MARKAY

Lease vs. Bank Financing

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

I'm Going To Use My Bank Financing !

We hear this from time to time when we are trying to compete on a financing transaction. Most people who go with their bank do so because they are interest rate shoppers (ignoring all other aspects) and the concept of doing business with their "Bank" gives them a sense of security and fair dealing. "My Banker, my friend" is the concept. After all, you've had your account there for years, they take care of all of your money, they have extended you a line of credit to handle all of those little emergencies or unforeseen opportunities, he knows you by name (or at least recognizes you) when you go to the bank, his interest rates are quite low (you have compared them to other banks and leasing rates) and it keeps things uncomplicated for you if you have only one financial institution to deal with.

What's Wrong With This Picture !

Lots of things. We are going to make it easy to compare bank financing to leasing by outlining the differences below, however, let me ramble for a minute. Have you noticed all of the bank mergers lately? Have you also noticed the turnovers that occur as a result? Your friendly banker may not be your banker tomorrow. Since relationships are so important for future needs, the relationship you developed with your banker may not be there when you need it for future borrowing needs. Additionally, have you ever been successful in getting anything done at your bank in a quick and efficient manner without a lot of unnecessary paperwork and red tape? Banks are the best example that I can think of to demonstrate the service difference between salaried help (bank employee) and commissioned help (the leasing industry).
Following are some very important points to consider (besides interest rate) in making your financing decision:

Rate Structure

Banks prefer to loan long term money on a floating or variable rate tied to prime, or some other indices. This places the rate risk on you instead of the bank.
Lease rates are fixed for the term of the lease.

Soft Costs

Soft costs are such things as sales tax, shipping, installation, training, software, etc. Your friendly banker is more than likely not going to finance these integral parts of your equipment financing need. They are more concerned about their exposure and risk than the practical servicing of your needs.
Leasing is 100% financing and covers all of these costs.

Down Payment

Banks typically require 10 to 25% down on any equipment financing. Once again, they are more concerned about their exposure and risk and less concerned about your practical business needs (e.g. retention of working capital).
Leasing is 100% financing.

Compensating Balances

Most banks will require that you maintain certain minimum balances if you want their lowest rates. Think about this one for a second; if you maintain certain balances that they pay you no interest on, this inflates their actual yield well above your loan interest rate. Additionally, this ties up your working capital.
Leasing has no such requirement.

Restrictive Covenants

Most bank loans contain all sorts of restrictions and covenants, such as maintenance of certain financial ratios, restrictions on future debt and salary restrictions. Additionally, look for "Call" provisions which banks incorporate that give them the right to demand an early pay-off of your loan for reasons you have no control over.
Leasing has none of these types of provisions.

Revolving Loan Basis

Banks prefer to classify a loan as a "Revolving" loan. This gives them the ability to extend or cancel the loan on a yearly basis. This means annual submission of Financial Statements for review and approval. Additionally, this loan is now a current liability which really messes up your financial ratios.
Leasing is fixed long term financing.

Blanket Lien On Business

Banks take a security interest in all of your company's assets (presently owned and acquired in the future) by publicly filing a UCC. This ties up all of your assets, including inventory and receivables.
Leasing files a UCC only on the leased equipment.

Disclosure

Banks want a full financial package to help them make their credit decision on your loan.
Leasing is by Application to $100,000 in some cases.

Lending Limits

Banks establish a maximum borrowing limit for the company, and generally the principals also. This restricts future borrowing.
Leasing offers a multitude of lending options in addition to your company's bank lending options.

Credit Review Process

The bank credit review process is long and tedious and generally requests further information.
Leasing is often a 48 hour approval cycle.

Tax Write Off

Since bank financing makes you the owner of the equipment, your only tax advantage is depreciation and loan interest (watch out for AMT).
Lease payments are 100% deductible and may be a form of accelerated depreciation depending upon structure (ask us about this one).

What Should I Do ?

Analyze and understand the concept presented here. Then, compare it to your business situation to see if it applies and which situation is best for you and your Company. If you agree that Leasing in most situations is the least cost method of acquiring the use of needed equipment, 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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