



Commercial Fleet Financing, Inc.



25th
Anniversary Edition

10 FAQs FOR FLEET OWNERS

The experts at commercial fleet financing, inc. answer the most commonly asked questions about financing.



www.commercialfleetfinancing.com

REFINANCING

1. WHEN DOES REFINANCING MAKE SENSE?

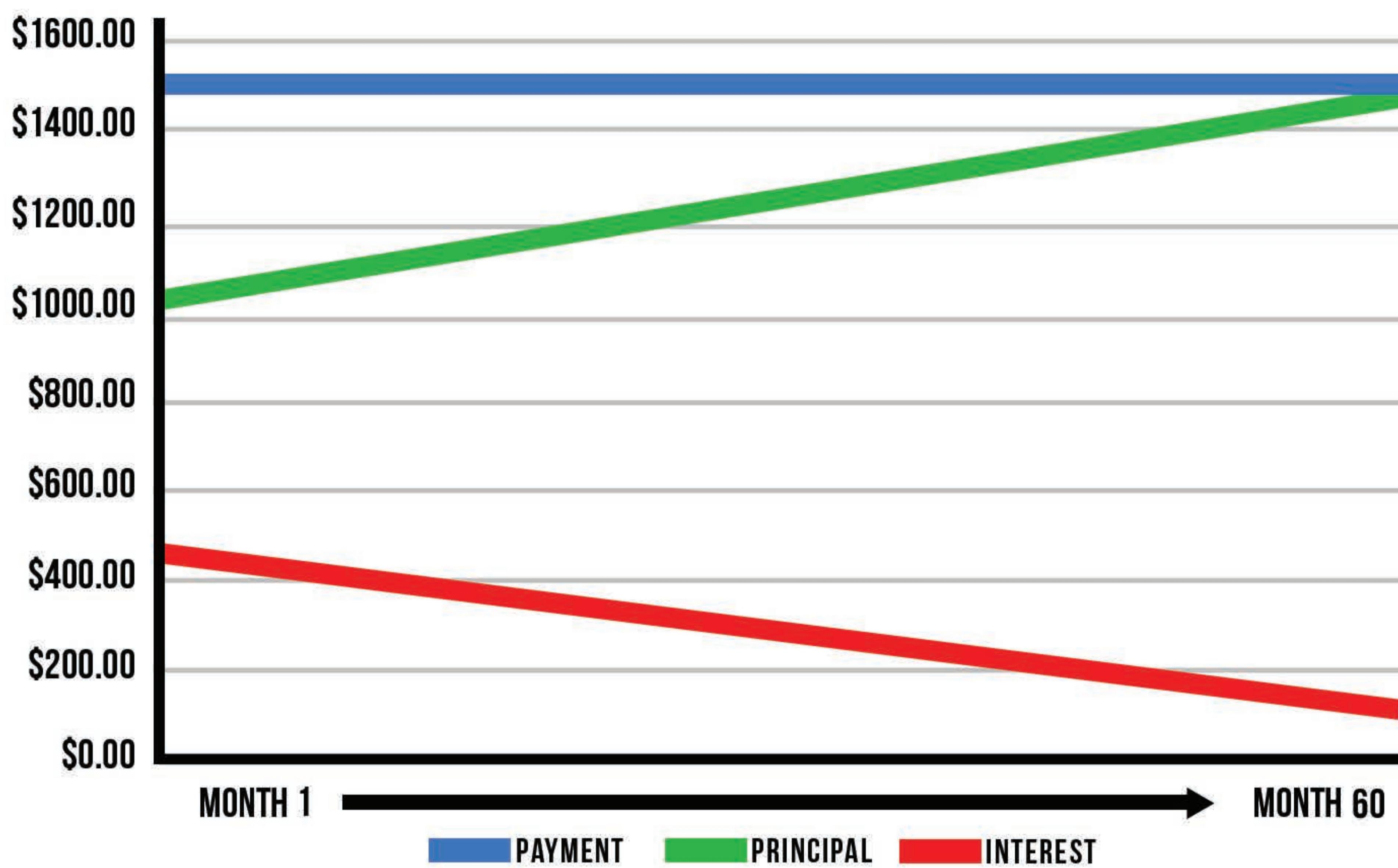
Refinancing trucks or trailers to convert from a lease structure to a loan is a common strategy and is often a valid strategy and sometimes necessary to retain the equipment.

The Commercial Equipment interest rate environment is constantly changing, and companies often look to take advantage of lower rates through refinancing. However, benefiting from a refi is not as simple as lowering your rate from 7.5% to 5%; in many cases a company will pay more dollars in interest after a refi than had they paid the original (higher interest) loan in-full.

Every payment has an interest component and a principal component. The interest payment is based on the Annual Rate/Number of Payments times(x) Principal. At the beginning of the loan, the principal is the largest, so companies pay more interest early in the loan compared to the final years of the loan.



7.5% LOAN



In the example of 5% versus 7.5%, a company would only benefit from a refinance if it was done before the 13th month.

Interest paid on \$75,000 loan, 60 month 7.5% interest = \$15,170.72

Interest paid on \$75,000 loan, 60 month 5% interest = \$9,920.58

Interest cost in first 13 months of 7.5% loan = \$5,577.89

A refinance in the 14th month to a 5% loan will cost
 $\$9,920.58 + \$5,577.89 = \$15,498.47$

Refinancing after 12 months will break even, but it will be another year before the company receives a clear Title on their equipment.

LOAN OR LEASE?

2. WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF PAYING CASH?

A cash purchase will be the lowest cost for equipment because there are no finance costs involved. The downsides to a cash purchase are the impact to cashflow and the opportunity cost. Cash flow is locked up at the time of purchase, rather than spread across the life of a loan or lease. Opportunity cost is the potential return a business could make on other allocations of the cash, had it been financed.

