KAPITUS®

YOUR ULTIMATE GUIDE TO

# EQUIPMENT FINANCING

2021

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YOUR ULTIMATE GUIDE TO

EQUIPMENT FINANCING 2021

# EVERY SINGLE BUSINESS NEEDS EQUIPMENT TO RUN.

In fact, acquiring new equipment is one of the top reasons business owners have for securing external financing. Whether you're a service-based business that needs computers and office furniture or company trucks to service customers or a product-based business that needs machinery for a production facility, have appropriate up-to-date equipment is vital for effective business operations.

But, so is having a positive cash flow and initial purchases, upgrades and replacement of equipment can seriously impact your regular cash flow. If you can't afford to, or simply aren't comfortable with the idea of forking over a massive lump sum of cash to cover your equipment needs, there is a plethora of outside financing resources that can be leveraged to get you the equipment you need without sacrificing your bottom line.

78% **of U.S. businesses across all industries rely on financing equipment purchases through loans, leases and lines of credit.**

~ Equipment Leasing and Financing Association (ELFA)

# WHAT IS EQUIPMENT FINANCING?

While you can use traditional forms of financing—such as a standard bank loan or a business line of credit—to purchase new equipment, this guide focuses on financing options that were built specifically for the purchase of hard assets (read: equipment) for your business. Put simply, equipment financing is a loan that you use to purchase business-related equipment.

## Examples of business-related equipment

- You own a bakery or restaurant and you need to upgrade to an oven proofer combo

- You own a plumbing business and you need to purchase a new service truck

- You own a landscaping company and you need to update your fleet of wide area mowers

- You're expanding your laundry business and you need to purchase new washers and dryers

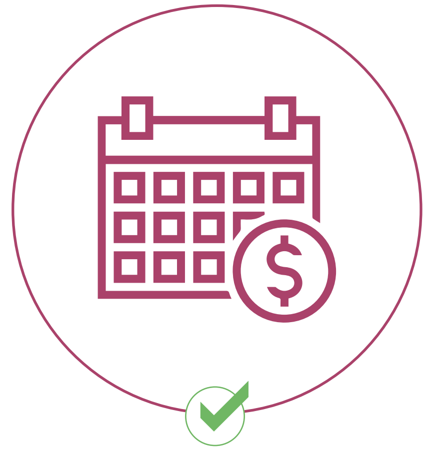
- You own an auto repair shop and you need to add a new 4 post lift

Typically, equipment financing comes with periodic payments—including interest and principal—over a specified term. Though, some equipment lenders do allow for a choice of repayment terms ranging from fixed monthly payments to tiered payments which are tied to the equipment's value, to adjustable payments set to match your seasonality and cash flow.

## Repayment Terms Available at Lender’s Discretion

**Fixed Monthly Payments**

**Tiered Weekly or Monthly Payments**



**Seasonally Adjustable Daily, Weekly or Monthly Payments**

With equipment financing business owners are also provided with the opportunity to finance up to 100% of their equipment purchases. Often times, this can be done with no down payment. Similar to a car loan and purchase, equipment financing is self-secured loan where the asset you are purchasing—in this case, equipment—serves as collateral for the loan. As such, many lenders will require a lien be placed on the equipment you are purchasing. Once you have paid your loan in full, however, you own the equipment free of any incumbrances.

It is important to note, though, that in some situations, a lien may be imposed upon other business assets you hold, in addition to the one placed on the purchased equipment. Some lenders may also require you to provide a personal guarantee. Both the liens and the personal guarantee serve as collateral against your debt and failure to replay your debt could result in repossession of your business assets or seizure of your personal assets so that the lender is able to recoup their losses.

# HOW MUCH CAN I BORROW THROUGH EQUIPMENT FINANCING?

Borrowing amounts are dependent upon a number of variables, with the specific variables and their weight being determined by each lender's specific risk appetite, underwriting guidelines and loan programs:

- The type of equipment you are purchasing
- If the equipment is new or used
- Your annual business revenue
- The amount of time you have been in business
- Your personal and business credit scores

# **PROS & CONS** OF EQUIPMENT FINANCING

**Pros**

- Because equipment financing is self-col lateralized, qualification parameters can be eased
- Variable payment schedules are often available
- Financing options up to 100% of the cost of equipment are available
- Repayment terms can extend throughout the expected lifetime of the equipment
- Relatively simple application and qualification process with quick access to funds
- There are a number of ways that equipment financing can be beneficial come tax time
- Making on-time payments can help improve your business credit score

**Cons**

- Because of interest, financing your equipment will make it more expensive than an upfront purchase
- By the time the loan has been fully repaid, your equipment could be obsolete and you'll need to purchase updated versions
- When compared to equipment leasing, you are responsible for covering all maintenance and repair costs
- Depreciation will likely reduce your tax deductions, meaning you can not deduct full cost each year
- May require a blanket lean across many business assets or a personal guarantee

# WHAT IS THE DIFFERENCE BETWEEN EQUIPMENT FINANCING & EQUIPMENT LEASING?

While both equipment financing and equipment leasing can provide you with immediate access to business equipment, they do have some very distinct differences. The primary of these differences is the ownership of the equipment being acquired.

