

7 Reasons Why Leasing is a Preferred Method of Financing

80% of businesses nationwide lease all or some of their capital equipment!

During 2003, \$668 billion was spent by American business on productive assets; \$208 billion, or 31 percent, was acquired through leasing.

Leasing is referred to as "creative financing" because payments can be tailored to a project's cash flow. This is in addition to any tax advantages inherent in the lease structure.

Leasing "energy equipment" has become the fastest growing equipment sector within the leasing industry. Energy efficiency equipment can be financed out of the savings, resulting in a net positive cash flow for your organization.

There are many different types of leases, including:

- ◆ True Lease
 - ◆ Finance Lease
 - ◆ Operating Lease
 - ◆ Master Lease
 - ◆ "Skip" or "Step" Lease
 - ◆ Tax Exempt Municipal Lease
- ...and we do them all!*

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- 1) Since leasing generally provides **100% financing**, companies are attracted by the minimum upfront expenses and down payments required by other financing alternatives. Tangential out-of-pocket expenses like shipping, freight, installation and engineering can be included in the financing.
- 2) Leasing is a **fixed expense**. With the uncertainty of interest rates and inflation, it is advantageous to lock-in long term expenses -- with today's dollars. In addition, you have the opportunity to pay for the equipment from the savings realized (i.e., energy efficiency or distributed generation) or income generated (i.e., manufacturing).
- 3) **Preserves existing lines of credit**. Growing businesses generally have substantial credit needs to finance their development. By diversifying lending relationships, your business maximizes its access to credit and you never "put all your eggs in one basket".
- 4) **Tax advantages**. Leasing provides substantial tax advantages, in some cases providing 100% write-off of the monthly lease payment. This is especially attractive to businesses subject to Alternative Minimum Tax. Contact us do discuss the best way to structure your lease.
- 5) With Energy Efficiency Equipment (as well as other cost savings equipment) *time is literally money*. With leasing, you can **prevent the delays in equipment acquisition** if you budget 6-12 months in advance and have not allowed for this particular purchase. With energy efficiency projects, one year of lost energy savings is usually greater than the entire cost of financing!
- 6) **Flexible repayment structure**. Some businesses tend to be seasonal in terms of cash flow. With leasing, you may be able to match your lease payments to your cash flows or budget requirements. Skip payments, annual payments and deferred payments are all examples of lease structuring.
- 7) **Convenience and Fast Decision-making**. We make it easy -- minimum red tape, fast responses and closing the documents where convenient for our customers. Applications up to \$75,000 may be approved within hours and without financial statements.

The Most Commonly Asked Questions About Leasing

- 1) **WHO MAY LEASE?** Any business entity including: Corporations, proprietorships, partnerships, self-employed individuals or professional corporations, i.e., doctors, lawyers, etc. Municipalities, the federal government and non-profit organizations may also lease equipment.
- 2) **WHO IS THE LESSEE?** The borrower: the party using the equipment.
- 3) **WHO IS THE LESSOR?** The funding source.
- 4) **HOW LONG CAN THE LEASE TERM BE?** Lease terms vary from 1 to 10 years, 5 years being the general maximum for leases under \$100,000 or with commercial/industrial facilities.
- 5) **WHO OWNS THE EQUIPMENT AT THE END OF THE LEASE?** Every lease implies that the lessee has an option to purchase the equipment at the end of the lease term. Sometimes this option is at the equipment's then Fair Market Value, or at a pre-agreed purchase price, like 10% or \$1. In most cases the lessee may have the option to return the equipment at the end of the lease and have no further obligation.
- 6) **WHAT IS FAIR MARKET VALUE (FMV)?** It is the price for which the equipment could be sold in a transaction between unrelated parties. The determination of fair market value is made in light of market conditions. Catalyst commonly estimates Fair Market Value to be 10% of the original purchase price of the equipment.
- 7) **WHEN DO THE MONTHLY PAYMENTS START?** After any applicable Advance Payment or Security Deposit, *the first payment is due approximately 30 days after delivery and installation of the equipment* and after the lessor is given verbal approval to pay the vendor.
- 8) **DO MONTHLY PAYMENTS CHANGE DURING THE LEASE?** Generally not, unless a special payment structure is pre-arranged.
- 9) **MAY THE LEASE BE PAID OFF EARLY?** The answer is yes, however, formulas for early buy-out vary by lessor. The lessee may generally buy out the lease at any time by paying the balance of the unpaid principal and any additional fees or penalties.
- 10) **WHAT'S THE INTEREST RATE?** Actually, there is no "interest" in a true lease transaction. "Interest" charges are associated with "principal" repayment, which jointly, imply a *loan* not a *lease*. As a loan, the tax benefits of leasing are lost. A lease is like a "long-term rental agreement" and, as such, becomes part of the cost of doing business. Lease payments may be written off as an expense item. Lease rates vary to reflect the term, dollar amount and lessee's company's credit standing. *Meaningful* comparisons between a bank loan and a lease should be done on a *net after tax basis*.
- 11) **IS A LEASE SUBJECT TO SALES TAX?** Generally, if a product is subject to sales tax if purchased, then it is also subject to use tax under a lease agreement. The sales and use tax are computed based on prevailing rates, and may be billed monthly on the lease payment, or included front-end, depending on the lessee's state.
- 12) **ARE THERE ANY OTHER COSTS WITH THE LEASING AGREEMENT?** Yes, the lessee will be responsible for any local use or business property taxes due on this equipment. Also, depending on the lessor, the lessee's first monthly lease payment may include a one-time documentation and UCC filing fee.
- 13) **HOW IS A LESSEE'S CREDIT APPROVED?** Complete the lease application, attach all required financial statements and submit for credit approval.
- 14) **HOW LONG DOES IT TAKE TO APPROVE CREDIT REQUESTS?** Transactions under \$75,000 are approved within hours. For larger transactions an initial response is generally given within 48 hours after receiving a complete credit package, the references are checked and . A final credit decision generally takes 2 to 4 business days.
- 15) **WHEN DOES THE LESSEE SIGN THE LEASE DOCUMENTS?** Upon credit approval, the initial lease will be prepared and then presented to the lessee for their signature. Upon receiving the equipment in good working order, the lessee will sign a "delivery and acceptance" certificate that finalizes the lease and authorizes payment to the vendor.
- 16) **WHAT ABOUT WARRANTIES?** All vendor and manufacturer warranties are passed on to the customer and are the responsibility of both the vendor and the manufacturer. The lease financing company itself does not warranty the equipment nor its performance.
- 17) **DO LESSEES NEED TO CARRY INSURANCE ON THE LEASED EQUIPMENT?** Yes, like any equipment purchased, the user needs to contact their insurance company so that the equipment is covered for fire, theft and liability. Unlike normal insurance, the insurance company will need to name the leasing company (lessor) as "loss-payee and additional insured" on this equipment. For most businesses, insuring lease equipment will not raise the insurance premiums.