This includes other equipment, business expansion, additional staff, etc. A business can determine whether to purchase with cash or financing by simply comparing the expected return on other allocations to the interest rate of a finance agreement. If a truck will cost 5% to finance, and a business expansion will likely return 15% a year, the business will net 10% growth in revenue by choosing to finance instead of paying cash.



LOAN OR LEASE?

3. WHAT ARE THE ADVANTAGES A LOAN?

Equipment purchased with a loan is an actual asset on your books. It can be sold to potentially recoup a portion of costs.

The cost of the equipment is depreciated on a company's Profit and Loss statement. The interest paid is also tax deductible in many cases. Please consult a tax professional for details as they pertain to your business.

4. WHAT ARE THE ADVANTAGES OF A LEASE?

Equipment acquired on a lease is technically owned by the bank, which presents some advantages to the business. First, payments are usually lower than a loan would be on the same equipment. Second, a business can write off all upfront costs and the all monthly payments for tax purposes. Finally, lease programs are ideal for new, or newer, equipment with terms that generally in-line with the warranty period. Many small and medium businesses prefer to build and maintain their fleets with only new equipment, leased for shorter periods to ensure they are always within warranty. This eliminates or reduces repair costs, and ensures more uptime when running fleets of new trucks.

Leases often offer a lower monthly payment. However, businesses that intend to pay off the contract early or trade-in are often responsible for the sum of remaining payments. If a business wants to take advantage of the lower payments and tax treatment of a lease, it is important to align the term (length of contract) with the time the business intends to keep and use the equipment.

5. WHAT DOES A BUSINESS NEED TO GET STARTED ON A LOAN/LEASE?

Document requirements will vary with lenders, but at CFF customers can get financing up to \$250,000 by simply submitting the following documents:

- **CFF Application**
- **Vehicle Invoice/Bill of Sale**

For transactions over \$250,000- \$999,999 CFF will need the additional information below:

- **Last 3 months' bank statements**
- **Last 2 years' financial statements**
- **Last 2 years' tax returns**

For transactions in excess of \$1,000,000 please work with your Loan Consultant who will outline a custom financial package for the exact loan to meet the needs of your company.

SECTION 179

6. WHAT IS SECTION 179 DEDUCTION?

For small business, equipment purchases are eligible for a Section 179 deduction, up to \$1,040,000 annually in most cases. Please consult a tax professional for details as they pertain to your business.

COMPANY CREDIT PROFILE

7. HOW IS A CREDIT MEASURED FOR A COMPANY?

Commercial Credit loans are made primarily, or entirely, based on the company credit profile. Generally speaking, this means lenders are looking at time in business, commercial credit highs, pay history, revenue, and cash flow.

Similar to traditional credit bureaus (Experian, Transunion), lenders will also look at commercial bureau (PAYDEX, Paynet, D&B) scores for a company.

8. WHAT IS A COMMERCIAL CREDIT HIGH?

This is a common term in Commercial Credit that refers to the largest commercial installment loan/lease on a company credit history. For example, say the company has 3 trade accounts on their bureau, a \$42,000 loan for machinery, \$84,500 loan on a truck, and a credit line for \$100,000. The Commercial High for this company is \$84,500. It is not a combination of both installment loans, but it is also not a credit line because this is a revolving account.

Underwriters look for comparable credit history to understand how a Company has paid similar loans in the past. Loans of similar size and length are often easily approved based on looking at comparable credit history. In fact, because companies are often experiencing growth when making asset purchases, in most cases CFF can get their customers loans for equipment that is larger than their previous Commercial Credit High.

For example: A customer with a \$60,000 loan that has been making monthly payments for the last 18 months, has a Commercial High of \$60,000. If this customer's credit profile has not changed over this period, CFF could potentially get them another loan for \$90,000.

9. DOES MY LOAN NEED A PERSONAL GUARANTEE (PG)?

Once a company develops a strong credit profile, owners are no longer required to personally guarantee loans made to the company. A loan/lease made in only the Company name is referred to as “Corp-Only” or “Corporate Only”. Companies usually transition to Corp-Only transactions at the 5-year mark, but this will vary depending on how actively they are building their credit, the pay history and revenue. A Loan Consultant at CFF can discuss this option and help a business determine if this is the appropriate way to structure their contracts.

COMPANY DRIVER TRANSITION

10. DOES MY DRIVING EXPERIENCE HELP ME QUALIFY FOR A LOAN?

Many business owners started out by going out to the market for themselves, doing the same job they were doing prior for an employer. With as little as 2 years behind the wheel for an employer, a Driver can use their experience to qualify for the equipment loan/lease that gets their own business off the ground.

In addition to verified company driver experience, loan applicants will need to meet credit history requirements for approval.



ABOUT US ?

Founded in 1995, Commercial Fleet Financing, Inc. was launched by the president of the company in a one-bedroom apartment with a folding table and a phone book. Over the past 25 years, CFF has established itself as the leading independently owned transportation equipment finance company in the United States.

With a trademarked slogan like, We Finance America One Truck At A Time®, it's no wonder CFF has funded more than \$1 Billion dollars for over 10,000 clients and delivers annual funding of more than \$150M.

The company's customer-first focus is one key factor in CFF becoming a 4-time winner of the coveted Inc. Magazine's 500/5000 fastest growing companies in America, as well as a 3-time winner of the Dallas 100 Fastest Growing Companies in Texas. In short, Commercial Fleet Financing is America's most trusted commercial equipment finance firm and a market leader in the commercial truck and equipment financing industry.

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