

Lender Life



» LEASE FINANCING

Equipment financing 101

Community banks that provide lease financing can help commercial customers score a better deal—and keep those customers from being stolen away by competitors.

By William Atkinson

When it comes to expensive equipment, most commercial outfits prefer leasing to making an outright purchase, even if it's financed by a loan. They understand that they make more money by using equipment than they do by owning it. "Leasing allows customers to maintain liquidity and access the latest technology," says Ben Buehler, vice president of vendor relations for ICBA. "Having access to state-of-the-art technology helps businesses capitalize on opportunities and grow."

Commercial customers that approach community banks for

loans usually want them for working capital, refinancing business debt, purchasing real estate, expanding their businesses or funding new business acquisitions. But could community banks be doing more to attract this business? "Often, businesses overlook equipment financing and leasing options available to them through their community bank," Buehler notes.

"Community banks have done a fantastic job of financing real estate," says Mark Buchanan, president and CEO of BancLeasing in Plano, Texas. "If you're talking to customers who are doing anything in the real estate realm, they will reach out to their bank."

Buchanan agrees with Buehler, however, saying that customers often don't think to go to their bank for equipment financing. "For example, if a physician opens his own practice," he says, "he will go to his bank to finance the building but will go to an equipment vendor or other third party to finance the equipment in that building."

For their equipment financing needs, a majority of commercial customers will lease directly from the equipment manufacturers. "Manufacturers, suppliers and vendors are in business to sell their products, so the majority of them do an excellent job of offering point-of-sale financing, whether direct sale or lease, to try

to make it as convenient as possible for their customers,” Buchanan says. “As a result, customers think, ‘I don’t have to go elsewhere to get financing. I can do it right here.’ However, in many cases, manufacturer and vendor financing programs aren’t always the best deal for the customers.”

Larger vendors and suppliers often offer leases through money center banks. In this case, apart from the potential lost income, the danger for community banks is that equipment leasing becomes an entry point for competitors to poach commercial customers.

As long as the market is there, developing an in-house leasing program can have a number of benefits for community banks. It can prevent existing commercial customers from going elsewhere for their equipment financing needs, such as money center banks, and mitigates the risk of those customers switching to the other bank entirely.

It’s also more convenient for commercial customers, who will be able to deal with one financial institution for all their financial needs. Community banks earn interest and fee income from equipment-leasing loans, and it’s also a point of difference that will make them stand out from competing banks in their communities.

So, it could make a lot of sense for community banks to offer equipment-leasing options to commercial customers—and to make sure those customers know about it. As Buchanan says, “The message from community banks to their customers should be, ‘Don’t let your vendor be your lender!’”

Turn leases into loans

For community banks that don’t want to create their own leasing programs, or don’t feel they have the resources, there is another option. BancLeasing, an ICBA Preferred Service Provider, offers a program that allows community banks to offer equipment financing to their customers, either

as a lease option or a loan option, enabling the customer to decide what makes the most sense for their business. (Either way, the financing is booked as a loan.)

“We enable the bank to capture

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—MARK BUCHANAN, BANCLEASING

business that they are not currently getting,” says Buchanan.

Pinnacle Bank, an \$850 million-asset community bank in Elberton, Ga., became part of the BancLeasing program two years ago when it tired of third-party vendors capturing

business that bank staff felt they should have retained. Since then, says senior vice president John Grissom, “We have found opportunities that we would have not entertained due to technical issues as to the collateral, as well as opportunities driven by the borrower’s or lessee’s need to try to expense more of the payment.”

Washington Trust Bank, headquartered in Spokane, Wash., with assets of \$6 billion, is a 10-year BancLeasing program participant. Jay Lewis, commercial group manager for the bank, says having a business partner like BancLeasing allows Washington Trust Bank to provide seamless lease financing and gives the bank “another arrow in its quiver” in meeting the financial needs of its customers and deepening its relationship with them. [ENR](#)

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