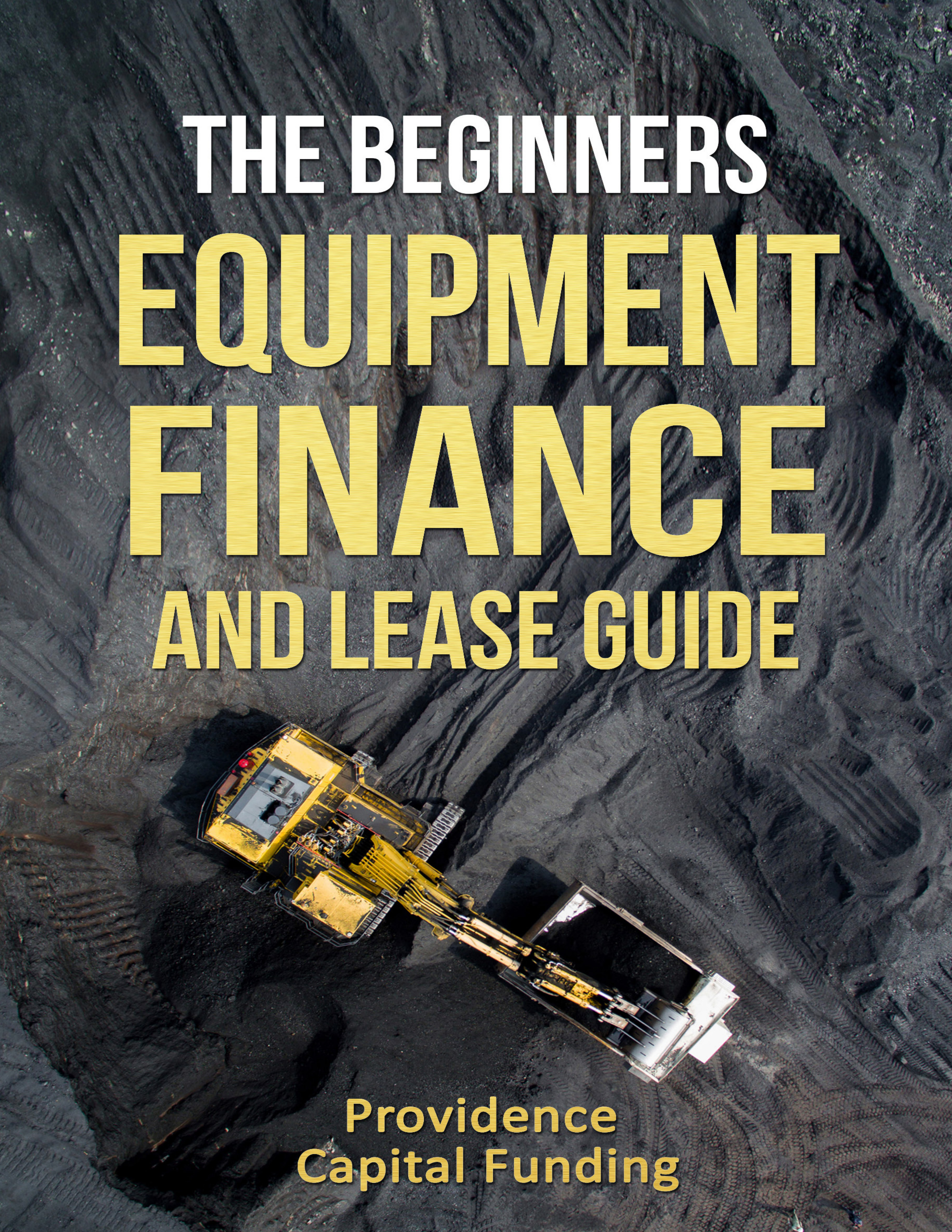
THE BEGINNERS EQUIPMENT FINANCE AND LEASE GUIDE



Providence Capital Funding

Beginner's Guide to Equipment Financing and Leasing

By Edward Shi, Providence Capital Funding

Equipment Financing and Leasing is, well, all about money. Whether you are financing equipment for the first time, or you are more experienced, the more you know about the equipment finance process, the better you are able to secure the program that will meet your business needs.

This guide will cover new financing systems and technology, as well as the basics such as how to get the lowest lease rate, flexible payments, and the different types of leases. We'll go over common questions about equipment financing. After reading this guide, you'll be able to talk the talk with any equipment finance specialist and be much better positioned to choose the equipment financing program that is best suited for your business needs.

Your questions and comments are always welcome. You can to contact us:

1. Call us at 1(800) 341-1288
2. Tweet us @ProvCapFund
3. Email us at Marketing@ProvidenceCapitalFunding.com

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TABLE OF CONTENTS

1. The Cost of Your Equipment

What's the real cost of the equipment?

Do you know the price of the equipment?

- **The first step in the process of financing equipment is to know the price of the equipment that you want to acquire.**
- **Your maximum monthly payment.**

Some clients will know the exact cost of equipment including all fees, while others are just expressing interest and doing the initial research.

