MARKAY

$1.00 Purchase Option

Everything You Always Wanted To Know But Didn't Know Who To Ask

"I Want A $1.00 Purchase Option!"

We hear this all the time. It generally gets thrown in towards the end of a conversation on the terms of a proposed lease. Often, it is usually insisted upon with considerable conviction by a prospective Lessee that wishes to impress us with his leasing experience, and who refuses to pay for equipment for "X" number of years and then still pay a residual to get ownership. Unfortunately, instead of being impressed, we are now aware of the fact that we are dealing with someone that may not be fully informed of the benefits of a true lease structure.

The Problem With $1.00 !

It sure is nice to get to the end of a lease and only pay $1.00 to own the equipment, Isn't it? You save a lot of money that way as opposed to paying that huge FMV/not less than 10% of original equipment cost residual, right? Wrong! Very, very wrong! A properly constructed "True" lease is a very powerful and inexpensive way to finance the acquisition of equipment, and true leases do not have $1.00 purchase options. Let's outline a few facts:

1. A true lease has a "fair market value" (FMV) residual at the end of the term. This means you have the option to return the equipment or purchase it for it's then fair market value (the price anyone else could purchase it for). Most companies may limit the bottom end of this value to 10% with the upper end open (we will discuss this later). If you have a lease with a $1.00 purchase option, it is very obvious to everyone that your intention is ownership of the equipment and not the renting of it. What you have is a conditional sales contract and not a lease. If you treat this as a lease and write off the payments like a lease, you will probably become acquainted with IRS penalties when they find out.
2. A true lease is the IRS's worst nightmare. Why? Because a true lease gives the Lessor (that's us) the ability to depreciate 100% of the equipment cost, and at the same time it gives the Lessee (that's you) the ability to completely write off 100% of the lease payments over the term of the lease. To the IRS that means the same piece of equipment is going to be expensed 200% of its original cost. It's the old "double-dipping" concept, except in this case we are doing it to them, instead of them doing it to us.
3. A true lease is like a loan with a balloon payment at the end with one really great advantage, since the Lessor (that's us again) gets some tax advantage because of the depreciation, this benefit is generally passed to the Lessee (that's you again) in the form of a lower rate.
4. If you have a lease with a $1.00 purchase option, you are going to pay exactly the same (in terms of APR interest) as a lease with a 10% residual (before tax benefit adjustments). The lease with the 10% residual will have lower payments to adjust for the 10% balloon at the end. There is no free lunch; you either pay higher payments with a $1.00 residual, or lower payments with a 10% balloon at the end. It comes out the same. The difference is, if you choose the lease with the FMV/10% purchase option, you now allow the Lessor the ability to depreciate the equipment and you reap the benefit in an even lower payment. Now were talking "Win-Win," except for the IRS.

Let's summarize all of this:

FMV/10% Residual

- Lessor depreciates the equipment and you write-off 100% of the payments.
- It's just like a loan with a balloon payment, with the added benefit of a little lower rate.
- A form of accelerated write-off for you if the equipment has a depreciation cycle longer than the lease term.
- Pay the lower rental payments with today's more expensive dollars and pay the balloon with tomorrows inflated dollars.

$1.00 Residual

- You can depreciate the equipment but can not expense the payments (see the accompanying "Lease vs. Buy" Fact Sheet for more information on depreciation, AMT and other ownership issues).
- More expensive monthly payments.
- Long life equipment may take longer to write-off the purchase price.
- Higher payments are made with expensive dollars.

What We Do At Markay !

We are in the business of servicing your needs; therefore we can structure your financing with either a $1.00 residual or a FMV residual. We do, however, do one thing different than other leasing companies when it comes to the FMV residual. Remember we discussed that most FMV residuals had a minimum of 10% of the original equipment cost as a base, but the upper end was open. The risk to the Lessee in this case is that at the end of the lease, the value placed on the equipment by the Lessor might be more than you feel is reasonable. If you want to own the equipment and the FMV placed on the equipment by the Lessor is too high, you will be faced with the risk of losing the machine. Our FMV residuals also have a 10% minimum, **BUT** the FMV is determined by you. Let us make that point one more time; you, the Lessee, are the ones responsible for determining the FMV of the equipment. As long as your evaluation of the equipment value is not less than the 10% minimum, we will accept it. Hopefully, you get the point and we need say no more.

What Should I Do ?

Analyze and understand the concept presented here. Then, compare it to your business situation to see which situation is best for you and your Company, then please call us. We are MARKAY LEASING CORPORATION and we would welcome an opportunity to explain our programs and become your Leasing Company and finance partner.

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