



## WHAT ARE THE PRO'S AND CON'S OF LEASE FINANCE

A typical equipment lease can run anywhere from one to five years. Most equipment necessary in commercial businesses today, including technical equipment, can be leased. Some leases provide an option to then purchase the equipment at substantially less money when at the end of the term of the lease. By leasing equipment, if structured properly, you can maintain your credit availability, as the lease debt does not have to be considered a direct liability on your financial statements. This is advantageous, as it does not limit your ability to borrow from lending sources.

### Advantages of lease financing:

It offers fixed rate financing. You pay at the same rate monthly.

Leasing is inflation friendly. As the costs go up over five years, you still pay the same rate as when you began the lease.

There is less upfront cash outlay. You do not need to make large cash payments for the purchase of needed equipment.

Leasing better utilizes equipment. You lease and pay for equipment only for the time you need it.

You typically have an option to buy equipment at end of lease term.

You can keep upgrading. As new equipment becomes available you can upgrade to the latest models each time your lease ends.

Typically, it is easier to obtain lease financing than loans from commercial lenders.

It offers potential tax benefits depending on how the lease is structured.

One of the reasons for the popularity of leasing is the steady stream of new and improved technology. The cost of continually buying new equipment to meet changing and growing business needs can be difficult for most small businesses. Leasing can also help you enhance your status to the lending community by improving your debt-to-equity and earnings-to-fixed assets ratios.

There are a variety of ways in which a lease can be structured. This provides greater flexibility so that the lease is structured to best accommodate the individual cash flow requirements of a specific business. For example, you may have balloon payments, step up or step down payments, deferred payments or even seasonal payments.

### Disadvantages of lease financing:

Leasing is a preferred means of financing for certain businesses. However it is not for everyone. The type of industry and type of equipment required also need to be considered. Tax implications also need to be compared between leasing and purchasing equipment.

You have an obligation to continue making payments. Typically, leases may not be terminated before the original term is completed. Or if terminated there can be charges to break the lease. Therefore, the lessee is responsible for paying off the lease. This can pose a major financial problem for the owners of a business experiences a downturn.

You have no equity, until you decide to purchase the equipment at the end of the lease term at which point the equipment has depreciated significantly.

Although you are not the owner, you are still responsible for maintaining the equipment as specified by the terms of the lease. Failure to do so can prove costly.

Please consult us to discuss your business finance needs, we can provide advice on the best form of finance to suit your needs.