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Sennebogen Capital Training Module

Topics

- Importance of financing
- Finance products
- Lease versus loan programs
- Why lease?
- Quote process
- Underwriting process

Why is Equipment Financing Important?

- A sales approach to de-emphasize price
- Designing a finance plan based on your customer's needs given their operating environment
- Identifying your customer's "packaged" need and selling to it effectively (combination of equipment, finance terms and maintenance)
- A method of differentiating a commoditized product from the competition
- One of the most effective tools a salesman has!

Benefit to Dealer Sales People

- Control the deal
- Create a buy decision
- Present a professional image
- Increased sales
- Increase value to their management
- Ability to align customer needs/demands and build relationship

Importance to Buyers

- Increased capability of acquiring equipment
- Financial terms consistent with needs
- Protect bank lines of credit
- Preserving the capital budget
- 100% financing
- Potential tax benefits
- Convenience of "One Stop"

A Starting Point for Equipment Financing

Ask buyers these 3 questions:

- How long do you plan to keep the equipment before upgrading it?
- What do you have budgeted for a monthly payment?
- What purchase option do you want at the end of the term?

Finance and Lease structures

- Loan
  - Full payout traditional loan
  - Balloon loan with balloon
- Lease
  - $1 buy out (capital lease)
  - FPPO (operating lease)
  - FMV (operating lease)
  - FMV with EBO (operating lease)

Loan

- What is it?
  - Customer pays monthly payments until end of term
  - Customer is the owner of the equipment
- When to quote it…
  - Customer is fairly certain they want to eventually own the equipment
  - There is minimal maintenance expense
    - Title transfer occurs at loan inception

Fixed Price Purchase Option (FPPO)

- What is it:
  - Three end of lease options:
    1. Purchase the equipment for a fixed amount
    2. Return the equipment
    3. Continue leasing the equipment
- When to quote it:
  - When the customer wants a low monthly payment but wants the option to purchase the equipment at the end of the term

Lease Structures – FMV (Fair Market Value)

- What is it?
  - Three end of lease options
    - Return the equipment
    - Purchase the equipment at the end of the lease for FMV
    - Continue leasing the equipment
  - Lessee is NOT considered the owner of the equipment, can purchase for its FMV at maturity
- When to quote it…
  - Quote an FMV Lease when the customer wants…
    - A lower overall monthly payment
    - To write-off full monthly payment
    - More flexibility at lease termination

Example lease vs loan payment

- New 825M with grapple
- Cost = $370,000
- 60 month terms
- Loan payment at 4.1% = $6,830
- Lease payment = $4,750 (based upon 2,000 operating hours per year)
- **30% payment reduction**

Why Companies Lease – 5 Basic Drivers

- Cash Flow
- Accounting Benefits
- Tax Benefits
- Convenience
- Addressing Uncertainty
- Obsolescence

Leasing Advantages

- Lower Payment (due to residual)
- Tax benefit - lessee expenses lease payments
- Accounting benefit - Asset and liability off-balance sheet (helps with bank covenants, bonding)
- Flexibility end of term in uncertain times (return, upgrade)
- Harsh application; triple shift usage – no interest in owning or maintaining at end

Structures to consider

- Blind discount, such as 0% for 24 months on used machine (dealer rate buydown)
- 90 day deferral – book in in Dec, 1st pay in April
- Winter skips (Dec, Jan and Feb)
- Loan with balloon structure
- 'Step up' payments whereby first 24 months are less than last 24 months
- Rental conversion to long term finance option
- Lease with Early Buyout Option (EBO)

Quote Process: What affects your monthly payment?

- Equipment price
- Application – Rough use
- Hour usage
- Interest rate
- Term
- Residual value
- Advance payments

Quote Process: Monthly Rate Sheet and Specials

- Standard Terms
- Terms from 24 to 72 months
- Normal and clean application
- 2,000 hours per year and up
- Rate cards are good for that month only

- ***Please contact your DLL sales representative for non standard terms and lease proposals***

Quote Process: DLL General Terms & Conditions

- Provide complete customer, equipment and application information
  - Email will provide fastest turnaround
- Allow enough time for a response back.
- Credit approvals are good for 30 days
- Rates locked in for 30 days after approval

Retail Credit Application Requirements

- Applications under $250,000
  – Application only
- Applications over $250,000
  – Signed and dated application form including personal information and equipment model/sell price/term
  – Two years CPA prepared financial statements
  – Interim statements for current year & prior year comparable (if > 4 months since FYE)
  – Personal Financial Statements
  – Sennebogen Capital will contact customer if instructed

Underwriting looks for:

- Customer that has been in business long enough and has experience doing what they do
- Comparable borrowing
- History of good pay (personal, company)
- Collateral value
- Structure commensurate with credit and collateral
- Financials and credit reports show:
  - customer will remain in business
  - ability and want to pay debt obligations

Documentation & Funding Process:

- Request documents via the “Doc Request Form” (on-line or by fax)
- Documents are e-mailed to the dealership within 24 hours of request
- Customer signs the documents
- Return all signed documents to Sennebogen Capital
- Sennebogen Capital will file the UCC-1 in a timely manner
- Dealer is funded within 24 hours!