



ON THE JOB: A series of explorations into a variety of professions (and personalities) which intersect with the manufacturing world of work.



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Ninety-nine percent of our business here at Amerifund consists of supplying equipment leases. It's important for people considering starting up a new business or expanding an existing business to understand the process so that they can be better prepared to participate in it.

Opening the Door

I receive applications from vendors and other sources. The client and I discuss things we have to square away before we can release funds. We have to do what is known as due diligence. We want to make sure that this vendor is a real vendor — that they have a business license, a client base and references; a bank reference and vendor references. This is standard practice with our clients in addition to our vendors.

Then I write up a submission for the underwriting department. I ask the owners, "What do you foresee in the next year? How do you see growth coming about? Tell me about the good things that are happening for your company. If there are bad things, where do you see the light at the end of the tunnel?" The submission is either approved or declined. From there, we produce documents and overnight them to the client. The client overnights them back to us along with the first two payments. Then we review the documents with the underwriting department, make sure the vendor is approved,

and make sure that the insurance certificate is available for the equipment that they have.

If a vendor accepts a purchase order, it means that he's expecting to get paid when the deal funds — anywhere from four days to two weeks, sometimes even a month (dependent on equipment delivery). There are vendors that will not release the equipment unless they get paid in full, which requires prefunding; that means Amerifund is giving the vendor the money without the permanent financing in place yet.

Checking and Receiving

With either a purchase order or prefunding, before the check is cut, we ask, "Was everything in order when you got the lease documents? Are you familiar with the payments and terms? Do you agree to everything?" After they say, "Yes," we'll ask "Is the equipment there, running? Do you accept the equipment?" If they agree, we overnight the check to the vendor and start our client's lease. If it's an amount of \$50,000 or more, we'll need a site inspection before this "verbal" can happen and before we can cut a check. Site inspections reduce the possibility of fraud on deals we fund, because they insure that the asset is real and was delivered.

We've had situations in the past where there really was no

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equipment, just collusion between the so-called vendor and the so-called client. Usually due diligence is good enough to where we've stopped those instances in their tracks (we stopped two last month). You start getting clues. If there's any inkling that there might be a fraudulent deal, or we're simply uncomfortable with it, we'll pull it. To us, a legitimate business is a business that can be proven. The licenses and the Secretary of State documents proving that this is a business license match what is on the application, and the signatures match on the deposit checks.

Leasing is certainly the preferred way to add equipment to your company, especially because of Section 179 and other regulations. A client can make the process smoother if they work with a vendor that they either know or that has a good reputation, and not just someone they found on the Internet with the cheapest price.

Getting it Going

The two-part equation of underwriting is the ability to pay and the willingness to pay. A strong personal credit score shows us that someone starting a business has willingness to pay. Ability to pay is not really under his complete control; he's going into a new business. It'll be dependent on how that business is run, the economic climate of where it is, and other associated factors.

For those starting up their business, I'd say make sure that you are actually serious about being in business. I've gotten requests from people who don't even have a business license or a business checking account. Here's the thing that's important about underwriting a start-up: If it's a pure start-up — sole proprietorship, with no one else involved — how is it paying the bills while the company is ramping up? Do the proprietors have pre-existing income?

Business plans, projections, resumes showing past experience — all these things are very helpful. We look for that continuity. Once, we had a dolphin trainer who wanted to open up a candy shop. What does a dolphin trainer know about candy? If somebody's looking to open a machine shop, it's best that he wasn't a baker before that. We never really got a straight answer from the dolphin trainer; I think he was trying to hide the fact that it was for his wife and he was the one with good credit.

Make sure that you know your personal credit and how it is reflected. If you don't have a certain credit score — usually a 650 or higher — it's very difficult to get a business loan for a start-up. It's 90 percent of the decision because it's the only thing that gives us information as to who's going to run this company. With a start-up, there may be willingness to pay from the person who's starting this company, as reflected in his personal credit report, but ability to pay is not known, so there is a higher rate.

However, start-ups can offset that higher rate because they can write off all of their payments. Section 179 lets you claim the asset as an asset and you're depreciating it, and it appears on your balance sheet as a debt. Off-the-balance-sheet accounting would say you do not include it as an asset, and you write it off as an expense. The expense would simply be the payments, including the interest, which is allowed under IRS Rental or Leasing. This really helps mitigate the high rate because at the end of the year you net a much better picture. It's important that, during that time, the payment itself won't be intrusive to operating your business. If you think the payment will prove too difficult to handle, you probably shouldn't do a lease because it obviously increases your chances of default.

