BY DAVID R. EVANSON & ART BEROFF

money

Lease Is More

Equipment leasing companies are flush with cash—and they want your business.

When Bill and Peggy Kensi took over Royal Laundry of Texas Inc. in 1996, the company was breaking even with sales of approximately $500,000. With some focused marketing efforts, the potential the couple had seen in the business quickly materialized from such customers as Electronic Data Systems Corp., American Airlines and a large, local hospital group.

To answer the growing demand, the Kensis needed new equipment—and lots of it. Unfortunately, the cost of the dry-cleaning machines, automated folders and high-speed irons they required totaled about $500,000.

The Kensis tried to get a loan from several local banks but were rejected and referred to the SBA. Unfortunately, the SBA's timeline for loan approval was too lengthy for the Kensis, who needed their new equipment quickly. "Even though the business was almost 10 years old when we sought the loans, in the eyes of the bankers, it was technically a start-up because we had recently purchased it," Bill says. "None of them was willing to finance a company that [in their eyes] was less than 2 years old."

And even if they could find a bank willing to finance a start-up, the Kensis' personal guarantee, which would be required, wasn't worth much. "We had put everything we had into buying the business," says Bill. "We were cash-poor."

Enter Jim Lahti, president of Affiliated Corporate Services Inc., a Lewisville, Texas, equipment leasing company. Lahti took an interest in what the Kensis were trying to accomplish, and over the next two years, he structured approximately seven leases that got Royal Laundry of Texas the equipment it needed.

In addition to running Affiliated Corporate Services, Lahti is also president of the United Association of Equipment Leasing. Some of the greatest benefits of leasing, says Lahti, include rapid approval times, no down payments, more favorable tax treatment than with asset purchases, the ability to finance hard costs and soft costs such as training and installation, and, finally, flexible lease terms.

PHOTO© GUS GUSTOVIC

Help! *When banks turned down Peggy and Bill Kensi's request for a $500,000 equipment loan, an equipment leasing company came to their rescue.*

The differences between an equipment leasing company and a bank run deep. "When a bank makes a loan, you can pretty much do what you want with the money," Lahti says. "And if you buy equipment with the loan, you own it, depreciate it and pay back the bank. But a leasing company buys and owns the equipment and rents it to you. So one of the primary differences is ownership."

Another big difference is orientation. "What makes a leasing company more adventurous than a conventional lender," says Lahti, "is that we don't do business under the same federal regulations as a bank and we don't have the same audit trails as a bank." To underscore this difference, Lahti says his firm will lend up to $100,000 on a so-called "app only" basis. This means the loan underlying the lease can be approved on the basis of information provided on the application, which is generally no more complex than an ordinary credit card application. Lahti says there are leasing companies that will do deals of up to $250,000 on an app-only basis.

Finally, whereas most banks conduct a credit analysis—a detailed assessment of a business's financial position and its ability to repay a loan—leasing companies do not. Says Lahti, "We take the path of least resistance and try to figure out ways to make loans even faster."

WHAT'S THE SCORE?

Lahti says a robust economy and a plentiful supply of debt capital have generally made loans easier to get. But what's really put the supply of loan funds over the top is the use of credit-scoring models.

Credit-scoring represents a paradigm shift in business lending. With traditional credit analysis, businesses are analyzed for their debt-paying ability—a time-consuming and expensive process. In fact, the same credit analysis that's used for a $2 million loan is applied to a $200,000 loan—making the small-business loan application process slow and difficult.

But under the credit-scoring model