



## **Leasing Information – Guidelines, Advantages, Types**

### **WHAT IS LEASING:**

Leasing is paying for the depreciation of a vehicle (plus a service fee), rather than the original selling price.

### **WHY LEASE:**

To a company a bus is a depreciating asset. In leasing the CAP cost is the original selling price and the RESIDUAL value is what the vehicle should be worth at the end of a specific period of time (i.e. 3 years). With a lease you will pay on the difference between the two.

- a. Under a common FINANCE CONTRACT you purchase a bus today and make payments for three (3) years and the bus is paid off. Then you must ground the bus (take it out of revenue producing service), repair any damages, clean the unit, advertise it and wait for it to be sold in order to get any money out of it. In some cases the used bus will sit and the user will have to purchase a new bus to use. The money you get out of the bus is not real profits, you have already paid that money in every month over the term of the finance contract – you are simply getting your own money back. Remember that this is without interest, you paid the bank interest on this money, but when you sell the used bus you only get the value of the bus.
- b. Some who used the common finance contract or cash method will hang on to their bus for an extended period of time. They may do this because they cannot afford to pay out the cash for a new bus or their credit lines might be tied up with other items. Using the lease approach, the monthly operating expenses are easily controlled and you can keep the very best product for your customers by simply rotating the units at the end of each lease. This can also dramatically reduce maintenance expenses and downtime. As all vehicles age, the maintenance expenses rise dramatically. If you do not rotate out into new units with warranties, the hit to the bottom line can be substantial.
- c. When you lease you do not tie up available cash or credit lines. You can use the cash or credit line for other investments that will make you money or improve their service. Investing money into service will return more happy customers and increase revenues. Newer buses and/or buses with more options will increase service levels – leasing that bus will increase service levels while intelligently managing available financial resources.
- d. If the unit is used for business, the entire lease payment may be tax deductible (as compared to complicated depreciation schedules) and in many instances can qualify for off-balance sheet accounting. Each customer should review this with his or her tax advisor and/or accountant.

## **TYPES OF LEASES**

There are two (2) basic types of leases, the TRAC lease (open-end lease) and the Closed end lease. **Under normal circumstances neither lease requires a down payment. Depending on credit, the first payment and the last payment are required up front. Again, you are not investing cash in a depreciating item.**

- a. **TRAC Lease:** The TRAC lease allows you to be involved in the valuation of the vehicle. When the bus is disposed of at the end of the lease, if the bus sells for more than the preset residual value you get that difference. Conversely, if the bus sells for less than the residual value, you must pay the difference (or roll it into a new lease). You have the limited liability of only the difference, not the full market value. A TRAC lease normally has lower monthly payments than the Closed End lease.
- b. **Closed End Lease:** This lease looks more like a rental contract. You simply make your payments every month, show the expense on your P&L's and at the end, return the vehicle to the lessor with no further liability (except for any damages beyond normal wear and tear). You are not responsible for any difference in lease residual values or true market value. You are protected from any fluctuations in the market place. This lease normally has a slightly higher payment than a TRAC lease.

Through leasing you can improve your fleet and financial management. The lease keeps rotating new, customer appealing products into your fleet, increasing customer satisfaction and reducing maintenance and downtime costs. It also eliminates the dramatic market fluctuations on used vehicles and keeps the entry costs in the new products extremely low reducing financial strains on the company.