Whether you are ready to proceed, or just considering a purchase, with these two pieces of information a financial leasing company can provide you with a quote. Knowing your maximum monthly payment can help us advise you on how much you can spend.

The equipment buying process can be viewed in three stages:

Interest Stage – Are you considering purchasing a piece of equipment for their business but not sure of the cost? Most people start by researching their equipment options, comparing prices, and considering what they can afford. You may be considering between new or used equipment, and if you will purchase from a private party or a dealership.

By talking to your potential financing partner at this first stage, we can help you understand the financial implications of your options and also prequalify you to give you a budget to shop with.

Research Stage – This is where you decided on used equipment and your budget of $30,000-$40,000. You're ready to get a quote on the monthly payment. You're not ready to purchase yet and are still exploring options.

Now that you've locked down the exact cost of the equipment you're looking at, we are able to give you an accurate estimate of what your payment can be.

TIP: As a rule-of-thumb, with above average credit you can estimate a payment of about $260/month for every $10,000 financed f for a 5-year term. With poor credit (Below 620), payments will go up to $460/Mo with additional provisions like cosigners and collateral needed.

Purchase Stage – This is the final stage, you've calculated the benefit of the equipment in terms of additional business, or cost and efficiency savings. You're ready to purchase a new $35,000 CNC machine from a dealer. Now you curious about what rates you qualify for.

Estimate your monthly payment here

Depending on whether you buy New or Used
It's easy for an Excavator like this to cost $100,000-$200,000

2. The Lease Rate & Qualifying for Financing

Learn how Lenders determine your lease rate

Many factors are considered in calculating your Lease Rate, and sometimes they may vary from one lender to another.

Common variables:
- **Equipment Price**
- **Age of Equipment and Type**
- **Credit History**
- **Length in Time of Business**

Equipment Price

In Equipment Finance, the higher the amount that you finance the lower your rate; in other words, you get a volume discount. If you're purchasing $100,000 of equipment, your rate will be lower than if you were getting $10,000 equipment.

Sometimes, a business may need to buy equipment in order to secure a contract. Many times, the first 12 months are the most capital intensive (material, labor, training, setting up the line, etc). Your financial lease partner may be able to structure a low monthly payment for the first 6 to 12 months.

TIP: If you can qualify for bank financing without added costs, that is likely to be your lowest cost option. When a business already has a Line of Credit or a Mortgage Loan that they can access - That may seem like the obvious choice. However, often getting additional financing from a bank comes with a change in condtions, because of added risk for the bank.

Banks may require you to provide 3rd party financial statements or more frequent financial reporting (this can get costly).

Additionally, a Bank may impose covenants on your business (balance sheet requirement assets to liabilities). These covenants may give restrictions on how much equipment financing you can do in the future based on Assets to Liabilities ratios.

Equipment Financing with your bank may be cheaper at times, but consider the cost if added requirements are given.

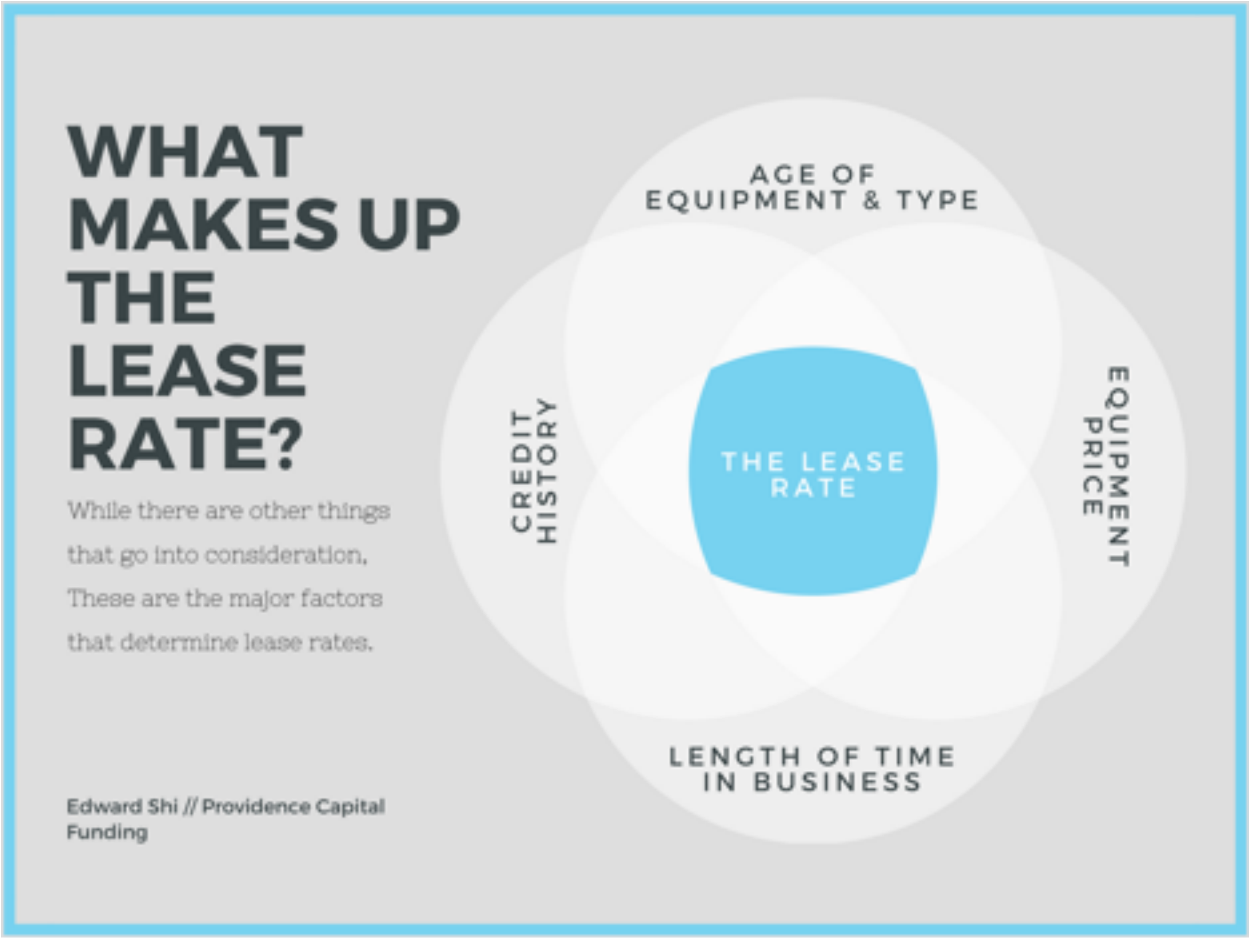
If your business is going to be expanding at a fast rate, or is at the verge of acquiring large contracts, diversifying your lending options may be a better choice. Putting all your eggs in one financing basket can risky.

