

Leasing, Closed-End As the Better

In last month's "Why Fleets Lease and the Difference Between Open- and Closed-End Leasing," Terry Flesia viewed the surface of traditional open-end leasing and, most specifically, retail leasing. What the article did not do, was discuss at length closed-end leasing as it pertains to national corporate leasing programs.

Corporate closed-end leasing, as performed by a national company, is available to all businesses – however big or small – and there are a number of advantages to choosing a national closed-end lease. A national closed-end lease allows for total or partial fleet management by the lessor; offers competitive monthly payments and a wide variety of services; and places the risk of vehicle depreciation into the hands of the lessor, entitling the lessee to "walk away" at the end of the lease risk-free.

Closed-end leases are risk tolerant – In today's volatile used vehicle market, many companies do not want the "exposure" of being responsible for the undepreciated value of their vehicles at lease end. If they guessed wrong on the rate of depreciation or any one of a myriad of occurrences, they can be \$5,000.00 or more upside down on what they have depreciated the vehicle to and what the actual market value is. With a closed-end lease, the risk of depreciation is the lessor's, who is, in most cases, better able to manage that aspect.

Closed-end leases offer fleet management – If your company specializes in manufacturing widgets, it unlikely that you specialize in managing fleets as well. In the case of companies with less than 100 units, the responsibility of fleet management is often assigned to one person who has many other job responsibilities. In this situation, the organization needs a lease company that offers "one stop" shopping with no surprises. To be specific, this lessee likely wants to contract with a leasing company for a specific type of vehicle for a specific term including all ancillary services, maintenance, insurance, license and title. At the end of the lease term, they want to be able to turn the unit in and be done with it.

Closed-end leasing has tax and balance sheet advantages – A closed-end lease is an operating lease, for the most part, and accordingly has all the benefits of off-balance-sheet financing. With open-end, it is up to the lessee's accounting department to determine if they "qualify" for the benefits of an operating lease and quite often they do not.

Closed-end leasing has mileage options – Mileage terms to meet or exceed the customers expected use can be offered, and in some agreements "unlimited" mileage terms for a fleet that has heavy usage. If a customer decides that they would like to take an "included mileage" term, that can also be arranged. What happens if they go over that

mileage? To use Merchants Leasing as an example, our excess mileage term can be as low as \$.06 per mile.

Closed-end leasing terms – Many make reference to being locked into a term. That is often not the case at all. A "flex" term can be offered based on time or mileage, whichever comes first. For example, a company can contract for a term of 36 months or 65,000 miles. This will maximize the first life of the vehicle and preclude any mileage penalties.

Closed-end damage charges – The answer here is simple. Charging a lessee after the life of the lease for minor damages is no way to treat a future customer. The reality is, once that lease is up, the lessee may need another vehicle and charging hand over fist for normal wear and tear of a vehicle is no way to secure return business.

Closed-end factory and out-of-stock deliveries – A lessor with national capabilities can order and deliver through a network of drop ship dealers anywhere in the United States. A lessor can also make deliveries from dealer stock in an emergency, but unlike some of open-end companies, without charging a premium.

Closed-end leasing and bank acquisition and termination fees – These conditions and terms are from dealer/consumer leases and have no application with a national closed-end company.

Closed-end individual lease agreements & multiple leasing sources – With a national lease com-

pany, lessees can enter into a "Master Lease Agreement," one that is good for perpetuity or until they stop ordering vehicles against it. There is no need to contract with different lessors for different vehicle types or the garaging of vehicles.

To conclude, all of the points covered above are the advantages of closed-end corporate leasing. As stated early on, the difference between the retail-leasing world and the national corporate leasing world are vast. The right lease fit for one organization is likely not the same for another; it's precisely why leasing should be flexible.

If risk tolerance, budget restrictions, lack of dedicated staff, and/or ancillary service requirements are important to your business, take the time to investigate a closed-end lease. Ask yourself questions like "What do I need from my leasing company?" "Do I have the time to manage my fleet or do I want the lessor to manage the details?" "Will I expect the lessor to handle all of the secondary aspects?" "What kind of budget constraints do I have?" Be objective, research your leasing options. Closed-end leasing may be your answer. In fact, for thousands of companies, it is.

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