### EQUIPMENT FINANCING

You are the owner of the equipment.



### EQUIPMENT LEASING

You do not own the equipment outright. Instead, you are renting equipment through a leasing company for an agreed upon amount of time. At the end of your lease term, your lender can provide you with one of four options:

1. Renew your lease and continue renting the equipment under a new lease agreement
2. Buy out your lease and purchase the equipment and have the title released to you
3. Trade in the existing piece for a newer or updated model under a new lease agreement
4. Return the equipment

In general, the qualifications for leasing are more lax than what you will find with equipment financing; and no additional collateral is required to secure a lease.

# **WHEN SHOULD I USE** EQUIPMENT FINANCING?

While there are many common reasons opt for equipment financing—the most obvious of which is that you need new equipment —you will find that the "right answer" to this question is unique for every situation. As you are considering the best route to take to acquire new equipment, ask yourself these 5 questions:

1 **Are you in a position to apply for a traditional business loan to cover the purchase?**

Think about when you will need to purchase your new equipment. If you don't have an urgent need, giving you time to manage the stringent paperwork requirements and review/approval processes that come along with traditional loans, then equipment financing may not be your best (or most affordable) option.

On the other hand, you also need to ensure that you are able to meet credit and revenue requirements put forth by the lending institution. If you can not meet these requirements, then traditional financing is likely not an option as traditional lenders deem businesses with poor or bad credit too much of a risk.

If you are not in the position to take out a traditional loan from a bank, than equipment financing is an option you should consider.

2 **Do you have funds available for a down payment on the equipment purchase?**

While some lenders will fund up to 100% of an equipment's cost, this will typically only be the case for borrower's that have an excellent credit history or those who are able to afford a higher interest rate. If you do not meet those two criteria, you should anticipate that an approval will be based on whether or not you have a down payment equal to 20% of the equipment's purchase price.

If you do not have a stellar credit history, but you do have up to 20% of the cost of the equipment on-hand, then equipment financing is a good option for you.

### 3 Are you trying to preserve existing working capital?

You may have cash on-hand to write out a check to cover the cost of your equipment; but are you hesitant to move forward because you are nervous about how much of a dent this will make in your available working capital?

If you do not want to pay the entire cost of the equipment upfront, and you do not qualify for a traditional bank loan, then equipment financing should be on your list of options to look into.

### 4 Will your piece of equipment last beyond the life of the loan?

Some equipment can last years without requiring upgrades, repairs or becoming obsolete, while others have newer models coming out regularly. With equipment financing, as the owner of the piece of equipment, you are responsible for all repairs and upgrades.

If you are looking to buy a piece of equipment that will require you to upgrade relatively quickly so that you can remain operational and competitive, then equipment financing might not be the best option for you. Instead, you should consider equipment leasing, which allows you to trade in older models for the newest model of a piece of equipment at the end of the lease term.

### 5 Are you in a situation where you don't have the cash flow to cover any of the purchase of the equipment?

If you are in a bind where a needed piece of equipment is irreparable or you are no longer able to do business with the outdated pieces of equipment that you currently have...and you have $0 in cash flow available to purchase this equipment, then equipment financing is a great option for you—albeit, expensive.

Many online equipment financing companies will consider covering 100% of financing, however you need to be prepared for much higher interest rates—even if your credit is good. If you can hold off in purchasing, you should until you have managed to accumulate that 20% deposit.

# WHAT IS REQUIRED TO GET EQUIPMENT FINANCING?

Different lenders require different documentation and have different approval requirements. So, when shopping around it is important to take note of what each lender needs for an application package to be considered.

To make sure you are prepared, you should have at least the basics readily available, include proof of business ownership, revenue statements and a good knowledge of where both your personal and business credit stands. If you want to be extra-prepared, pull together this list of documentation that is often required by Equipment Financing Lenders. Even if you do not end up needing it to complete an application, it is in your business' best interest to have all of this information readily available anyway.

**Documentation Often Requested by Equipment Financing Lenders**

- Completed Application
- Business License and/or Employer Identification Number (EIN) and/or Statement of Incorporation
- Recent Tax Returns
- Personal and/or Business Credit Reports
- Profit & Loss (P&L) Statements
- Business Plan

# HOW LONG DOES IT TAKE TO GET EQUIPMENT FINANCING?

Just like different lenders require different documentation, they also have different times to funding. Many online lenders can get you an approval within 24 hours and have the equipment financed within a week.

