

Zero Collateral Equipment Leasing Guide for Nigerian SMEs

By

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What's inside?

This is our complete guide to getting the business funding you have always wanted.

In this guide we will show you top nine reasons why Equipment Leasing Companies are better than the bank.

- SIMPLICITY - We keep things simple. The bank doesn't.
- UPFRONT COST - Our upfront cost is definitely lower.
- COLLATERAL - We have less restrictive collateral requirements
- FINANCIAL STATEMENT COVENANTS - Your ongoing finances are your business, not ours.
- PERSERVING CREDIT AVAILABILITY - If you want to use the bank later, you can.
- HIDDEN CHARGES - Simply put, we don't have them.
- ACCOUNTING AND TAX - Easier for accountants so they love us.
- RATE ADJUSTMENT - Fixed rates are better, and we have them.
- RE-QUALIFY EVERY YEAR - You won't have to re-qualify for the same loan year after year.

If you need an equipment lease or an equipment loan, an equipment leasing company makes superb sense. The reasons are so strong in our favor; it's amazing that most bank do not provide any equipment leasing and lending at all.

People often ask us "why is this so... why can equipment leasing companies beat the banks so easily?" I think they expect a long, complicated answer, but truthfully, the answer is simple: leasing equipment is our ONLY business. That's it – that's all we do. We write equipment leases and the like.

The bank, on the other hand, has their hands in everything. So they are far more restrictive across the board. We can't say blame them too. But their restrictions just make our "easy" way of doing business look better, as outlined our nine reasons below.



Reason #1 why an equipment leasing company is better than a bank - Its SIMPLICITY?

The fact of the matter is this - the simplicity of working with an equipment leasing company trumps the painfully thick paperwork file the bank will want you to sort through.

If you were to agree with your colleagues, say you want to go to the bank and ask them for a loan. First, you have to wait while the credit offer does her checks. Now we sit with the loan officer.... And he/she has us fill out a loan application (2 to 3 pages). Then he wants our financial statements. This means going to the accountant, who is always incredibly busy and lets us know this intrusion is really not appreciated. Oh, let's not forget to list all of your collateral. At the bank proof is worth what you say it's worth (otherwise, you may need an independent assessment). And HOW much is the minimum balance you plan to keep in the bank? How long have you been banking with them?

Ok, you get it all together, and wait a week or two hoping they'll get back to you.

The above is fairly typical process most small businesses go through. And it is a lot less fun than it sounds (and it doesn't sound all that much fun, either).

Now let's assume they went to M.I.S.S to get the same loan.

You go to an online form from the comfort of your office. You fill it out – took maybe five minutes. You get details on the requirements to send which include checklist for your application letter, your guarantors, and a valid means of identification

That's it? Really?

Yes, really, that's it. An equipment leasing company is so much easier to work with, it almost baffles the mind. We don't like too much paperwork, and we don't like you waiting around. Sure, we have our checks which we are sure you would be ok with.

That's just one reason an equipment leasing company is better than a bank.

There are eight more to come.



Reason #2 an equipment leasing company is better than the bank – the Upfront Costs are lower.

So there you are, contemplating leasing a new (or even used) piece of equipment. You're leasing this equipment because like many businesses, you'd rather keep your cash liquid. Which makes sense – everyone likes more cash on hand.

You walk in to your neighborhood bank branch, and sit down with the loan officer. After exchanging pleasantries you get down to business. You need a piece of equipment that will cost N2,000,000 and you want to work out a deal. The bank officer looks things over, and finally says "we will give you N1,200,000". But... but the equipment is N2m. "Indeed" says the bank officer "but we only finance 60% of it. You have to come up with the rest."

You stand firm... "But wait a second. The only reason we want to finance this is to keep cash liquid – you're telling me that we have to take out a loan, but STILL need to put a lot of cash into the deal? I thought we had a better relationship than that?"

"No, we don't" says the bank officer*

And thus ends the trip to the bank. You didn't even get to ask the loan officer about leasing the soft costs, like tax, logistics, and installation.

Now let's see what happens when you talk to an equipment leasing company:

You: "We would like to finance a N2,000,000 piece of equipment. We want the entire cost to be financed, plus the tax, logistics, and installation."

Equipment Leasing Company: "Ok."

Now some leasing companies collect lower upfront payments. As low as 10% of asset cost for individuals and as low as 20% for businesses.

And yes, that's really it. Reason #2 the equipment leasing company is better than the bank is a lower upfront cost to you, because we'll finance 100% of your equipment, including the "soft costs" like delivery, installation, etc.



Reason #3 an equipment leasing company is better than the bank - We have less restrictive collateral requirements.

Ok, let us be honest – the bank probably doesn't want your spouse. But, the bank WILL look into cross collateral for your loan. And if you are a small business, that might mean your personal accounts.

That's right – if you secure an equipment leasing loan or an equipment lease through the bank, they will very likely put in a clause that seizes all of your assets you have submitted as collateral and your other assets if you fail to make your payment obligation. This can include personal assets so your house, your car, and your special purpose funds can be technically tied up with your equipment loan. Do note that some banks do provide a no-collateral asset lease but it is on the condition of operating a current account with them.

