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Equipment Leasing: Best funding choice ... or BIG financial chance?

There is a fuzzy mindset regarding leasing in America today. We often confuse it with "just another way to buy." But the truth is that equipment leasing is basically a rental agreement in which the lender buys and owns equipment and then "rents" it to a business at a flat monthly rate for a specified number of months.

At the end of the lease, businesses may purchase the equipment (at fair market value or a fixed percentage or a predetermined amount), lease new equipment, continue leasing the existing equipment or return it.

The key word is "rents." All equipment leasing should be viewed, by the purchaser, as basically a "non-cancelable rental agreement" with the addition of various "end of rental" ownership and non-ownership possibilities.

Then the critical question becomes: Is the equipment's economic benefit worth the monthly payment investment?

Why lease office equipment?

Equipment leasing is enormously popular—the largest single source of external corporate finance in America. Reasons are many:

• ***Hedge against obsolescence***–With the accelerated technological advances in digital office equipment, obsolescence is much more of a threat today than with yesterday's analog machines.

• Instant, 100% financing

• Tax, freight, installation and other "soft costs" included

• No up-front deposits

• "Off balance sheet" financing

• Flexible leasing arrangements

• Conserves capital equipment budgets

• Easily structures accurate departmental cost accounting

• Preserves capital and existing credit lines (CASH IS KING)

• Allows equipment to pay for itself through costs savings; productivity enhancements; and/or the creation of a new revenue stream

• Enables affordable access to more productive technologies.

Do any of these leasing issues sound familiar?

- "Evergreen Clauses" —Automatic annual renewal clauses are very typical and are often well hidden in the fine print.
- "Fair Market Value" ... but "fair" to WHOM? Very few know the "true residual position" of their leased equipment. Even fewer have a fixed percentage in writing.
- Guess who got stuck paying for the equipment to be crated, insured and shipped back?
- "No Prepayment Penalties" sometimes means something quite different to the lessee than the lessor!
- Storage fees, documentation fees, interim rental fees ... (Did we mention fine print?)

What are the caveats of equipment leasing?

Leasing is the norm in the office equipment industry. Unfortunately, dealers who are short-term relationship driven have implemented questionable leasing tactics such as:

• ***Inflating lease rate factors***, costing customers 100's of dollars more than necessary over the term of the rental.

• ***Inflating sell prices*** of the equipment to bundle the buyout amount of a pre-existing lease agreement, in essence "rolling" additional costs into the monthly lease payment.

• ***Representing misleading leasing companies*** who offer low up-front costs while totally ignoring what happens at the end of the lease, for example:

> *The salesman said that at lease-end you can buy the equipment for 10%. When the time comes, the leasing company offers you a 20% purchase option that they deem the "Fair Market Value" – and it's non-negotiable!*

• ***The dreaded EVERGREEN Clause***—You miss a required lease notification period deadline and your lease automatically renews for 12 more months!

• Your leasing company did not notify you that your original lease term was completed. You just kept receiving invoices and PAYING and PAYING and PAYING ...

How do you protect yourself?

Fortunately there are dealers who cherish long-term customer relationships and will do "the right thing" for their customers. These dealers have done their due diligence and only represent leasing companies they can depend upon to protect the customer's best interest.

Most problems with leases expose themselves at lease end. So here are the questions that you need to be able to answer:

• ***"What happens at the end of the lease?"*** Most office equipment leases, and properly so, will be the FMV (Fair Market Value) variety. Customers can either buy the equipment at FMV or properly return the equipment. The caveat here is the company could have you return it to California—with all costs born by the customer!

Remember: Get it in writing.

• ***"What is the notification period for non-renewal?"*** All leases stipulate a time-frame during which leasing companies need to be notified about your intentions. Plug an alert into your desk calendar or day-minder, and allow yourself at least four months prior to end-of-lease.

• ***"Who can I trust?"*** If your office equipment dealership has looked out for your interests in all other transactions, you have every reason to trust their opinion regarding leasing.