In the second or third year, you'd want to see, by the balance sheets and income statements, that a business is viable and seeing a profit. If that's not the case, we'll ask, "Why do you need this equipment? How will this acquisition help your financial situation? Is it tied to a contract? More than that, how are you going to service this debt?"



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The Significance of Separation

It's important for people to know that if we approve a loan for equipment, it doesn't show up on their personal credit report. They bought a \$60,000 lathe for business and we want to separate business from personal — we don't want to impede their personal buying power. It's reported to Dun and Bradstreet (D&B) as a business loan and it's not reported on their personal report, unless they default. After 60 to 90 days of non-payment, it shows up on their personal report. Clients should be open to an ACH - automatic check withdrawal from their bank; it makes the lenders feel more comfortable with the loan. It also helps with the underwriting process because it shows confidence on the part of the client.

Now, with an established business, such as the guy with a machine shop already up and running, it's a different situation. We have a lot of machine-shop owners that operate out of their homes, and they are extremely lucrative practices. Some of these guys have one and two million in annual sales, and they're sole proprietorships. I know a guy in Phoenix who has a machine shop in his garage who does very specific, detailed parts. He has probably a \$350,000 CNC lathe and various other machine tools. In situations such as that, we love those types of loans because, even though it's a sole proprietorship, these guys have probably been in business long enough that they have a D&B rating. They don't even know it, but their vendors are probably reporting to D&B, which is essentially the business credit report.

It's always a good idea to subscribe to D&B to find out what vendors are saying about you, and to find out what your Paydex score is. There might be inaccurate or false information on D&B. We run into it everyday; there's information on D&B that the client never knew about that negatively affects them. They have to dispute it with D&B, and the vendor that's reporting it has to prove that's the truth.

Marketing to the Market

We've found that, from a technical standpoint, people in the screw-machine industry are very good at what they do. The ones that survive, though, are the ones that learn more about marketing and getting new business.

I've seen a lot of companies that normally don't associate themselves with the Internet start to have a presence on the web. They realize that getting a webpage is not a big deal because, without much effort or expense, it can help increase their customer base. Especially within the machine-tool industry, a company can make a very customized part that before was not available internationally, and their website now gives them an

international presence.

Getting in the Know

There are some basics that really make a difference when it comes to the lending process. Make sure you fill out your credit application completely. Include account numbers where bank information is requested, contact names where references from vendors are required, and contact people at your bank and your insurance company. Check out the vendor completely. It really helps if you know right away if the vendor accepts a PO or cash only. Where is the vendor? How soon will they deliver equipment? How fast will the equipment arrive once the lender funds or pre-funds?

Know your bank rating. Keep in mind that if you want \$50,000

CONSIDER

Acquisition Cost of Qualifying Property
Less: Threshold for Section 179 Phase-Out
Amount Exceeding Threshold
1st Year Write-Off
Maximum Tax Code 179
Less: Amount Exceeding Threshold
Sections 179 Deduction
Acquisition Cost of Qualifying Property
Less 179 Deduction
Base for 2003 JGTRRA
Bonus Depreciation
Bonus Depreciation Rate
Bonus Depreciation
Normal 1st Year Depreciation**
Total Deductions 1st Year
Marginal Tax Rate (Assumed)
Your Total Savings***

*50% Depreciate Bonus After Tax Code 179

**20% Dep

or over, you're probably going to have to have what's called a high-four balance in your business checking account. A \$50,000 piece of equipment is going to have a payment of about \$1,000; if you have a \$300 balance in your account, and that's the average balance for the last three months, how are you going to make the payments?

Make sure that the communication between the vendor, the client and the lender is straightforward. It always comes down to communication in terms of getting things done with a minimum of fuss.

The Baltimore-based National Association of Equipment Leasing Businesses (NAELB) will tell you who is highly

regarded and who isn't. If these companies ask to do due diligence on you, perform due diligence on the company. Don't necessarily believe what you see on the Internet. A fancy web page doesn't mean it's automatically a good company. If you can't get someone on the phone, don't do business with them. If it's always voicemail or if it's by e-mail only, that is not a viable company, no matter what anybody says.

