What You Need to Know About Equipment Financing

How long will the entire process take?

Requests up to $75,000 are approved within 1-3 workdays after receiving our Finance Credit Application, 3 current monthsô bank statements, Vendor Proposal and supporting financials. Amounts over $75,000 will take 3-5 days depending on the complexity of the financial statements. Upon approval, a finance contract is sent directly to the customer. Once the contract is signed and returned, a Purchase Order is immediately sent to the vendor. The finance payments begin once the customer has received the equipment and signed an ñAcceptanceò form.

How can I speed up the process?

Have all your financial documents organized, scanned and accessible. This includes 2 years of tax returns (personal & business), 3 current monthsô bank statements, current balance sheet and income statements and bank/trade references. Have these documents in electronic (PDF) format to speed up the process.

Can we finance used equipment as well as new?

Yes, we lease/finance all types of used equipment. The equipment will have to be purchased from a used equipment vendor and not a private party. Typically, used equipment can be financed for 36 months maximum.

What happens at the end of the finance?

There are a variety of end-of-term options available depending on the type of finance program you selected. These include Fair Market Value (FMV or Operating Lease), $1.00 Buyout (Capital finance), an Equipment Loan and other Fixed Buyout Options (10% or 20% at Buyout).

<u>Fair Market Value (FMV or Operating Lease)</u>
This option is beneficial when concerned with financing equipment, which becomes obsolete quickly. Computers and electronic hardware fall into this category. FMV leases were designed for customers who expect the value of their equipment to decrease quickly, or want to upgrade their equipment at the end of the lease. At the end of a FMV lease, the lessee has three options: extend the term of the lease, return the equipment, or buy it at its fair market value, which is usually 10% - 20% of the original price. This lease provides lower monthly payments and the ability to write-off 100% of the payments as an operating expense. Consult your accountant about how the taxation applies to your business.

<u>$1.00 Buyout (Capital finance)</u>
This option is for those who are fairly certain their equipment will retain its value over a 3-5 year term and plan to use it for a longer time period. Construction, machine shop and some manufacturing equipment fall into this category. Therefore, you plan to purchase the equipment at end of term and exercise the $1.00 buyout option.

<u>Equipment Loan</u>
Similar to a Capital Finance; this option is for those individuals which will keep their equipment for the long term and want 100% ownership at the end of the term. Most owners are familiar with this through their local bank.

<u>10% - 20% Fixed Buyout Option</u>
This option offers the flexibility to return the equipment or purchase it at the end of lease. The main advantage is the buyout amount is set ahead of time which can be from 10% to 20% of the new equipment price, without relying on what the future fair market value may be. This finance, like the FMV, has a lower monthly payment amount compared to a Capital finance.

What is the interest rate?

Although a lease/finance is not a principal and interest loan, rates or the money factors are based on the companyôs credit history, time in business, equipment cost, finance term and structure. As with loans, the rate will depend on the risk, which is assessed for each particular business entity. The bottom line: riskier business models or companies pay higher rates. When tax benefits are considered, lease/finance rates are similar to commercial loan rates.

Will my lease payments be tax deductible?

The IRS generally allows 100% write-off of your lease payment if the lease structure is within their guidelines. We recommend consulting with your tax advisor since laws change periodically.

Will the finance or lease payments be fixed for the entire term?

Your payments are fixed throughout the finance or lease. No balloon or larger amount payments are part of a standard finance. Final buyout payments can vary depending on the type of finance structure you have.

What is the minimum dollar amount for a finance?

$20,000 is the minimum First U.S. Finance requires. On the upper end, we can fund multi-million dollar programs through numerous wholesale lenders and private investor groups.

How long do you have to be in business?

First U.S. Finance has programs for companies that have been in business for a minimum of 2 years with the best terms offered to established companies with 5+ years in business.

How much down payment is required on an equipment finance or lease?

Equipment leasing provides 100% financing. Although custom payment plans are available, we typically require only one or two payments in advance when the lease/finance documents are signed. There are other structures which allow you to make a larger down payment to minimize the monthly payments if desired.

Does it matter who structures my finance?

Yes! Some finance agents work specifically for one lender, like local banks, which limits their access to the most current programs. The same is true of some equipment vendors, which offer leasing to their customers; they work with one lender that can limit a customerôs options. A finance specialist and broker, who contracts with many lenders, can consistently offer you the most competitive financing for your project.

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