

Take a closer look at payment options.

There are several different financing tools available to acquire equipment. To help our customers make the right business decision it's important to first understand the basic advantages and disadvantages of the most common options.

Capital Lease (Balloon Option or \$1 Buyout) **or Loan**

Advantages

- Low or no money due up-front
- Rates and payments are fixed
- Bank lines are not affected
- Customer takes the tax and accounting benefits (interest write-off, depreciation) of ownership
- Additional credit source and reference is established
- Access to manufacturer supported (low rate) programs
- End-of-term purchase price is stated up-front

Disadvantages

- Credit review, approval and documentations required by the lender
- Risk of equipment obsolescence

True Lease (Fair Market Value or Operating Lease)

- Low or no money due up-front
- Lowest possible monthly payment
- Expense can often be approved without corporate or upper management approval
- Flexibility at end of term - return equipment, purchase equipment for fair market value (FMV), continue to lease, finance FMV purchase option
- Off-balance sheet financing may enhance financial ratios
- Entire lease payment may be deductible
- May avoid restrictive debt covenants
- Bank lines are not affected and an additional credit source and reference is established
- Fair Market Value Cap, Early Buyout and Termination Options are available

- Credit review, approval and documentations required by the lender
- End of term buyout is unknown
- Customer cannot take depreciation benefits
- Credit approval may be more stringent due to lessor taking residual position

Bank Loan

- Customer takes the tax and accounting benefits (interest write-off, depreciation) of ownership
- Typically there is no prepayment penalty
- Line of credit may be already in place
- Comfortable and familiar

- Risk of fluctuating interest rates (if not fixed)
- Bank may require a down payment and have higher fees
- Bank lines may be tied up and unavailable for future needs
- Possible blanket lien on all assets
- Does not create add'l financing relationship, source or payment history/reference
- Risk of equipment obsolescence
- No subsidized rates from manufacturer

Cash

- Customer takes the tax and accounting (depreciation) benefits of ownership
- No long term liability or debt obligation

- Large capital outlay may leave the business drained for future needs
- 100% impact on current year's capital budget
- No interest expense to write-off
- Does not create add'l financing relationship, source or payment history/reference
- Risk of equipment obsolescence

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