

PRP NEWSLETTER

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THE PERILS OF LEASING

“HIDDEN COSTS ARE EVERYWHERE FROM THE VENDOR TO THE LENDING COMPANY”

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We continue to see abuses of profits with respect to lease contracts for common office equipment. Frankly, the advantages of leases for any company other than the smallest of organizations, those without access to capital, are almost non-existent; and this includes tax benefits. While large organizations may wish to lease to avoid depreciation and capital budgeting approvals, the (surprise or hidden) costs of entering into a lease can easily nullify any benefits from circumventing corporate procedures.

Keeping in mind that needed funds can often be secured through banking institutions with straight-forward repayment terms, the following are reasons why leasing should be an organization's last recourse:

- Interest rates are considerably higher with leases, as opposed to bank borrowing. Vendor interest rates can range from 12% to 29%.
- Because the rates are not controlled, and are often not clearly stated in a contract, there exists an opportunity for the sales representative to build in extra costs which affect the lease payment.
- The funds for leased equipment often come from a capital lending company, which separately bumps up the lease payment amount (a tactic referred to as over-funding). This over-funding usually pays for the vendor sales award trips or additional commission to the sales representatives.
- Lease contracts will frequently include separate additional charges of 3-8% for property insurance, which is normally covered automatically in a standard business property insurance policy. Providing proof to the leasing company of such insurance coverage can eliminate these charges.
- The true definition of an upgrade and downgrade equipment option is that the leasing company will take the remaining payment owed on the old equipment including unearned interest and add it to the new equipment cost. Customers will pay double interest on the old equipment.
- Lease contracts often require the customer to provide notice within 90 days (and up to 180 days) of their intentions to terminate the lease. If the customer fails to do so, the leasing company can renew the lease for another twelve months and the customer is stuck.

THE PERILS OF LEASING (CONT.)

- Beware of leasing companies that send their bill to their customers the day it is due. Late fees are one of the biggest ways leasing companies can increase their profits.
- If the customer attempts to terminate a lease prematurely, the customer may be surprised to find that the rules will not provide for payout of the term of the lease unless the lessee commits to pay the remaining payments and purchase the equipment at 20-50% of original cost.
- As the typical bill for leased equipment does not clarify that the lessee had paid, for example, 48 of 60 months, customers continue to pay in response to delivered invoices as they are unaware that the lease term has expired.
- **VERIFY YOUR INVOICES!** Often times your contract may provide for a payment of, for example, \$200/month, but the bill requests a payment of \$240/month.
- Watch the fine print. Many lease contracts will stipulate that at the end of the lease term, it is your company's obligation to ship the equipment to a destination of the lessor's choice and be responsible for shipping costs AND liability for the equipment until it is received and accepted. This can increase your cost by \$500-\$2,000 per unit.
- Due to increasing levels of questionable business practices in leasing, a dollar-buyout lease is the best way to determine and control your total cost of ownership. If you have no other recourse than to make a lease decision (have you checked with your bank?), secure the dollar-buyout variety, in which the lessee is automatically charged one dollar for the equipment at the end of the lease term.
- The loyalty of leasing companies is to the vendor as opposed to the end user. Often there is no direct contact available to the leasing company; instead, customer communication can be limited solely to the vendor.

This we cannot stress enough – READ ALL CONTRACTS CAREFULLY and be sure you are in agreement with the terms. Furthermore, ask for written clarifications included in the lease from the vendor or lessor of ANYTHING you don't completely understand.