Entrepreneur

Equipment Leasing

SHORT ON CASH, BUT NEED NEW EQUIPMENT TO GROW? LEASE WHAT YOU NEED.

Excerpted from 'Financing Your Small Business'

What It Is: Equipment leasing is basically a loan 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, the business may purchase the equipment for its fair market value (or a fixed or predetermined amount), continue leasing, lease new equipment or return it.

Appropriate for: Any business at any stage of development. For start-up businesses with no revenues, "small ticket" leases, those of $100,000 or less, are feasible on the personal credit of the founders or owners-if they are willing to make the monthly payments.

Supply: Abundant. Of the billions of dollars individual and institutional investors pour into the capital markets each month, a good hunk finds its way to leasing companies that use these funds to purchase equipment on behalf of small businesses. With more and more money flowing into the markets, leasing companies are flush with capital. As a result, they are eager to do business and respond to competition with lower monthly rates.

Best Use: Financing equipment purchases. Leasing can also finance the soft costs often associated with equipment purchases, such as installation and training services.

Cost: Lease financing is generally more expensive than bank financing, but in most instances it's more easily obtained.

Ease of Acquisition: Easy for leases of less than $100,000. An application for a small-ticket lease is generally no more complex than a credit card application. Leases for more than $100,000 require detailed financial information from the business, and the leasing company conducts a more thorough credit analysis than it would for a smaller transaction.

Range of Funds Typically Available: Unlimited

First Steps

Finding an equipment-leasing company is easy. Almost any equipment a business could conceivably need offers a lease option. Thought it's not apparent at first glance, the company offering the lease financing is not the same one that is selling the equipment. The company selling the equipment simply makes a direct referral to a leasing company with which it does business.

It's a good idea to get a quote from the leasing firm referred by the company that wants to sell you the equipment. The quote should be competitive. After all, the company selling products wants to sell as many as possible, and it surely doesn't win any points by referring a leasing company that gouges its customers. But it also pays to get another quote. Usually, the company selling the equipment works with more than one leasing company. Or ask a friend or a business associate for a referral.

As a final point, when looking for a leasing company you should understand whether you are talking to a broker-the person who simply structures deals, then gets them financed through any of the leasing companies he or she works with-or a leasing company that is actually putting its own funds on the line.

There's nothing wrong with brokers. The situation is analogous to working with an independent insurance agent. He or she might have intimate knowledge of the marketplace and know where to go to get the kind of insurance, or lease, in this case, you need. In theory at least, this may generate savings in excess of the broker's fees.

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