

# A New Life in Leasing

Get in the know about equipment financing and start supplementing your income

By **Ken Goodman**, managing partner, Goodman & Associates

**W**Henever an industry suffers a downturn, there is a tendency for many of its practitioners to jump ship and drift away.

True professionals, however, look for ways to ride out the storm and emerge even stronger. An excellent way to do this is to find supplemental-income opportunities.

Branching out will allow your business to grow in the present and the long term. Furthermore, given your familiarity with the nature of financial sales and the fact that you have a database of clients and prospects, expanding your financial product offerings is a smart choice.

One income opportunity lies in the area of equipment leasing and financing. There are several ways to get a slice of the multibillion-dollar leasing pie, but it is important to get professional education before you start. As with anything else, you have to know what you're doing to compete effectively.

## Why leasing?

Leasing has become the method of choice for many companies, especially smaller ones, to acquire new technology — or to upgrade their present inventories of trucks, warehouse equipment, office equipment, furniture and the like. In fact, 80 percent of U.S. companies lease all or some of their equipment, according to the Equipment Leasing and Finance Association.

Ownership of rapidly depreciating assets, such as equipment, means little for business-owners. It makes more sense for them to lease, rather than own, equipment and put their cash to use in other ways — perhaps into an appreciating asset such as real estate.

These are some other reasons companies lease equipment:

- **Alternative use of funds:** Cash not tied up in depreciating equipment can be used to book a big order, to invest in research and development, to beef up marketing or for a number of other business purposes.

- **“100 percent plus” financing:** Leases can cover items including software, installation, related leasehold improvements and training, not just the equipment itself.

- **Direct tax expensing:** Qualifying lease payments are expensed “as made,” which means a faster write-off. The result is that even more cash is available for other purposes.

- **Variable payments:** Lease payments can be matched to project revenues, seasonal cash-flow variations, budget limitations and other challenges.

- **Financial reporting advantages:** Some leases qualify for off-balance-sheet accounting treatment. This improves financial ratios and protects against lending-covenant violations.

- **No bank restrictions:** Leases usually don't include blanket liens, restrictive covenants, rate-escalator clauses or other restrictions.

## Income opportunities

A high percentage of commercial mortgage brokers' clients are good leasing candidates. Whenever business-owners move to new facilities, for example, they have numerous things to acquire.

Because leasing is less cyclical than real estate-related lending, it tends to provide a steady flow of revenue for brokers. Further, leasing can offer financial-reporting advantages, better terms than bank loans and flexible payment scheduling. It also finances soft costs along with

## On the Web:

Brokers offering leasing programs should consider becoming a member of one of the major leasing associations.

- **Equipment Leasing and Finance Association:** [www.elfaonline.org](http://www.elfaonline.org)

- **National Association of Equipment Lease Brokers:** [www.naelb.org](http://www.naelb.org)

- **United Association of Equipment Leasing:** [www.uael.org](http://www.uael.org)

the base equipment, protects against equipment obsolescence and preserves bank lines.

These potential benefits explain why 27 percent of the money that businesses spent on productive assets in 2006 went to equipment leasing, according to the Equipment Leasing and Finance Association. That's \$229 billion. Lease broker profits also can run 200 percent to 300 percent of like-size mortgage returns.

## How to benefit

There are multiple ways to incorporate leasing into your business strategy. First, you can become a referral source for a leasing company or lease broker. Basically, you find prospects — perhaps your current customers — who need equipment and turn over the leads. The lease people do all the work and you get a fee for deals that close.

Being a referral source requires minimal work or education, but the fees are small — 1 percent or 2 percent of the equipment cost — and you have no control over the process.

You can also become a sales representative for a leasing company or lease broker. The company will teach you the basics, provide sales support and typically pay you a 2-percent to 5-percent commission on closed deals.

Getting to more-serious options, you can become an independent equipment-lease broker. There are usually no licensing requirements, but

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comprehensive training is a must because you're out on your own.

There are several lease-broker training courses available, some with ongoing support built in. Your investment in these courses will range from a few-thousand dollars to much more. But there's no limitation on profits, and fees can run to 10 percent or even 15 percent of equipment cost.

You could also become part of a franchise-like business. These programs usually offer licensed use of the parent company's name, giving your business immediate credibility. For example, a company named The Best Leasing might allow you to use The Best Leasing of Montana.

The parent company usually offers marketing tools, training and back-end support, including credit investigation and syndication of deals with funding sources.

Using an established name cuts administrative costs, but the initial investment is generally between \$15,000 and \$35,000. The contract term commitment usually lasts a year or more.



Be sure to check out potential leasing alliances in advance. Most leasing companies and lease brokers will offer you multiple opportunities. Pick businesses you trust and make sure they are willing to invest time in teaching you the business. **!**