the real interest rate you are paying. Ask for a copy in writing before you sign and do the math.

- Simplified Leasing has just a nominal documentation fee.

➔ Are you a "key customer?" That may sound flattering, but it usually means that the bank is extending its offer based on your" entire banking relationship" – your other accounts, the other balances that you maintain and the service fees/income that you generate for them.

- It also means that you are tied to that bank exclusively for the term of the loan. If you move accounts and/or services, your rates will almost certainly jump-way up. Not sure? Ask them specifically.

➔ Are bank-mandated "compensating balances" your best use of your own cash and operating capita? Where else could those funds be working (earning) for you, if they were not "committed" to the bank line?

➔ The bank can call your loan! There is probably a clause that permits the bank to call your loan if they feel "uncomfortable" about the prospects for your industry, without regard to your payment history. (This too is often buried in the fine print. Check it out)

➔ Merger Mania- Banks are "merging" and restructuring all the time. Your bank may be purchased by another bank. The surviving bank might have different lending criteria and may not like your industry, or the equipment. Because default provisions are so loosely worded (intentionally); they probably have the ability to call your loan. They get their money back, you may be out in the cold.

Are You Ready To Pay These Very High Prices…
For Those "Very Low Rates?"

Most customers find that they are being asked to pay a very high price for those seemingly "very low rates." Operating & financial restrictions, capital "frozen" as unproductive "compensating balances," business assets encumbered, future float risk, reduced availability of their own critical business credit lines etc., etc. Leasing has become a trillion dollar industry right alongside the commercial banking industry and

for good reason. The points we have raised are just <u>some</u> of the many reasons why businesses from giant multi-nationals to local "mom & pops," have decided to "just say no" to their bankers overtures and have chosen to lease instead.