Leasing: The Financial Benefits

Working with a ‘specialized lender’ allows companies to avoid the cost and hassle of obtaining outside financing, and often allows access to the same equipment at a lower total cost.

By Robert D. Palmer
President,
Palmer Leasing, Inc.

Leasing: The Financial Benefits

For companies looking to improve and expand their mobile storage, transportation and logistics capabilities, leasing is a powerful alternative to direct fleet ownership. While offering a number of operational benefits, such as the flexibility to better manage demand fluctuations, leasing offers a wide array of financial and accounting benefits as well, from improved cash flow to simplified financial reporting.

Simpler, More Favorable Financing Terms

In providing equipment to their clients, leasing companies act like more traditional lenders: they provide up-front capital for the purchase of an asset in exchange for a regular series of payments in the future. Working with a 'specialized lender' allows companies to avoid the cost and hassle of obtaining outside financing, and often allows access to the same equipment at a lower total cost.

Leveraging deep experience in equipment markets and greater flexibility in sale timing, leasing companies are often able to obtain both general-use and specialized equipment on more favorable terms, which, along with economies of scale in maintenance and fleet management, can sharply reduce total cost of asset ownership. Additionally, as the leasing company retains the ability to take back possession of the equipment in the event of default. The lessor can generally dispose of the equipment at a premium or lease it out again, raising the value of the collateral in what is essentially a secured loan, thus lowering the company's overall cost of borrowing.

Continued Expensing in Financial Reporting

Under current GAAP rules, leases are classified as *operating leases*, and can be treated as a set of regular fixed expenses, as long as they look substantially different from a purchase agreement financed by the lessor. Specifically, lease agreements with terms beyond 12 months are considered *capital* or *financial leases*, and must be capitalized and depreciated over time, if they meet any one of the following: ownership transfers to the lessee when the lease ends; the lessee can purchase the asset at a discount when the lease ends; the lease term covers 75% or more of the asset's estimated useful life; or the present value of the lease payments amounts to 90% or more of the asset's fair value.

In most cases, standard leases for transportation and mobile storage equipment will fall into the first category, given the high cost and long useful life of these assets. As equipment obtained under operating leases does not need to be included on the balance sheet, this allows companies to avoid the additional accounting complexities of asset ownership, such as depreciation or the potential for revaluations in the future.

Beyond this, treating lease payments as regular, fixed expenses may provide investors and lenders with a more accurate picture of the company's financial situation. Especially in cases where leases include maintenance costs, or can be easily cancelled or extended, expensing often more closely reflects the level of risk and future obligations incumbent upon the company.

Maintaining the Availability of Capital

Whether financed or purchased outright, the acquisition of high-cost transportation or mobile storage equipment drains valuable resources – either directly, through use of cash, or indirectly, by helping drive up the cost of future borrowing. With the option of leasing, though, companies can expand their shipping, storage and logistics capabilities with minimal impact on financial metrics and future borrowing capacity.

Even if the borrowing required to purchase shipping and storage equipment is small in relation to a company's overall finances, it will still have an impact. In the worst case, even a small change in key financial metrics can trigger rate increases or require immediate repayment of other loan obligations, which may lead to further deterioration of a company's position.

While this is always a concern, the more limited availability of capital in the current economic climate makes careful management of such metrics even more important.

Focus on Customers, Not Equipment

In the current economic climate, keeping costs under control is more important than ever. By providing clients with access to a large and diverse fleet of high-quality equipment under flexible lease terms, Palmer Leasing allows clients to enjoy the flexibility and convenience of fleet ownership while avoiding risk and preserving scarce resources.

To find out what Palmer Leasing can do for your company, contact us today.

Palmer Leasing, Inc.
3 Union Seventy Center Drive
St. Louis, Missouri 63120
(314) 389-4400
www.palmerleasing.com

PALMER™
Leasing Inc.