

## 10 Questions to Ask

Lease financing is used by a majority of businesses in the U.S. and accounts for about one-third of new equipment acquisitions. Seeking to acquire equipment for your business? Here are 10 questions to help determine how lease financing can benefit your company.

Equipment leasing is a strategic financial option for businesses to consider regardless of the economic climate. But it is an even more attractive option given the current environment where maintaining cash flow, preserving capital and obtaining flexible financial solutions are even more critical as businesses ride out the storm. Uncertainty, negative economic conditions and deteriorating forecasts are challenges to growing a business, but for those businesses that want to stay competitive—especially during a downward economy—it is critical to be strategic about how you acquire equipment.

Lease financing is a viable option for acquiring equipment and it's important to know the ins and outs so that you can negotiate what's best for your company. What should you know when looking into lease financing? The following ten questions are important to consider and the following responses are meant to acquaint you with and guide you toward the information necessary as you identify the appropriate option and terms that are right for your business needs.

### 1. How Will We Be Using the Equipment?

Determine how your company will use the equipment and the length of time it will be needed. This will help determine the appropriate level of investment for a lease. To help decide if leasing is a profitable financing option, perform a simple cost/benefit analysis that compares the periodic leasing payment to the revenue you expect to generate from using the equipment.

### 2. How Well Does the Equipment Finance Company Representative Understand My Business?

Generally speaking, it is beneficial to work with someone who understands your particular market, regardless of the service you are seeking. This is even more crucial with regard to leasing. The equipment finance company's understanding of market fluctuations and other factors that impact your business can greatly affect the successful outcome and desirability of a lease contract.

For one, leases can vary and lease customization that takes into account individual company needs and requirements such as cash flow, budget, transaction structure, and cyclical fluctuations is a key reason that businesses lease. As an example, seasonal businesses would require lease terms with the flexibility to miss one or more payments without a penalty during their low season.

It is also important for the equipment finance company to understand your business's tax and cash flow requirements. For tax purposes lease payments are an allowable tax-deductible overhead expense from corporate income. This eliminates depreciating owned equipment over five to seven years, in accordance with IRS schedules.

Residual rates—the value of the leased equipment at the end of the lease term—are another key reason to work with an equipment finance company knowledgeable about your market. When an equipment finance company has the knowledge and experience to set the residual accurately, they can provide you with the best possible lease payment schedule.

Most importantly, the equipment financier can be considered a valued consultant, providing additional benefits through lifecycle asset management solutions.

### **3. What are the Total Lease Payments and Costs?**

Asking this question will eliminate any future misunderstandings about the number of payments, the total monthly payment due, and any additional costs related to insurance, taxes, and other charges. In addition, ask if there are additional costs associated with the lease that may occur during the course of the lease term, including late payment fees and other surcharges.

### **4. What Happens if I Want to Change or End the Lease Early?**

If you wish to terminate a lease earlier than originally contracted, it is important to remember to understand the terms of your agreement. A lease is a contract between two or more parties creating obligations for those parties, thus changes such as to terms or length of time requested after signing and not set forth in the original agreement could result in additional payments or charges.

On the other hand, a master lease, which controls later leases or subleases is designed to facilitate changes in leasing needs, and is an option that many businesses choose. This type of leasing contract permits the leasing of certain assets and also enables the acquisition of additional assets under the same basic terms and conditions without negotiating a new contract, thus providing maximum flexibility.

### **5. What is My Responsibility if the Equipment is Damaged or Destroyed?**

You should know your company's liability for the equipment you are leasing before you sign a lease agreement. This question will help you to determine whether you must pay for or replace lost or damaged equipment.

### **6. Do I Have Any Other Obligations for the Equipment?**

Find out if your equipment finance company will assume the costs for the equipment's insurance, taxes and maintenance. Be sure these conditions are clear and included in your lease agreement, and review these provisions with your equipment finance company representative. Also, determine if you prefer an option where the equipment finance company is required to handle installation, maintenance, asset management and tracking and other services or if these services are your obligation.

#### **7. How Can I Upgrade or Add Equipment Under this Lease?**

Unless you opt for a master lease, additional equipment acquisitions will most likely require new leasing contract negotiations. Businesses may well anticipate growth in the future and should negotiate an option to add equipment under original terms and conditions when structuring a lease program.

#### **8. What Are My Options at the End of the Lease?**

At the end of the lease, your options are to: (a) return the equipment, (b) purchase the equipment at fair market value or a nominal fixed price, or (c) renew the lease. Determining the option you will take and specifying it in the original lease agreement is important. If you choose to purchase at lease end, ask when you will receive the title.

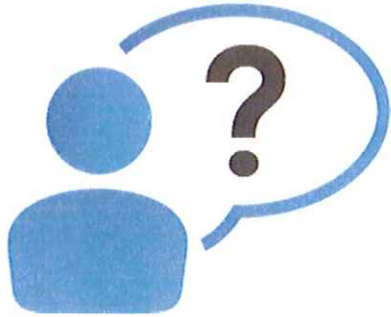
#### **9. What Procedures Must I Follow if I Choose to Return the Equipment?**

Find out whether you must return the asset to the equipment finance company, and what documentation and packaging materials are required upon its return. You will want to know who will pay for shipping or delivery and when the equipment must arrive at the equipment finance company after your lease ends.

#### **10. Are There Any Extra Costs at the End of the Lease?**

In any contractual agreement, unforeseen fees and costs should be avoided whenever possible. In addition to the costs inherent at the outset and during the term of the lease, ask if there are any additional costs that could be incurred based on your account activity, such as late payments. Know when all payments, fees and cost are due.

The more questions you ask, the more information you will have in order to make an informed decision about lease financing. Knowing the right questions to ask will put you in the strongest position possible as you acquire equipment so that you are able to focus on making strategic use of equipment at a time when businesses need every advantage possible to stay afloat and be competitive.



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