Equipment dealers may offer attractive equipment financing on new equipment, perhaps 0% financing if you pay within 6 months, or low lease rate on new (or old) models.

Many times, dealer Private Label Financing Programs are pass throughs from independent finance companies. Take a careful look at these. Equipment finance companies typically offer lease rates between 2% and 5%, based on the parameters listed under 'Common Variables'. While companies may advertise marketing promo lease rates as low as 2%, often fewer than 10% of businesses qualify for these promo rates.

	Traditional Bank Loan	Step Up Program	Option 2 Structure
Finance Amount	$100,000	$100,000	$100,000
Term	60 Months	60 Months	60 Months
Monthly Payment	$2,000	Month 1-12: $989	Month 1-6: $299
		Month 13-47: $2,129	Month 7-60: $2,149
		Month 49-60: $2,469	
Money Down	10-20% Down	1st and Last months	1st payment
1st year Cost	$24,000+Money Down	$11,868	$14,688

An example of potential savings vs traditional bank loans



Age of Equipment and Type

The newer your equipment is, the better the rate we can get for you. Rates are higher for older equipment because as the equipment depreciates, it is more difficult for the borrower to recover the cost in the event of a default. If you are purchasing used equipment sometimes securing a shorter-term may help the lease rate.

Small dealers of used equipment and private parties may provide cheaper equipment than buying from a factory-authorized dealer. However, it can negatively impact the lease rate if you do not purchase from an authorized dealer. Another potential disadvantage in purchasing used equipment is that the warranty coverage usually is not as good as the warranty for new equipment.

A recent situation illustrates the potential hidden cost of in buying used equipment. A business owner purchased a four-year-old piece of equi ment for $169,000 from a used dealer, not an authorized dealer of the manufacturer. The authorized dealer was selling this same equipment new for $215,000. With Savings of $46,000, used equipment seems like the obvious choice.

The business owner chooses to purchase used equipment from the used dealer to save $46,000 over the new purchase price. Buying used equipment resulted in a monthly payment that was $900 less than what he would have paid each month to lease the new model. Four months after he purchased the used equipment, the machine broke down. His business was disrupted for three weeks while the parts were procured and the equipment was again operational, and during that time one client terminated the contract due to delays. The breakdown cost the business owner over $100,000. When you look at the entire picture, Cheaper may not always be better. In this case, he saved 46k, but lost 100k contract and caused priceless business reputation damage

However, it is certainly possible to finance used equipment. Often the impact on the lease rate is less about the equipment being used, than what is the type of equipment. Recently we financed a used 1989 Hyster forklift, an 18-year-old piece of equipment, for a competitive rate.

Note that many banks will not finance equipment that is used, or older than 6 years. Equipment Finance companies are more likely to finance used equipment, because they are familiar with equipment.

Credit History
Your company's credit history, and the time in business, are two of the biggest factors in determining your rate.

While each situation is unique, here is an example of the difference in monthly payment for a $50,000 piece of equipment on a 5-year term, depending on the credit rating.