Working as an account manager is more than just giving someone an equipment loan. It's an inside look into how business in America is doing, and my read is that America is doing really well. The events of 9/11 had an incredible effect on the economy; absolutely, no question. We can't recover from that in two years — it just doesn't happen. Yet we had our

FOR THE FOLLOWING EXAMPLES

EXAMPLE #1

EXAMPLE #2

2002	2003	2002	2003
\$210,000.00	\$210,000.00	\$50,000.00	\$50,000.00
\$200,000.00	\$400,000.00	\$200,000.00	\$400,000.00
\$10,000.00	\$0.00	\$0.00	\$0.00
\$24,000.00	\$100,000.00	\$24,000.00	\$100,000.00
\$10,000.00	\$0.00	\$0.00	\$0.00
\$14,000.00	\$100,000.00	\$24,000.00	\$100,000.00
\$210,000.00	\$210,000.00	\$50,000.00	\$50,000.00
\$14,000.00	\$100,000.00	\$24,000.00	\$50,000.00
\$196,000.00	\$110,000.00	\$26,000.00	\$0.00
.30	.50	.30	.50
\$58,800.00	\$55,000.00	\$7,800.00	\$0.00
\$27,400.00	\$11,000.00	\$3,640.00	\$0.00
\$100,240.00	\$166,000.00	\$35,440.00	\$50,000.00
35%	35%	35%	35%
\$35,084.00	\$58,100.00	\$12,404.00	\$17,500.00

Calculation based on a 5-year asset life

***Please consult your tax advisor

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strongest years in 2001 and 2002, so I think it sets the resolve of Americans. You see these people who were out of work and had tremendous experience. You know what they did? They started their own businesses. That's what they did.

Job creation is shown through payroll numbers, not necessarily through sole proprietorships. So, you have this person who worked for a company that suffered as a result of 9/11, and it shows up as loss of a job. But, he went and bought a tree chipper and is going around doing his own work. As a sole proprietorship, he's paying his taxes, but he's not

in the database of a payroll company. So, I look at things a little differently when people say, "We lost a million jobs, and everyone's out of work." We don't see that at Amerifund; we're seeing nothing but burgeoning growth. In fact, we're moving into a new building that's seven times the size of our building now. New businesses, I can guarantee you, are expanding, nationwide. If they weren't, we'd know it.

Amerifund is a Scottsdale, AZ-based company that supplies equipment leases and funding. For more information, visit them on the Internet at www.amerifund.cc

JOB AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003

NEW IN 2003

- Under the Job and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) there is a 50% Depreciation Bonus for qualified capital investments by businesses, on equipment placed in service after May 5, 2003 through the end of calendar year 2004. This is an increase from the 30% allowed under the Job Creation and Workers Assistance Act of 2002.

HIGHLIGHTS OF THE TAX CHANGE AS IT AFFECTS EQUIPMENT PURCHASES

1. JGTRRA allows taxpayers to claim an additional first-year depreciation allowance equal to 50% for the adjusted basis of qualified property.*
2. Equipment must be acquired and placed in service after 5/05/2003, and before 12/31/2004.
3. Taxpayers may elect to employ a 30% depreciation rate in lieu of the increased 50% rate.

*Qualified property is tangible, personal property with a MACRS recovery period of 20 years or less.

Please consult your tax advisor regarding this accelerated depreciation opportunity and all accounting procedures.

IRS SECTION 179

- Under IRS Section 179, equipment purchases, up to \$100,000.00, can be expensed deducted (from taxable income) if installed by December 31st. Finance leases (\$1.00 buyout) qualify for this deduction in their year of inception. The 2003 law quadruples the amount of qualified property that can be expensed under IRS Section 179 from \$24,000.00 to \$100,000.00 for tax years 2003, 2004 and 2005. Qualifying property now also includes off-the-shelf computer software.
- Any purchase in excess of \$400,000.00 (2003 thresholds) reduces the \$100,000.00 Section 179 limit. For example, if you purchase \$410,000.00 in qualifying property, the Section 179 deduction is limited to \$90,000.00.
- The total cost of property that may be expensed for any tax year cannot exceed the total amount of taxable income (determined after application of the investment limitation) derived from the active conduct of any trade or business during the tax year. Costs disallowed under this rule may be carried forward an unlimited number of years subject to the ceiling amount for each year.
- The maximum amount of asset cost that can be expensed by year is: \$24,000.00 for 2002; \$100,000.00 for 2003, 2004, and 2005; \$25,000.00 for following years.
- For example, if you purchase or lease a piece of equipment for \$45,000.00 and install it in 2003, you are eligible to take a \$45,000.00 tax deduction in the respective year.

Contact your tax advisor for specific information regarding IRS Section 179 and all accounting procedures.

