

Loan vs. Lease

In the simplest terms, a loan is the borrowing of money while a lease is a rental agreement for the use of specific equipment. As financing vehicles, loans and leases both have their benefits and their drawbacks. Below, we have outlined some of the major issues which might affect your decision.

Rates **Loan** - rates are usually floating and based on Prime Rate or some other index such as LIBOR. As the index fluctuates so does your monthly payment. This is good during periods of falling interest rates, bad when interest rates rise.

Lease - payments are generally fixed for the life of the lease unless your lease has special provisions. A lease is a good choice if you expect interest rates to rise.

Amount Financed **Loan** - banks generally will only lend a portion (75%-90%) of the equipment cost - **exclusive of soft costs** such as shipping, training, installation, etc. Not a problem if you have the cash, a problem if cash is tight.

Lease - will finance your complete purchase including soft costs and sales tax. Your out-of-pocket costs are usually limited to just your first month's investment and a small security deposit. A good choice when cash is tight.

Extra Costs **Loan** - banks use fees to boost their rate of return on your loan. You may encounter application fees, origination fees, commitment fees, schedule fees, funding fees and be charged for expenses associated with approving and executing your loan application.

Lease - in 99% of our small-ticket equipment leases (up to \$75,000) there are no origination, commitment or application fees. Our documentation fees are minimal, in most cases ranging from \$95 to \$250 depending on the size of the transaction. Larger commercial transactions may require certain fees depending upon the details of the credit application.

Available Terms **Loan** - banks tend to be somewhat less flexible than leasing companies. Good if you are looking for a standard term, not so good if you need flexibility.

Lease - in most cases you choose the terms, the purchase option, the down payment of your equipment lease. We offer 60 month terms on most equipment and up to 84 months on "solid" assets. Custom terms can easily be arranged.

Equipment Types **Loan** - banks won't finance equipment which they don't understand or feel has limited collateral value.

Lease - our national network of equipment lease funding sources ensures that we can find a funder for most equipment types.

Ease of application **Loan** - regardless of the amount requested, banks won't even begin to extend you credit until you supply a full financial package.

Lease - Our business is convenience. We offer lease programs up to \$75,000 without financials. Odds are we can approve your equipment lease with just our simple [application](#).

Speed **Loan** - banks are notorious for slow credit decisions. It can take weeks to prepare your request and bring it to the credit committee for review.

Lease - More than half of LeaseProcess approvals are issued same or next day.

Collateral **Loan** - banks usually secure their loans by requiring additional collateral such as real estate, equipment, inventory, receivables or your house. In fact, it is common practice for banks to file a blanket lien against all assets of your company.

Lease - in almost all instances, the only collateral is the equipment being leased.

Restrictive Covenants **Loan** - bank loans often require that the borrower maintain certain minimum financial ratios and report them to the bank on a quarterly or semi-annual basis. If the borrower fails to maintain those ratios the bank can call the loan. They can also place restrictions on or limit future borrowings from any institution.

Lease - generally no such restrictive covenants.

Available Capital **Loan** - banks tend to establish a maximum borrowing limit for their customers. All loans, credit lines extended to the business and its owners (including personal loans, mortgages, etc.) will apply to this lending limit.

LeaseProcess represents dozens of funders eager for your business. It's virtually limitless.