A Credit	B Credit	C to D Credit
$960/Month	$1,012/Month	$1,075/Month

There's about a *$115 a month difference in payment between A Credit and to C Credit*. Over a 5-year lease tern it adds up to almost $7,000 in additional payment for the C-Credit rating.

Any lender from traditional banks, nationwide lenders, and 3rd party equipment finance company can prepare a quote over the phone, without taking a look at your company financials and asset strengths. Be wary if someone gives you a quote over the phone without looking at your overall Credit Profile. That means they are likely factoring in more risk than may be necessary, resulting in a higher lease rate.

On the other hand, don't be so quick giving someone your social security or sending in an application. **Many lenders pulling your Credit may negatively affect your Credit Score.** Some lenders will automatically decline your application if they see that your credit was recently pulled by several other lenders. Multiple Inquiries can also cause your personal credit score to drop significantly!

An experienced equipment finance professional may not need to pull your credit to give you a quote. This is another reason why it is extremely important to work with a seasoned Equipment Leasing Professional (ELP) instead of just filling out several applications to find the lowest quote. A seasoned ELP should be able to spend 5 minutes on the phone asking you several Credit questions before giving you a quote over the phone. If they don't you need to ask yourself, as to how someone can give you an aggressive quote or even give you a quote without knowing your business and Credit History.

Here are some common questions an ELP should be asking:
- What is the range of your Credit Score? (600 to 650, 700+, etc.)
- Have you financed in the past?
- If so, was the purchase comparable to what you are looking to finance now?
- Have you been timely on your payments in the last 12 months?
- Have you ever had a charge off on any of your equipment loans?
- Do you have a certain monthly payment for cash flow purposes?

Length in Business

Lenders look at the Time in Business (TIB) for several reasons. The less time in business, the higher Credit Risk.

Here is why:
- **50% of businesses fail in the first year**
- **95% of all businesses fail within 5 years**

Because of these statistics, it is much more difficult for start-ups and young companies to secure financing, because they haven't proven their credit worthiness. Lenders often view them as a high-risk because of the risk of business failure. Consequently, Lease Rates for young companies are often very high and generally require cosigners or collateral.

A lot of traditional banks follow strict guidelines on lending because of the statistics above. It's important you know that you have options. Some Equipment Leasing companies may look at the 'big picture' not just the TIB.

Recently, we were able to finance $150,000 worth of equipment for a business that was only 18 months old. This equipment that helped the business secure a $1 Million-dollar contract. A seasoned ELP, conducted a thorough phone interview. In the process, our ELP learned that the business owner had over 15 years of experience in the same industry and already had over 10 clients diversifying where their Sales revenue was coming. The ELP was able to assess the risk to be a lot less than a "typical" young business, resulting in a successful funding.

How to Qualify to Finance Equipment

Almost all equipment can be financed, even if there is a recent company bankruptcy. However, the rate might be sky-high rate. The question you have to ask yourself is if the economics of a high rate make sense.

Even with a high monthly payment may be high, and financing that may cost $10,000 a year more in interest than a more typical rate, if the new equipment allows you to secure a contract that yields an additional $50,000 annual profit for the next several years, the economics of a high rate loan may make sense.

Here are the 3 types of qualifications for equipment financing: Collateral, Credit and Story.

Collateral-Based Equipment Finance
This is the typical finance structure for credit challenged companies that have blemishes on their credit score. You'll get approved for financing as long as you have collateral. This will not be the lowest rate, but you will be able to finance your equipment.

An alternative to providing collateral is to make a high (perhaps 50%) down payment.

Credit-Based Equipment Finance

As long as you have decent credit, and more than two years in business, you can quality to finance your equipment completely.

Often, with credit-based equipment financing, traditional Lenders/Banks may only have one program to secure and qualify you Equipment Finance company usually offer several different programs. While a bank may reject you if there is a blemish in your credit history, an equipment finance company may still be able to qualify you through one of their alternative programs.

Story-Based Equipment Finance

Using a 'Story' to get equipment financed means they look at your complete business financials and all aspects of your business. Story-based financing rates will be lower than collateral-based financing but higher than credit-based financing.

An experienced Equipment Loan Professional can work with you to put together your story; this will provide a better financial result for you than talking to a lender who is simply asking you to fill out paper work and does not understand your business needs. Many large banks put loan applications into rigid models; If your business doesn't fit the box, then they can't go beyond that.

> **"If the new equipment allows you to secure a contract that yields an additional $50,000 annual profit for the next several years, the economics of a high rate loan may make sense.**

3. The Finance Process

An Overview from Start to Finish

When you first reach out to your chosen finance company, you're going to want to ask questions. After you provide an Account Executive with the equipment type and cost, that person should be able to give you a good idea of how to proceed. If they don't take the time to explain the process, they may not be a good fit. Some companies just run your credit and give you a computer-generated quote. As mentioned above in 'Credit History', try to find an Equipment Leasing Professional (ELP), not just someone trying to sell you on a low lease rate. If all they can mention is low lease rates without any details of programs they offer, chances are they're not very knowledgeable. We highly recommend speaking to multiple companies before deciding on a finance partner.

