



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

The first consideration for most executives is evaluating the objective of the transaction. The first question to ask - is it owning the equipment or using the equipment that will be the source of future profits to the business? Did you know that an estimated \$244 billion worth of equipment will be leased during 2002? Why? Because it makes sense!

Maximize The Use...Minimize The Investment

It is generally accepted that "owning" business assets is particularly beneficial when those assets appreciate in value - real estate being a great example. Most assets like computers and other office equipment only depreciate in value. When the objective is getting the maximum use out of a (rapidly) depreciating asset, it is that "use" that brings profits to the business, not the "appreciation" of the asset itself. Invest in assets that appreciate in value...lease (rent) assets that depreciate in value.

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 5,6,7 or more years! Operating leases can even effectively accelerate those write-offs even faster, putting your cash, into your pocket sooner.

There are several key differences to consider when analyzing the financing options for your equipment purchase:

Down Payment

Banks typically require 10-25% down on any equipment financing. Banks are more concerned about their exposure and risk and less concerned about your practical business needs (e.g. retention of working capital).
Leasing with Leasing Unlimited Group is 100% financing.

Financial Disclosure

Banks want a full financial package to help them make their credit decision on your loan.
Leasing with Leasing Unlimited Group is application only (often to \$150,000).

Blanket Lien

Banks take a security interest in all of your company's assets (presently owned and acquired in the future) by filing a blanket lien. This ties up all of your assets, including inventory and receivables.
Leasing files a UCC only on the leased equipment, not a blanket lien on all of your assets.

Soft Costs

Soft costs are such things as shipping, installation, training, consulting, etc. Your bank is very unlikely to finance these items, which means you will have to pay for soft costs out of your working capital. Thus, reducing your cash balance used to pay for essential business expenses - payroll, taxes, fixed operating costs, etc.
Leasing with Leasing Unlimited Group is a complete solution - 100% financing and we will cover all soft costs.



Tax Write-offs

Since bank financing makes you the owner of the equipment, your only tax advantage is depreciation and loan interest.

Lease payments are 100% deductible and are a form of accelerated depreciation - depending on the structure of your lease (*consult your tax professional).

If structured correctly, the after tax payment on your equipment lease will actually be less than the original equipment cost. For example:

Equipment Cost:	\$25,000.00	(First and Last Payment in Advance)
Term:	60 Months	
Payment:	\$562.75	
Tax Bracket:	<u>x 35%</u>	
(Tax Savings)	\$196.96	
Regular Payment	\$562.75	
Less: Savings	<u>(196.96)</u>	
After Tax Payment	\$365.79	x 60 Months = <u>\$21,947.40 !!</u>

Let's Talk Rates...

Many executives base their financing decision on loan rates. But, is the rate the bank quotes you accurate? Obtaining a bank loan at a "low" rate usually requires that you keep 20-30% of the loan amount in non-interest bearing, "compensating 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.

Is it 6.75%, 15% or 26%?

When you compute the real yield on that 6.75% loan offer, you 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%!

Why Wouldn't I Use My Bank Line of Credit?

It is never a good idea to max out your bank line of credit. Bank lines are designed to be used for working capital, not equipment financing. Working capital can be conserved for use in the day-to-day operation of your business. Most banks require that your 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".

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

Bank lines 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 - 36 months?

The points we have raised are just some of the many reasons why businesses, from giant corporations to local "mom and pops" have decided that leasing makes sense!

Allow Leasing Unlimited Group to finance your equipment needs. It's a partnership you can depend on!