8 Steps to Negotiate Your Business Equipment Lease

By Thomas Williams

The credit crunch is impacting more than just the housing market. Small businesses will begin to face increased requirements when seeking financing. Most equipment leasing lenders have watched the number of clients with bad debt and delinquencies more than double in 18 months. In the past, entrepreneurs could use the equity in their homes to weather tough times, but with the housing crisis that safety net has diminished. Against this background, it is easy to see why lenders are taking a closer look at which businesses they finance. Here are some steps every business owner should consider when applying for equipment leasing or financing.

Step 1: Know the difference between *want* and *need*
Needing and wanting are two separate things. First, decide what equipment is essential to start or grow your business. Then create your budget for the entire year, keeping in mind what your business needs and when. Forecasting equipment needs is not always easy, but a good idea of annual costs /- 15% is beneficial. This essential step will keep you from paying for unnecessary equipment.

Step 2: Know where you stand as a business
It is absolutely essential that you understand how your company appears to lenders. Your Dun & Bradstreet (D&B) report is like a personal credit statement for your business. Request a copy of your report from www.dnb.com and review it thoroughly. The key information lenders evaluate is time in business, proper ownership, lawsuits, liens, and the company Paydex. Paydex is a score that tells the lender how your company is paying its bills compared to other similar businesses in your industry. Companies with a Paydex score under 50 will have a very hard time attaining financing.

Paynet, www.paynetonline.com, is a service that leasing companies and banks utilize to report who is paying and who is not. It tells other lenders how much customers have borrowed, when, and how promptly bills are paid. If you have negative information on Paynet, you will have a challenging time obtaining financing. Paynet allows you to obtain a free report by emailing support@paynetonline.com. If there is a discrepancy on any of your reports, make sure to have your information corrected immediately.

Step 3: Know where you stand as a consumer
At least 90% of all lease obligations have a Personal Guaranty, which means the business entity and its owner(s) enter the agreement together. Leasing companies believe that if the owners do not pay personal bills on time, they are unlikely to pay their business bills in a timely fashion.

Most lenders expect the personal credit scores of business owners to be in the mid 650’s and most leasing companies have a hard cut off at 620. Lenders also look at whether owners have adjusted their mortgages and how much debt is held on personal credit cards. It is imperative you know your personal score and what might be driving it downward.

Step 4: Initiate contact with leasing companies
The best way to make contact with a leasing company is a referral from a current customer or vendor that has an existing relationship. Over 90% of the time equipment vendors will have an excellent relationship with a lender they can leverage.

The last source for equipment leasing companies is the Internet. Make sure all the companies you consider are members of UAEL, ELFA, or NAELB. Request literature and information on a few leasing companies and pick your top three.

Step 5: Comparison shop
After following the first four steps, compare your top three choices. In addition to monthly rates, you should focus on how easy it is to work with the company, the terms of the contract (paying special attention to late and other hidden fees), and how often your credit will be pulled. Most lenders do a credit inquiry after 90 days if you are looking to add more equipment. Other lenders pull your credit regardless of when it was last checked. Some leasing companies also only have a 3-day grace period that will almost guarantee a late fee that is typically 10%. If you choose a larger lender you might find you are stuck with offshore customer service and diminished decision making once you are in their system.

Step 6: Get approved
Now you are ready to apply for the financing with the lender you have chosen. The approval process can take a couple of hours to a few days depending on the amount of your request. Once you have been approved, evaluate the payment schedule. It is extremely important to match the equipment payment to your cash flow. If you are buying equipment with a long useful life, such as a large commercial printer, it might be the best decision to select a longer term such as 60 months. For equipment with a shorter lifecycle, like computers, 36 month leases are advisable. Most leasing companies also allow deferral payments, which can ease cash flow restraints until you get the equipment and business running. Most companies will offer no payments for 90 days or even 180 days. That extra time that can make a huge difference for smaller companies.

Step 7: Understand the payments and terms
Some entrepreneurs get so excited about their new contracts that they jump headfirst into a lease for new equipment. Understand that if your business falls through, you must have a contingency plan. There is nothing worse than making payments for equipment you no longer need and/or cannot afford. Review all the terms on the lease, make sure you know your options and understand the contract. Most leasing companies will allow minor changes to reflect your businesses needs.

Step 8: Plan to succeed
A leasing company can help you maximize cash flow and increase profits. However, most entrepreneurs do not plan their leasing needs for the year. Allow your business to thrive in challenging times by following this 8-step program to reach your goals.

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