If a company doesn't want to speak to you or give you a quote unless you fill out a finance application, it's a good sign that they're not a good company, or else the person you are talking to is not a well-rounded ELP. Some large finance companies are in the "numbers game", with large call centers where these call agents' goal is simply to get you to fill out an application, since they are not trained beyond that. Some Large Equipment Finance Corporations have a high turnover rate, so you're dealing with inexperienced ELPs with under a year of experience.

Another caution is to be wary of online reviews on Yelp and other supposed consumer forums. Some finance companies spend thousands of dollars a month on "online reputation management", hiding bad reviews from Google and posting fake glowing reviews. As always, it's "buyer beware". The more educated you are, the better assessment you can make on the person and the company that you are considering doing business with.

We recommend checking the Better Business Bureau (BBB) and only going with a company with an A+ rating. Be very cautious of a company does not have any BBB rating, or not the highest rating.

After you select your Equipment Finance company you will send in the credit application.

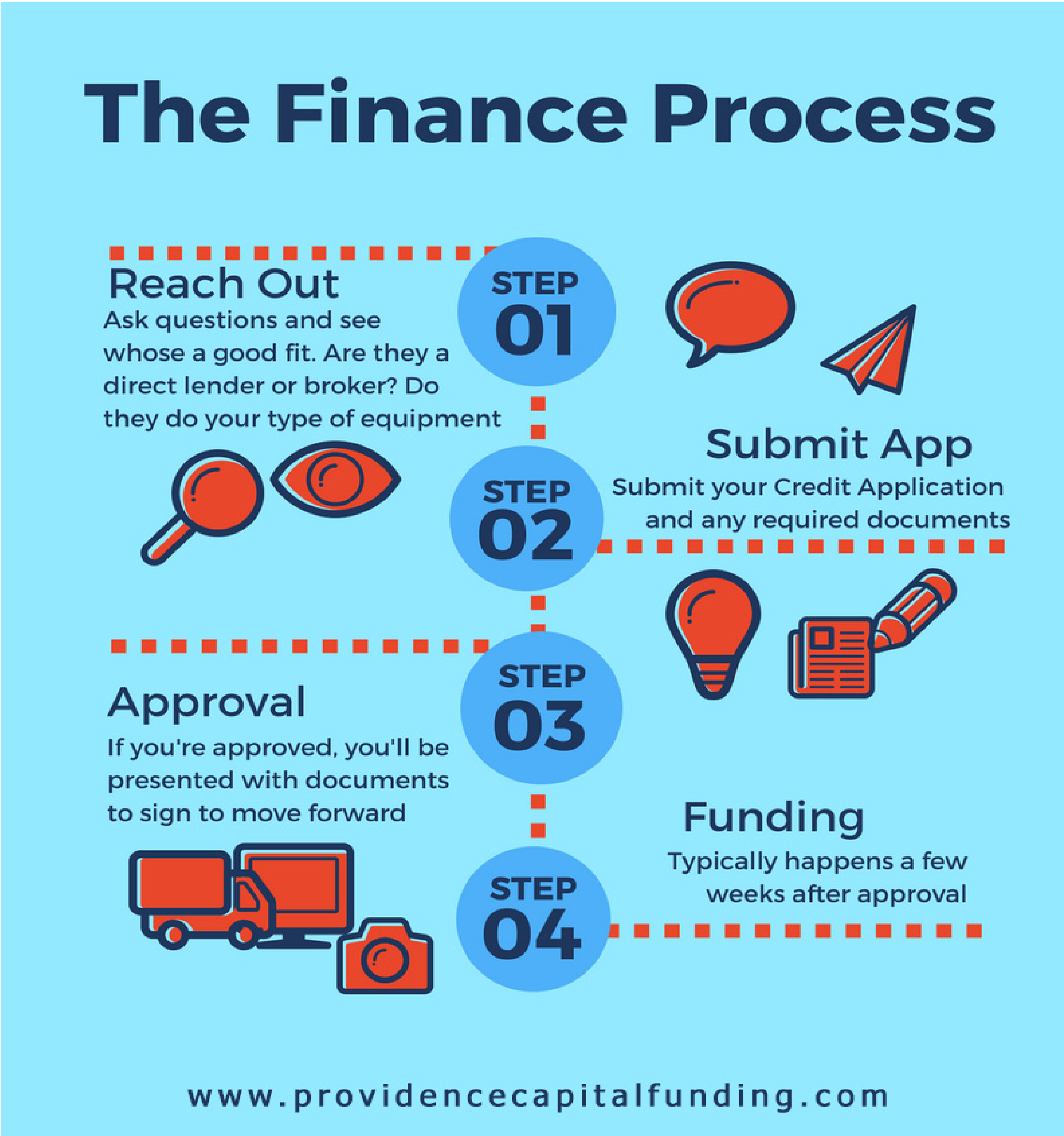
Sometimes you may need bank statements and tax returns, however this typically is only the case for transactions above $100,000.

