CANADIAN DOMINION LEASING CORP.

Equipment Leasing versus Traditional Loans & Cash Purchases

ISSUE	LEASING	TRADITIONAL LOAN	CASH PURCHASE
RATE STRUCTURE	Lease payments are fixed for the term of the lease	Banks and other lending institutions prefer to lend on a floating or variable basis. This puts the rate risk on you	No impact on you other than the opportunity cost to reinvest funds in your business
SOFT COSTS	Leases can incorporate 100% of the transaction soft costs (Shipping, Taxes, Training, etc.)	Banks and other lending institutions typically will not finance soft costs. So you must use your cash flow to cover these costs at the time of purchase	More out of your cash flow
DOWN PAYMENT	Leases are typically structured with first and last payment	To minimize their risk, banks and other lending institutions often require you to put a 10% to 25% down payment on equipment financing transactions	Not Applicable
COMPENSATING BALANCES	Not required	Most banks and other lending institutions require minimum balances in order for you to get their best rate. By having your cash flow “tied-up” with little to no return, compensating balances can actually inflate the cost/rate associated to your equipment loan	Not Applicable
RESTRICTIVE COVENANTS	Not Required. Leases are underwritten based on the value of the asset being financed	Bank and other lending institution loans are often secured by numerous restrictive covenants. These may include the lender’s ability to demand early repayment, general security over all of your assets, maintenance of certain financial ratios, and restrictions on future debt	Not Applicable
REVOLVING STRUCTURE	A lease is fixed for the term of the lease	Banks and other lending institutions may classify a loan as revolving. This gives them the ability to extend or cancel the loan on an annual basis. This classification may require you to remit your financial statements to the bank or lending institution each year for their review and approval. From an accounting perspective, this classification may require you to report the loan as a current liability, thereby putting pressure on certain financial ratios	Not Applicable
SECURITY FILING	Only equipment on lease is registered under the Personal Property Security Act	Banks and other lending institutions register a security interest in <u>all</u> of your company’s assets; including inventory and receivables that are owned and acquired in the future. This blanket security can negatively impact your company’s ability to borrow money in the future	Not Required. However, purchased assets become secured assets in favour of the bank or lending institution if a General Security Agreement (GSA) is already in place
APPLICATION PROCESS	Leasing credit of up to $30,000 can often be extended with a simple one page application	The process with banks and other lending institutions can often be lengthy and intimidating. The process generally requires a full review of your company’s financial statements	Not Applicable
TAX IMPLICATIONS	Depending on the lease structure you select, leases may be up to 100% deductable as an operating expense	A loan makes you the “owner” of the equipment purchased. This limits the tax advantage of financing to depreciation of the equipment and the interest expense	Tax advantages are limited to depreciation of the equipment over its useable life