On the other end, with traditional banks it can take up to 90 days to complete the application, and go through the underwriting and funding processes.

# WHAT ARE THE GENERAL TERMS & CONDITIONS OF EQUIPMENT FINANCING?

Terms and conditions also vary among lenders. Many lenders will set exact terms between three to seven years, while others will based their terms on the expected lifetime of the equipment. However, it is safe to assume that most lenders will set a repayment term to a maximum of 10 years.

The amount of time that you can extend a loan is based on the equipment you are financing and its anticipated lifetime.

"[My account manager] is awesome! Just when I thought I couldn't get approved for some bad decisions I made 20 years ago, he came through and got me funding. Funding was quick and funds available within 24 hours. Because of [him] I will continue to grow my business, and if I need funding again, I will without a doubt go through him. Thank you [to him] and all the staff at [Kapitus]."

Brendan M.
Owner, Trucking Company

# **WHAT IS THE COST** OF EQUIPMENT FINANCING?

Like with most other types of financing, your equipment financing rates will be determined by the health of your business, your credit score, the hard asset being purchased and the amount being financed.

Rates are typically fixed, and will generally range anywhere from 8% to 30%, with the highest rates usually being seen with borrowers with low credit scores and or 100% financing amounts. Because rates can be so high, it is important to choose a lender and option that works best for your current situation and needs.

# **HOW DO I DECIDE** WHICH EQUIPMENT FINANCING LENDER IS RIGHT FOR ME?

Obviously, the type of lender that is right for you is going to be based on your current equipment need and your current and historical financial information. Let's compare three type lender types:

**ONLINE LENDER:**

| | |
|---|---|
| **Loan to Value Ratio** | Up to 100% |
| **Fixed Interest Rates** | 7.00% - 30% |
| **Repayment Terms** | Several months up to 10 years or more |
| **Funding Speed** | As little as 2 business days |
| **Requirements** | May have minimum credit score, annual revenue and time in operation requirements |

## CAPITAL ONE EQUIPMENT FINANCING:

| | |
|---|---|
| **Loan to Value Ratio** | Up to 100% |
| **Fixed Interest Rate** | 5.9% - 18.65% |
| **Repayment Terms** | Up to 5 Years |
| **Funding Speed** | 2-4 weeks |
| **Requirements** | Minimum credit score, and time in operation requirements. Must have a Capital One Business Checking Account |

## SBA CDC/504 LOAN PROGRAM:

| | |
|---|---|
| **Loan to Value Ratio** | Up to 90% |
| **Fixed Interest Rates** | 4.39% - 6.67% |
| **Repayment Terms** | 10 – 25 years |
| **Funding Speed** | 90 days |
| **Requirements** | Minimum credit score, and time in operation requirements. Must have invested equity in your business and exhausted all other financing options |

As you can see, funding speed and requirements vary significantly. Once you have determined which lender type best fits your needs and situation, you need to do your due diligence to determine which lender within that group will approve you for the best deal. There are hundreds of online lenders, so it is important to ensure you are working with a reputable player—check out Trustpilot or the BBB bureau to read reviews to help you to begin to narrow your search. For bank loans, it is often best to use a bank in which you already have a working relationship, since bank loans are often limited by geographies (where they are located) and the fact that being an existing customer is often a requirement.

# THE BOTTOM LINE

Most businesses can qualify for equipment financing. Likewise, most equipment, within almost every industry, can be purchased with equipment financing—from construction machinery, to medical and restaurant equipment, to trucks and trailers, to furniture, computers and office equipment to warehouse machinery.

What you will qualify for, the interest rate you will pay, and how long you have to pay back the financing all depends on the equipment you're looking to purchase, your credit score and the health of your business. There are equipment financing options for those with less than perfect credit and those who need their equipment NOW. But as seen in this guide, equipment financing can take on many forms and what is right for one business, may not be right for another. It is imperative that at the beginning of your search process you take an overall assessment of your existing business health and needs. Then, armed with this information, you will be able to do a careful review of all loan terms, conditions and lenders to select the best option for your business.

## About Kapitus

*Founded in 2006 and headquartered in NYC, Kapitus is one of the most reliable and respected names in small business financing. As both a direct lender and a marketplace built with a trusted network of lending partners, Kapitus is able to provide small businesses the financing they need, when and how it is needed. With one application business owners can save time and money, while eliminating the stress that comes with applying to different lenders. At Kapitus, we believe that business owners should be able to focus on running their business, while we take care of the financing. To learn more, visit www.kapitus.com.*

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