FEATURES

KEEP YOUR FLEET "FRESH" BY LEASING

By John M. Greene

In this troubled economy, keeping the best available vehicles on the road can be a challenge. When the Lincoln Town Car is replaced by a MKZ or a Cadillac DTS, will you retain that competitive advantage by having have your clients step into a brand new vehicle (or reasonably new) vehicle every two years?

The opportunity exists with leasing, which affords the opportunity to obtain a new vehicle every couple of years. Plus, there are other advantages, such as omitting the hassle of dealing with titles and registrations, and there could possibly be tax breaks and benefits centered on the down payment and the overall terms of the lease, depending on your company's tax structure. With leasing, your monthly payments can be used on your taxes, so you have a clear-cut picture each tax year of what your deduction will be. Whereas with financing, everything is tied into the depreciation at the end of the term.

According to one leasing company executive, "If your accountant says it's in the best interest of your company to lease vehicles, and you're planning to turn over your assets every two to three years, then a lease is most likely what you will need."

Like most things in this world there are pros and cons to every situation. If there's a "con" to leasing it's that leasing is a fancy word for "renting." You don't own the vehicle and you are never building equity in your purchase. But the"pro" is you are only paying for the portion you use. Another "con" is that if you are not careful and don't "do the due" (as in due diligence), you are going to get socked at the end of the lease for mileage and excessive wear and tear. Think of every mile you go over your limit, or every time you pick up a "ding," as a withdrawal from your bank account. So be sure to set a proper residual so it is a "win-win" for you and the leasing company at the end of the term.

Due diligence is important. Start by maintaining good relationships with car dealers. Look the vehicles over carefully. Are the miles on the odometer hard miles or soft miles? Was it driven by a little old lady on Sundays or a frustrated NASCAR driver every weekend? Be sure to visit limousine trade shows, where you'll often see what's new all in one spot.

Once you see the vehicle(s) you want, find a leasing company you feel comfortable with and negotiate a good interest rate. Be aware of all back end charges and what the residual will be at the end of the lease, should you choose to buy the car. I recommend a 24-month lease with unlimited mileage, with a set residual somewhere in the $5,000-$7,000 range.

Mileage is a key and a killer. If you limit the mileage you can put on a lease in exchange for a lower monthly payment you could pay dearly. Your company's success is based on putting mileage on your vehicles; it means you are creating revenue. It would not be a good idea to have to turn some of that success into an extra lump sum payment to the leasing company at the end of the term. Work out the payment so you get unlimited mileage. But don't take on a payment you can't handle. If you get in over your head it can be very costly to break the lease early.

"The penalties can be steep and the early termination of a lease will require you to pay the remaining payments as a penalty," explains Don Coolbaugh, VP of Sales for Advantage Funding, Inc. "If you simply return the vehicle, it is likely the leasing company will report a voluntary surrender to the credit bureau. If you need to get out of the lease early, it's a good practice to contact the leasing company and see if you can negotiate a settlement. Most good clients with good pay histories will not have a problem, especially if they are reacquiring another piece of equipment called a payoff and replace."

Also important is length of the lease. As I mentioned previously, I like to keep it capped at 24 months, particularly for sedans. However with stretch limos and vans I will go 36 months, and up to 48 months for mini-coaches, because they are used less often. There's also an advantage to working out the timing of the lease so you take possession of the vehicle a few days into a month, so that when a payment is due on the first of the following month, you've already had the vehicle out on the road. And speaking of payments, if a leasing company asks for 1st and last month's payment, a security deposit, credit check fee, high excessive mileage rates, processing fees, move on to the next candidate. It's a car, not a house.

But in some ways we are getting a little ahead of ourselves. All the "due" will do no good if you can't get over the credit check hump. And in today's lethargic economy, this has probably never been truer. Money is tight, bankers are all on stress medication, and it has become increasingly more important that your credit be worthy, especially if you are a new company or just getting off the ground.

When dealing with a leasing company, show that your company has a good payment history. Your past is your future. The more stable your company is the better you will look to the leasing company. According to the Small Business Administration, most small businesses fall by the wayside within the first five years of business. So the longer you have been in business, the more solid your company appears.

Equally important is the company's credit score. Explains one leasing agent, "To me, the most important asset of any company is its principal(s), and that person's most important asset is his credit."

If your credit is spotty, leasing companies will still work with you. They are aware that many people have taken hits over the past four years. But your interest rate will probably be higher. So keep an eye on your credit report for any errant information. Once you have established a relationship with a company, and along the way building up good will and good credit, you'll be able to work exclusively with them and there will be less emphasis on credit checks as you lease additional vehicles.

By following all these steps, you'll find the leasing process to be much easier moving forward and ultimately you'll be able to keep new and relatively new vehicles out on the road. Because in our industry, if you're not out on the road you're out of the business.

John M. Greene is the president of ETS International, Randolph, Mass. A 20-year veteran of the limousine business, John has leased well over 1,000 vehicles. He can be reached at jgreene@etsintl.net and 888.366.3388.