This is called cross collateral, and it's quite common with the bank. When you take out a loan, all of your personal business and assets can be tied up in the terminology. And since it's bank terms and jargons, you may not really be aware of this. But yes, they get tied up, preventing you from borrowing, selling, or otherwise using these assets without the bank's specific permission

Contrasting this, an equipment leasing company (like M.I.S.S) will file one leasing statement on the specific asset we are leasing. If other funds or vehicle isn't on there, you are free to do what you wish. In other words, we don't care about your other assets, and will leave you alone till you are ready to make your payments. We do not tie down your assets. Your transaction turnover is our target.



Reason #4 why an equipment leasing company is better than a bank - Financial Statement Covenants

Ok, some say don't understand this because they don't really know what it means... no problem, let us clear it up. Basically, what it boils down to is this: the bank is going to be VERY interested in your businesses financial health – both now AND later. They will constantly look at things like your maximum debt to equity ratio, whether you have a loss in consecutive quarters, etc. And if any of these conditions are met, they will have the right to call in the loan.

Why is the bank interested in that? Aren't ups and downs part of doing business? What happens if you have a bad few quarters... sometimes, that happens in business. Let's assume you're a manufacturer of local textile fabrics, and your biggest customers are in Senegal – you sell million naira worth of clothes to small boutiques and tourism companies. Then this big oil company forgets to turn off a switch, and BOOM, an oil rig on the Atlantic coast explodes affecting your storage container meant to supply businesses in West Africa for the next 3 to 6 months. So one after another, your customers call you and cancel new fabric orders - seems like this could be a down year for your business

So, in a roundabout way, YOUR business is affected – it's going to be a down year for you, too. Yes, you'll survive, but that you will post three or four losses in a row can't be helped.

Oh wait... that's going to be a problem, because you took out a bank loan last year, and they have a covenant saying "no consecutive losses, or else".

The point is, the bank is all nosy about your business, both when they give you the loan and later. And us equipment leasing companies. We care enough to help you get to the point where you can generate some revenue and reposition your business.



Reason #5 why an equipment leasing company is better than a bank – Preserving Credit Availability

Basically, what we mean by this is the fact that while we think an equipment leasing company is MUCH better than the bank for leasing equipment, the bank does have their uses. Lines of credit help many companies meet payroll while waiting on receivables, a bank can help finance a new building / property, etc. So we say, use the bank for that stuff, and leave the equipment leases to companies like M.I.S.S.

This is because the bank is only going to give a company so much credit. There will be a time when they say “ok, you’ve had enough”. And that time is usually when you need them the most. Here’s an example:

Let’s say you go and finance equipment through the bank, and also have a building mortgage payments with them. And everyone is happy... But then you get a HUGE new customer that means taking on an additional 20 people. And while this new customer means big things for you, you won’t see profit for six months – those 20 new people are still going to need to be paid. So you go to the bank and ask for another line of credit, and they look at you like you have three heads. Seems like they feel they’ve loaned you enough money. After all, you have a mortgage and an equipment loan with them.

The above wouldn’t happen if you used an equipment leasing company to finance equipment – in that scenario, you would only have the mortgage with the bank, and they would be happy to give you the line of credit so your new workers don’t revolt. And the new customer is happy and orders more, meaning you even hire more workers (because now you have your profit and can afford it).

The common sense from this story is to finance equipment with an equipment leasing company, and leave the bank there for emergencies.



Reason #6 why an equipment leasing company is better than a bank – No Hidden Charges

To put this simply, the bank will typically have several hidden charges, where as an equipment leasing company will have none.

Here's what you can expect with the bank in terms of hidden charges and fees:

- Annual renewal fees (A fee to keep the loan active?)
- Maintenance fees (Was a teller even involved?)
- Compensating balances (we went over this in reason 4)
- Other banking jargon (you know it's there in print).

In fact, expanding on that last statement, the printout agreement is a great place to hide these fees. Because nobody ever reads the fine print. Everybody knows this. So if the company wanted to slip something bad in, the fine print/agreements makes for a fine place.

Now, on the other hand, here are the hidden fees you can expect with an equipment leasing company:
NONE.

Equipment leasing companies do not deal with hidden fees at all. What you see is what you get - it's all there in black and white.

Ok, we will admit we also have agreements sometimes on our documents and it basic stuff because there's nothing hidden there, and there is nothing in there don't want you to see.