After you submit the application, it can take between one to four business days to hear back on your approval or denial.

If you’re approved, there will be additional documentation to sign in order want to move forward.

Typically, the finance leasing company will work with your equipment dealer to release payment and ensure inspections and titling is done correctly. Once everything is lined up, you will provide proof of insurance coverage. At this point, the deal should fund within a week.

TIP: You can request the Leasing Company prefund the deal so you can get delivery of the equipment immediately instead of waiting the two weeks from start to funding.



The Finance Process: We created this graphic to better illustrate the process.
[See more infographics here]

4. Different Types of Equipment Financing

Learn the benefits of each type of financing

There's two different choices of structure when financing your equipment-- *Equipment Financing and Equipment Leasing*. There are benefits to each Here a quick introduction to each type:

Equipment Financing – Also known as a Capital Lease, or $1.00 buyout lease. These are structured like equipment leases, but at the end of the term you own the equipment for $1. The payments aren't tax deductible, however you are able to list your equipment as an asset and depreciate it.

This is a widely used structure because of a IRS tax incentive called Section 179. Section 179 allows you to deduct the cost of the equipment on your taxes. Learn more about Section 179 on our site.

Equipment Lease – Monthly payments are significantly lower with equipment leases than with equipment financing. However, at the end of your lease term, the buyout number to purchase the equipment is larger. Lease payments are deductible on the company tax return, providing a large tax savings.

Types of Buyouts at End of Lease

At the end of many equipment leases, there are several options for buy outs.

Fair Market Value
Interest Rate: Varies
Type of Lease: Operating Lease
Tax Treatment: Monthly rental payments are deducted as operating expenses
Accounting Treatment: Doesn't appear on your balance sheet

A Fair Market Value lease is the best option for when you plan on returning and upgrading, the biggest positive to this lease is a lower monthly payment.

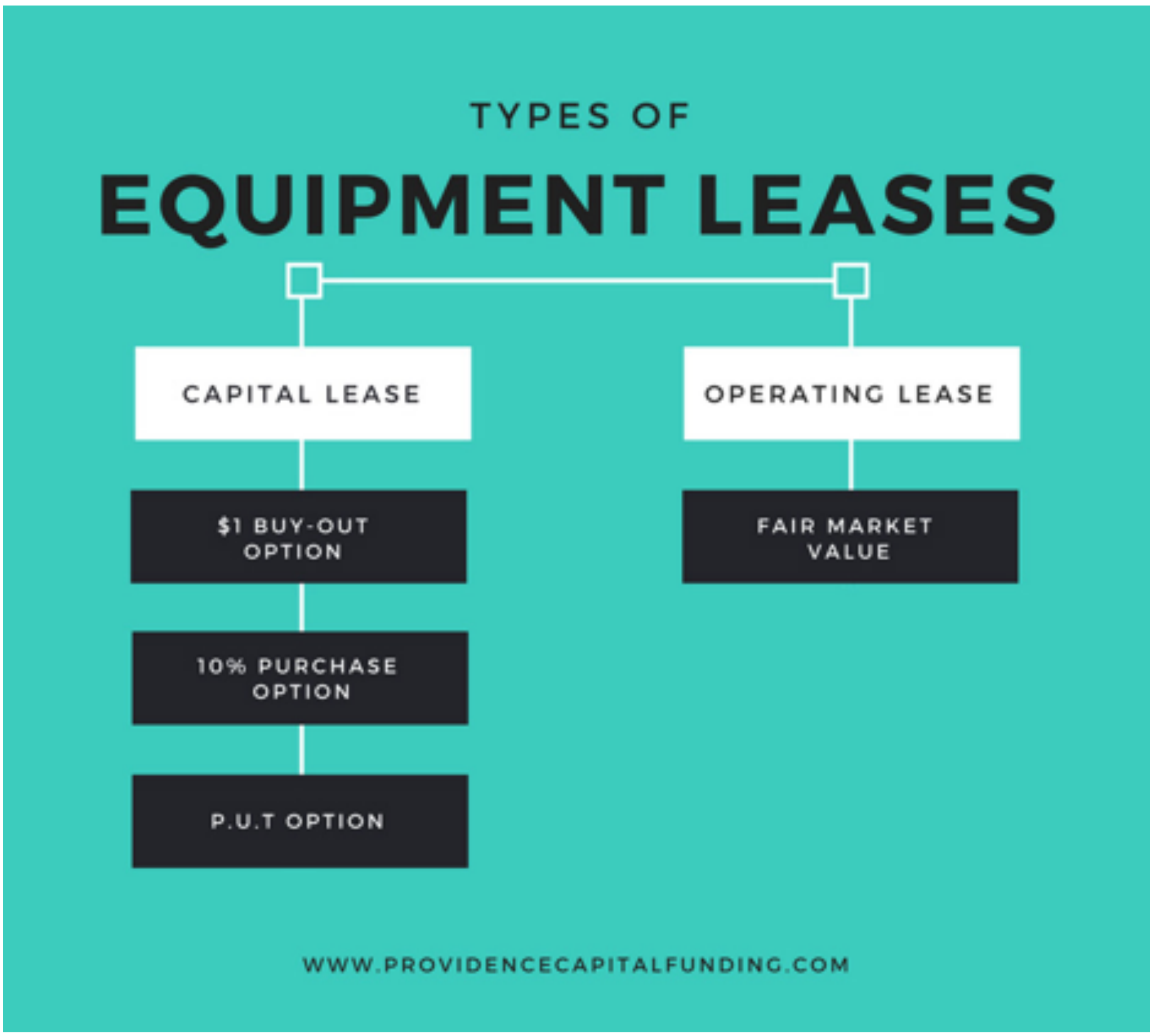
10% Option lease
Interest rate: 6-15%
Type of Lease: Capital Lease
Tax treatment: Up to $500k of the equipment can be deducted under IRS Section 179
Accounting Treatment: Equipment & lease appear on balance sheet

