

Business Insights

NAVIGATING BUSINESS GROWTH:

A Guide to Financing Essential Equipment

HOW TO MAKE BIG PURCHASES WITHOUT BREAKING THE BANK

A job well done often starts with having the right tools, but for many businesses, the equipment they need comes with a high price tag. Companies need to consider how to balance the expense of equipment with other financial commitments. Unless you only need to rent gear for short-term use, purchasing the equipment through a finance lease is often the best strategy. Financing allows companies to get the items they need right away and make manageable payments over time. Before making a long-term commitment, however, it's important to understand the financing process and choose the best arrangement for your needs.



MORE ABOUT FINANCE LEASES

Also known as a “capital lease,” a finance lease is essentially the same thing as a traditional equipment loan. The borrowing company makes monthly payments on the equipment for a set period, usually with the intent of keeping the equipment at the end of the term.

Finance leases are the most common form of equipment financing because they allow for a variety of payment scenarios to meet the borrower's needs. For example, you may choose to make a substantial down payment to lower the monthly payments. Or, you may prefer to finance 100% of the purchase price, paying nothing upfront but possibly owing a large balloon payment at the end of the term.

THE ADVANTAGES OF PAYING OVER TIME

While business owners should always think carefully about taking on debt, there are several important reasons financing makes sense when acquiring expensive equipment:

→ **Scale up quickly:** Whether it's manufacturing machinery, a bank of servers, medical imaging gear or a fleet of vehicles, major equipment purchases can easily

top six or seven figures. Your company might not have the resources to make such major purchases in cash, so financing allows you to buy what you need to grow the business without huge up-front costs.

→ **Preserve working capital:** Even if your company can buy equipment outright, it may not be the best strategy. It's more important to keep those funds available as working capital, ensuring the business will be able to handle recurring obligations like rent and payroll.

→ **Capture tax advantages:** Paying over time might also help your company reduce its tax obligations by deducting interest or depreciation expense on the equipment. The IRS rules are ever evolving, so it's best to consult a CPA before moving forward.



FIVE TIPS FOR FINANCING SUCCESS

No matter what type of equipment you're financing, knowing a few things in advance can make the process go smoother and produce a better outcome, like additional cost savings and greater financial stability. Here are a few tips to help you and your company make prudent decisions as you acquire new equipment.



Plan ahead. Don't wait to research financing options until your business urgently needs new equipment. Rushed decisions can lead to regrettable outcomes over time. It's best to work with your team to create a roadmap of equipment needs and plan purchases so they work in harmony with your company's complete financial forecast.



Don't fret over rates. Interest rates have risen dramatically since 2022, as the Federal Reserve has worked to stem rising inflation. As a result, some organizations may balk at the higher costs of borrowing money. Viewed through a wider lens, however, rates are still well within historical norms. For most companies, financing major equipment will still be a better move than making major equipment purchases in cash.



Be prepared with the right documentation.

As the underwriting process begins, the bank will request a variety of information from your business. This could include details about the equipment itself, as well as your company's financial statements and tax returns. To expedite the process and get your equipment faster, ask about the documentation requirements in advance and have it ready to present when the time comes.



Read the fine print. Make sure you read and understand the terms of the financing agreement. Some lenders may offer a lower interest rate or enticing monthly payments, while failing to mention high fees or excessive penalties if certain conditions aren't met. It's always a good idea to go over the details together with a qualified advisor.



Lean on a trusted partner. The nuances of equipment financing can get complex, and missteps can be costly, making expert advice even more valuable. Along with your internal team, the lender you choose does matter, as not all banks offer equal expertise in business banking and equipment financing. An experienced banker that knows and understands your business can tailor financing solutions to provide the best long-term value.

Ready to pull the trigger on your next equipment purchase?

Frost has a dedicated business equipment financing team that shares your ambition to succeed and can help you assess your needs and structure the ideal payment plan. Reach out today to start the conversation.

WE'RE HERE TO HELP

Scan the QR code or visit: FrostBank.com/BusinessFinancing to learn more.

