EQUIPMENT FINANCING:

Is it Time to Get Back on the Horse?

When is the best time to acquire new equipment, and/or upgrade our current technology? Are we ready for HD? Should we do it this year or next? Are we in an economic recovery, or still in the doldrums of recession? Will this year end be better than last, and will next year be better than this? Can we depend upon consistent agency business at rates we can live with?

This is a sample of questions we are getting daily. Fortunately, the fact that we are hearing these questions is a positive sign that things in our markets are getting better. The general economy in the U.S. is improving. The S & P 500 is at its highest in over 12 months. Many Major U.S. companies will show increases in their third quarter earnings for 2003. Prices are static. Inflation is in check.

What does this mean for your business?

While I cannot answer all of your questions, one thing is certain. The market for equipment financing has never been better. Having been in the equipment finance business for the past 23 years, I have never experienced a time when the deals are better. Several factors are contributing:

- Manufacturers are offering huge price and trade-in incentives for new equipment and upgrades.
- Interest rates are still low.
- Tax benefits for equipment acquisition are significant.

If you have the confidence that your business is moving in the right direction and feel that your growth is inhibited by your lag in equipment technology, now is the time to take the plunge. If you are considering an equipment acquisition but are thinking of waiting until January or February, don’t. By acquiring the equipment now, you can expense the majority of the cost in 2003. Also, you can benefit by fixing your interest rates now, and not have to worry about the inevitable rate increases. While I don’t have a "crystal ball," I do believe that rates will not be decreasing any time soon.

Many facilities have not been spending much in technology and equipment over the past 2 years. Consequently, debt levels for these facilities are reduced, and their balance sheets are improved. One of the only benefits of a recession is that it forces us to tighten controls, reduce waste, and improve our efficiency. By doing this we are better positioned to make the necessary investments when business improves.

By now you are saying, "This is all well and good but how can we invest in new equipment, especially HD, when the technology is new? There may be a learning curve, and we are not overflowing with cash." At North American Funding, we offer a way to leap into new technology, without the huge cash outlays, or even significant monthly payments. By offering 3 to 6 month step payment programs our clients are able to acquire the new gear now with minimal cash outlays, then ramp up to the higher monthly payments later when the picture has improved.

Here’s some food for thought: What if you could acquire equipment for $100,000

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this month, pay only $3,000 this year, and write-off $100,000 on your tax return for 2003? In addition, you would be fixing your interest rate at a historical low for the full term of your lease. Wouldn't this make sense?

While it seems obvious that if new equipment or upgrades are in your short-term plans, now is a great time to move. However, before you ride off into the sunset there are some important dangers to be aware of:

Operating Leases.

These have the lower monthly payments and the Fair Market Value purchase options at lease end. The tax advantages of these types of leases are far less beneficial to you now than they were in the past. While you can still write-off the lease payments, you miss out on the much larger depreciation, and bonus depreciation write-offs. In addition, with the large purchase options being administered by some leasing companies, you lose the benefit of the high trade-in credits available for new upgrades. With these types of leases, the costs associated with upgrading before the end of a term can be significantly higher than any trade-in value available. We've seen many troubling cases like this in the past year.

Bank Financing for Equipment.

While it is essential to have a strong banking relationship for your business, banks provide far better products for short-term working capital needs and leasehold improvements. While on the surface bank rates may look lower than those from a specialty finance company, total costs can be higher, and flexibility greatly impaired. Banks generally have a ceiling on the amount of total credit they will extend to your business. By using this credit for longer term financing, you are tying up credit that you may need in the future for facility expansion, and/or working capital needs. In addition, bank approvals generally take significantly longer, and their understanding of the technology is minimal. This last item is vitally important when it comes to upgrading technology. Flexibility can be essential when you're looking for the best equipment deal.

Lease Brokers

While these companies can provide necessary services for very troubled companies, they generally sell financing for other companies. Servicing–including questions regarding terms and conditions, buyouts of leases, and virtually anything after the initial contract is signed–are handled by the third-party leasing companies. The person you negotiate with at the beginning is usually out of the picture when the financing is in place. In addition, these companies generally cost more than direct leasing sources.

As you can well imagine, guiding an equipment finance and leasing company through a significant recession, especially as a direct lender, can be challenging to say the least. Not only is the volume of transactions smaller, but defaults and delinquencies are also higher. We have maintained our position as a dedicated niche lender, with a model that consists of products that consistently meet the needs of our markets. Competitive pricing and sound credit decisions have been our saviors. While a majority of the finance and leasing companies in our market have "gone by the way side", we have continued to maintain our focus and specialty.

In the twelve years since starting North American Funding, 2003 will be our best year ever. I am making this comment not to be boastful, but rather to illustrate that a surge in our business is a positive sign for this industry. Manufacturers are producing new technology that is not only providing new avenues for cash flow, but also vastly improving efficiencies in workflow and management.

The bottom line is if you are confident in your business and feel the need for new equipment, there has never been a better time than now.

Just keep your eyes on the trail in front of you. A bright future is on the horizon.

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