The 10% Option helps lower the monthly payment by having a larger end-of-lease buyout. This is a popular lease with small business owners looking to take advantage of Section 179 as a capital lease.

1$ Buyout
Interest Rate: 4-13%
Type of Lease: Capital
Tax treatment: Up to $500k of cost of equipment can be deducted under Section 179
Accounting Treatment: Equipment and lease appear on balance sheet

Capital Leases versus Operating Leases
The most popular capital lease is where the buyer owns the equipment at the end of the lease terms for $1. Capital leases are business equipment that represent ownership and are considered assets on the balance sheet.

Operating Leases are sometimes called service leases; they are typically used for short-term leasing. The monthly payment can be deducted as part of operating expenses.



5. Advantages of Equipment Financing

Tax Deductions, Book Keeping, and other benefits

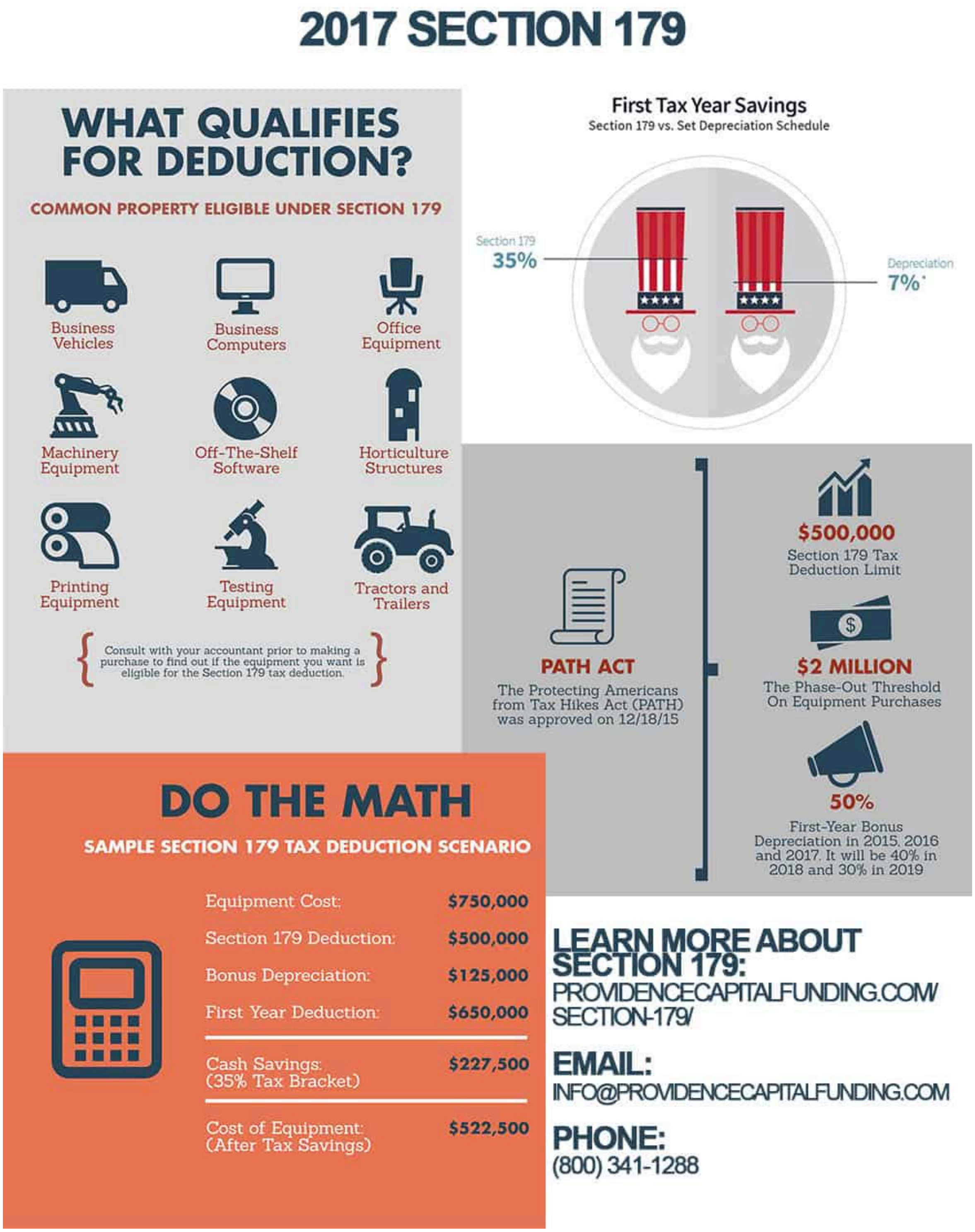
Each business is unique, so we can't speak on your exact company's situation. However, we can give you an overview of common tax scenarios. If a leasing company representative gives you *specific answers to your tax questions* – we would recommend being cautious because only your tax professional is qualified to advise you.

