

Leasing, What is the Advantage?

Presented By:

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why finance in the first place?

- Obtain Needed Asset Today
- Conservation of Working Capital
- Structuring Payments To Meet Cash Flow Requirements
- Expanded Credit Availability
- Avoidance Of Financial Restrictions
- Income Tax Strategy

the traditional bank vs.

independent finance companies

- Rates
- Soft Costs
- Down Payments
- Compensating Balances
- Fixed/Floating Rate Structure
- Restrictive Covenants
- Fixed Term Transactions
- Blanket Lien
- Availability

underwriting

principles

Credit Scoring

- Business Credit Score (Dunn & Bradstreet or PayNet)
- Personal Credit

Cash Flow

- Net Income + Depreciation – CPLTD

Balance Sheet Condition

- Working Capital Position
- Equity / Net Worth
- Debt-to-equity

Strength of Industry

Collateral

- Type of Asset: Hard, Soft, or Fixture
- Useful Life
- Soft Costs

repayment

structures

- Capital Lease/Loan and Security Agreement
- Off-Balance Sheet Lease
- Straight Amortization
- Quarterly Payments
- Seasonal Payments
- Deferments
- Interest Only

tax

implications

Capital Lease / Loan and Security Agreement

- Asset is Capitalized
- Accounted as a Fixed Asset on Balance Sheet
- Debt is accounted for under Long Term Liabilities
- Interest and depreciation is expensed

Off Balance Sheet Lease

- Asset is Rented
- Accounted for as a rental expense on Profit and Loss
- Debt obligation does not appear on balance sheet
- Rental Payment is fully expensed

collection

Traditional Bank

- Utilize Depositor Funds
- Federally Regulated
- State Regulated
- Swift Collection

Independent Finance Companies

- Utilize Internal Funds
- Secondary Market Instruments
- Bank Lines
- Private Investment
- Eased Collection

summary

Traditional Bank

- Competitive Rates tied to bank deposits / other banking activity
- Typically finance ONLY the cost of the asset
- Most often will require some type of down payment
- Push the open ended revolver with flexible interest rate
- Place restrictive covenants/rules on borrowing
- Blanket liens common
- Quick to enforce collection
- Availability
- Conservative by nature

summary

continued...

Independent Finance Companies

- Competitive Rates
- Finance products cover asset and other soft costs
- Down payment typically consists of one or two advance payment
- Fixed term transactions
- Covenant free
- Only encumber asset being financed
- Relaxed initial collection
- Aggressive by nature
- Relationship oriented

conclusion

Perhaps the most important reason to consider an independent finance company as an alternative to borrowing from your bank is the ever-present unexpected event. Bank borrowing is an excellent business tool and should be cultivated and preserved. At least a portion of your availability should be held in reserve for the unexpected expense or opportunity. If you use it up it may not be available when it's really needed.