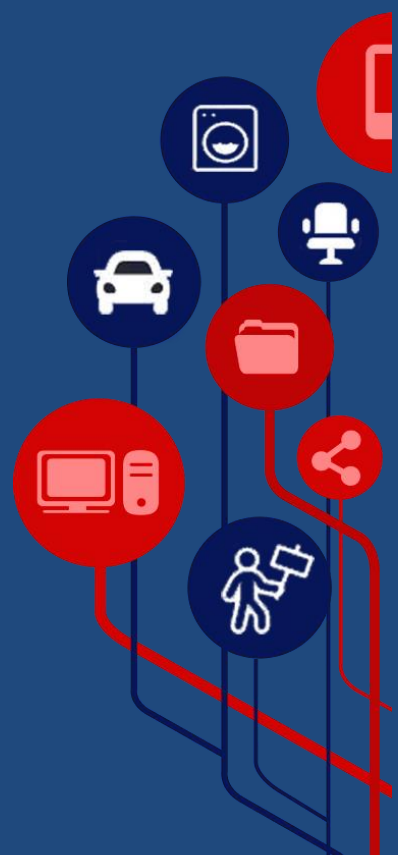
In the end, we simply feel it's better business to be up front about all costs, instead of trying to bury things like "renewal fees" or "maintenance charges" in places you won't see. Yeah, we'll make less money by not charging you these "plant watering costs", but we'll sleep better at night.



Reason #7 why an equipment leasing company is better than a bank: Easy Accounting and Tax Benefits

Most accountants, don't like it when cash gets drained. They also don't like it when we finance stuff on revolving terms (like banks want). And they dislike re-qualifying for a loan every year (as banks want). Most of all, they hate it when the entire loan balance was reported as a current liability (like a revolving bank loan needs to be) as opposed to a long-term debt on the balance sheet.

Your business accountant would surely love working with an equipment leasing company. We have fixed terms, no re-qualifying, and most important, only the current portion of the long term debt shows as a current liability on the balance sheet. Do yourself a favor. Make your accountant happy by using an equipment leasing company.



Reason #8 why an equipment leasing company is better than a bank – RATE ADJUSTMENT

And reason nine is a pretty simple one – an equipment leasing company offers fixed term rates while a bank would prefer an adjustable rate.

To illustrate this, let's assume M.I.S.S as an equipment leasing company loans you N50,000. You agree to repay us N5,000 a month for 12 months. This means you will repay us N60,000 - N50,000 principal, N10,000 interest . But the bank says: 'I'll loan you the N50,000, and you pay me back N7,500 a month (15%), plus a little more based on the economy... maybe it'll be as low as N7,500, but it could be as high as N7,500, N10,000... who knows?"

So who do you want to borrow money from? M.I.S.S or the bank next door? With us as an equipment leasing company, you know exactly how much you will be paying for the life of the loan. No surprises, no "sorry interest rates went up... sorry". Your accountant can plan and budget. Any businessperson will tell you - it's better knowing than not knowing. And with an equipment leasing company, you just "know" what you are going to pay, and that's a good thing



Reason #9 why an equipment leasing company is better than a bank – NO RE-QUALIFYING EVERY YEAR

So let's waste no time and end the suspense: reason 9 is the simple fact that an equipment leasing or equipment leasing company will not ask you to re-qualify for the loan every year. And the bank will.

See, with the bank, you have an anniversary date - a date which they aren't going to forget. And on this anniversary, you will not be presented with a gift, a fancy dinner, wine, or any creative hanky-panky. No, instead of a nice celebration, you will be asked how things are going, and then asked to provide the bank with any or all of the following: personal financial statements, insurance certificates, accounts receivable stuff, inventory schedules, and other various certificates and financial documentation. Be sure to read their agreements - it's in there.

On the other hand, an equipment leasing company will go ahead and write your equipment lease, and then leave it at that. Like husbands all over the world, we'll forget the anniversary. But in this case, it's a good thing. As long as you make your scheduled payments, we're going to leave you alone. No flowers, no wine, no... you know.

However, this does not mean we'll forget about you altogether. We'll be right here when you need us again, ready to finance equipment, write an equipment lease, or anything else you need. But your original loan with us? No worries - that's said and done, and we won't bother you about it again in the least.

And now that we are finished with our reasons, you can now shop for equipment leasing companies like M.I.S.S to get easy access to the funding you need today.



OTHER POINTS TO NOTE

1. **TIMELY MANAGEMENT: LOAN APPLICATIONS WITH BANKS TAKE LONGER DURATION TO PROCESS WHILE WITH A LEASING SERVICE PROVIDER , IT TAKES ABOUT 2-3 DAYS**
2. **PRORITY FOR SMALLER TRANSACTIONS: MOST BANKS LOVE TO HAVE LARGE TRANSACTIONS WITH INDIVIDUALS/ CORPORATE BODIES RATHER THAN THE LOW TRANSACTIONS YOUR LEASING SERVICE PROVIDER MAY PROVIDE. MOST SME FOCUSED LEASING COMPANIES DEAL MORE WITH THE GRASSROOTS.**
3. **INTERPERSONAL RELATIONSHIPS: MOST BANKS DO NOT BUILD INTERPERSONAL RELATIONSHIPS WITH CLIENTS DUE TO THE LARGE VOLUME OF CLIENTS. ON THE OTHERHAND, YOUR LEASING SERVICE PROVIDER WORKS TO BUILD BETTER CUSTOMER RELATIONSHIPS AND CREATE A HUMAN FACE THAT REGULARLY FOLLOWS UP ON CLIENTS**

Contact us

If you've never used an equipment leasing company before, then you are bound to have some additional questions.

Feel free to contact us on any of the channels below.

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