Intro to CFO Chats

I have written 8 “CFO Chats” which are slices of life in the asset finance business sales business where a leasing sales person or financial advisor calls on a CFO. The first six CFO Chats are available in my online training program (see the Training Tab on this website) and they are sales calls. This chat #7 and #8 are where a lease advisor is talking to a CFO about things to watch for in negotiating a lease with a leasing company.

CFO Chats: Number 7

CFO: You have convinced me that I should lease all assets that are leasable because of the proven financial presentation benefits. Now I need advice as to what to watch out for in the terms and conditions of a lease.

Me, the lease advisor: Yes, you have to be careful as some lessors are not relationship minded so they may offer terms that are not favorable to lessees and they are not counting on doing ***any*** more business with you.

CFO: OK, so explain.

Me, the lease advisor: There are a few issues, but the first is a structure that the industry calls a “first amendment” lease. I don’t know where it gets its name. It is a lease that allows the lessee to early terminate the lease buy exercising an option to buy the asset for its fair market value and terminate the lease. If the lessee does not exercise the buyout the lease continues with an option to return or buy the asset at expiry for its fair market value.

CFO: That sound good to me.

Me, the lease advisor: The devil is in the details. The lessee often does not realize that the “fair market value” in the option to purchase is defined by the lessor. As a result it will be high, allowing for the lessor enjoy above market returns. The lease continues to its expiry and gives the lessor a full return of its capital plus a handsome return. There may also be “fine-print” terms (you may not realize the implications of them) like a restocking fee ***YOU PAY*** when you return the asset (paying for the lessor to accept the asset back????) and onerous return conditions that could end up with you paying more that you would in a “normal lease”.

CFO: Ouch! Is that it?

Me, the lease advisor: Well there may be an interim rent provision, but I don’t have time to explain it today.

CFO: What’s your advice?

Me, the lease advisor: Shop around but only to relationship minded lessors, typically bank owned lessors – maybe your bank offers leases. Always have fair market value option prices set based on third party appraisals (the average of two is good – one from each of your appraiser and the lessor’s appraiser – get a lawyer to help review the document and advise), do not accept restocking fees and only accept reasonable return conditions. Good luck, see you next week.

CFO: Thanks.

About the Author:

Bill Bosco is the President of Leasing 101, a lease consulting company. Bill has over 45 years' experience in the leasing industry. His areas of expertise are accounting, tax, and financial analysis, structuring, pricing and training. He was on the EFLA accounting committee from 1988 to 2017 and was chairman for 10 years. He is a frequent author and speaker on leasing topics. He was selected to the FASB/IASB Lease Project working group. He can be reached at wbleasing101@aol.com. http://leasing-101.net