When you choose to lease there are many advantages that become available. You'll receive incentives for financing your equipment. Some equipment dealers will tell you to pay cash for the equipment, because it makes their transaction easier, but we consider that ill-advised. Paying for equipment in cash means that you're using after-tax dollars. The average tax rate is 33% to the IRS, which means that you would be paying 33% MORE for a piece of equipment when using cash, because you don't get to deduct or write off any amount.

When you use IRS Section 179 to purchase equipment, you're allowed to write off the entire purchase amount immediately. That means you essentially get money back/discount on the equipment by financing it.

Building Business Credit

Heaving healthy business credit is essential to any businesses. Using Equipment Financing can be a great way to help build your business credit profile. We highly recommend looking into building your company's Dun and Bradstreet. While some companies may need guarantors when in the first years of business, establishing proper business credit profiles will eliminate the need for guarantors in later years.



[Section 179 Infographic:]() We created this infographic to better display the benefits of Section 179.

6. Common Obstacles with Equipment Financing

Frequently Asked Questions

One of the biggest complaints that we hear are about the rates. Many customers try to negotiate the rate and believe that shopping around can produce a dramatically lower rate. It's very common in the industry to find finance companies that misrepresent the interest rate to an inexperienced buyer and quote the lowest possible rate in order to get business. Then they do a 'bait and switch' and stick you with a dramatically higher payment. I if the sales person is not qualifying you or asking you important questions and instead they are simply telling you want you want to hear, then be wary.

As described above in in 'Common Variables', the risk assigned to your business is based on the overall profile of the business. That's why finance companies base their lease rate based on risk and certain parameters. Charging the same lease rate to each company would be bad business sense, the best companies would be quoted too high of a finance rate while the highest risk companies would not be charged appropriately for their risk of default. That is why equipment finance companies offer a diversity of financing programs.

Many finance companies are so eager to earn your business that they sugar coat everything and don't have a method for communicating the different risk factors that come into play (blemished credit, short time in business, etc.). We recommend finding a finance company that isn't afraid to be straight forward with you. As mentioned in 'Credit History', finding a well-rounded ELP is much more important than anything else.

The monthly payment of your finance or lease amount is important, and we do hear from potential customers that that the proposed monthly payment is too high. However, in discussion with the business owner we also hear that them can't afford NOT to take on the equipment. We encourage every business owner to take the time to calculate the true cost and benefits of adding equipment. Seeing how much additional income can be brought in is an essential step of seeing what you can afford.

> ***"Many finance companies are so eager to earn your business that they sugarcoat everything..***

In Conclusion

You've finished!

Hopefully this guide has be informative. Remember, there is a wide variety of Equipment Finance companies, and larger does not necessarily mean better or more reputable. A Company that specializes in the Trucking Industry wouldn't be the best choice for securing financing for IT software. Understanding your credit worthiness does not end at your FICO/Experian credit score; it is the beginning of a conversation. We train our Finance Leasing Professionals to fully understand your business needs, growth, attributes and strengths.

Learn more about Providence

Providence Capital Funding, with an A+ business rating and 13 years in the equipment leasing business. Based in Sunny Southern California, we've funded over a billion dollars of equipment and have the industry know how to ensure a speedy transaction. Unlike other large corporations, we look at each deal individually instead of using a computer-based scoring and approval system. Our Leasing Professionals have an average of 4 years of experience and a smooth finance process. In 2016, we acquired All Media Capital to help lead our media and software division. We prides ourselves on our transparency and the ability of our Leasing Professionals to get you the right approvals and structured programs that fit your business needs.

If you have any questions or would like to speak with an Equipment Finance Representative, feel free to contact us at ***(800) 341-1288*** or email us at marketing@providencecapitalfunding.com

Visit our blog for more informative articles.

Finished our Guide and

Ready for new Equipment?

Providence Capital Funding was established in 2004 and has since funded over 1.5 Billion dollars in Equipment. Experience the Providence Advantage, like 20,000 other small to medium sized businesses have.

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