

By Shelly Flaten-Moore

Money Matters

For crane owners, the right financing can be the difference between success and failure.

An economy that continues to be strong, construction rates that are steady and growing, and upcoming high-season needs are all factors currently impacting the heavy equipment market. The demand for capital equipment is great, and continued growth is projected throughout the remainder of the year. Recently, new crane prices have reflected a hefty increase, some as much as 20%, and used crane prices have either held strong, or in some cases have risen. For individual contractors and businesses to remain competitive, they must have the equipment they need to do the work, and the capital to make this happen.

Before a major purchase, most buyers research the equipment to fully understand the features, reliability and costs. But few take the time to really research and gain a thorough understanding of the best way to finance the purchase. The right financing can be the difference between a company's future business growth or struggle to stay afloat.

Credit obstacles

There are as many obstacles to obtaining credit, as there are reasons to seek it. Lawrence Castillo, with Action Air, an HVAC, roofing and general contracting company based in California faced these obstacles first hand when he pursued options to purchase new equipment. "My company was going through some difficult times, which

really affected my credit, and I was having a hard time getting financing. I had a 14-ton Stinger truck-mounted crane, but needed to upgrade."

Unfortunately, many customers who have the most difficulty obtaining credit are the ones who need it the most. "Many of the customers we've financed may not have met the traditional credit model on paper, but were new businesses trying to work through a period of growth to build their business," says Scott Blair, president of Heartland Wisconsin Corp., Milwaukee, Wis. Heartland has extended credit to hundreds of companies facing any number of credit obstacles. "Credit obstacles can include any number of factors – little or no credit, poor credit history, limited cash flow, high debt ratios, lack of established history, or a high-risk business," explains Blair.

Castillo was in a position to either launch his business full speed ahead through the purchase of additional equipment, or continue struggling to compete. "We needed the financing to pull ahead, but couldn't get the financing to pull out of our credit problems." This is the catch-22 of finance obstacles. The dealer Castillo was working with suggested that he contact Heartland Wisconsin to use the equity in his crane to buy the equipment he needed. With the equity, he was able to upgrade to a 17-ton truck-mounted crane, and later on, purchase a specialty cutting tool.

Finance options

When contemplating equipment purchases, business owners are faced with the decision of how to best invest their resources to pay for the equipment, and still maintain the financial integrity of their company. This scenario can play differently for each business, but typically there

are four main avenues through which purchases can be made: cash outlay, leasing, conventional loans, or equity financing.

Cash outlay is primarily an option for cash-rich, large businesses whose financial integrity will not be displaced by a large cash purchase. Understanding the full tax benefits, income to payment ratios, and the management of potential cash flow issues are crucial elements to review when considering large cash payments. Owning equipment outright does provide full equity benefits, allowing for equity financing for multiple business purposes beyond equipment purchases and it offers flexibility in cash flow through equipment investment.

Leasing continues to be a popular choice for companies. It provides a viable option for companies looking to purchase new equipment whose value may depreciate over time, or will be replaced or upgraded on a regular basis. Since payments are consistently maintained over the course of the lease, expenses are easier to predict and manage across business cycles. In addition, a lease does not appear as debt on your financial statement, which doesn't impose any negative debt-to-income ratios.

Loans are the conventional means of securing funds for purchasing new and used equipment. Conventional bank loans base the approval process on a formulated analysis of bank statements, cash flow and balance sheets, debt ratio, and credit scores. The application process requires extensive paperwork, credit checks and financial analysis. This process can take weeks to complete, and there is little flexibility in the guidelines used in establishing acceptance. Loans are appropriate for businesses with sound financial integrity that are not looking to use existing equity to re-invest in their business.

Shelly Flaten-Moore is a freelance writer, marketing and public relations consultant based in Milwaukee, Wis. Her writings and contributions have been featured in publications, newsletters, web-based resources, radio and television. For more information regarding crane financing, visit www.heartlandloans.net. Shelly can be reached at smoore23@tds.net.



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LOANS

Good option for established businesses with sound cash flow and balance sheets.

Approval based on several components, including credit score, cash flow, debt ratios and age of business.

Longer approval and payout process, may require several weeks lead time.

CHOOSE a lender with whom your company has a long-term relationship, and has the interest and knowledge in heavy equipment financing.

Costs are related to more than just cost to borrow money. Loans are considered debts and their impact on business financial integrity should be fully understood.

LEASING

For start-up businesses and those with no revenue, leases of \$100,000 or less may be available on the personal credit.

Leases under \$100k require a limited amount of paperwork. Larger ticket items require thorough credit check and detailed financial analysis.

Process length depends on multiple criteria, but can range from days to weeks.

CHOOSE a leasing firm who is familiar with the industry and is willing to offer competitive rates. Make sure to know if they are a leasing firm who will purchase the equipment directly, or if you are working with a broker.

Can be expensive long-term with borrowing expenses, and options to purchase at the end of the lease.

EQUITY

Good option for new or smaller businesses, or those in transition with limited cash flow which have some equipment equity established.

Approval based on asset/equipment values.

Short approval and payout cycle, as quickly as two days

CHOOSE a lender that specializes in financing heavy equipment.

Borrowing costs are relative to loans. Rates and costs should be competitive – seek out lenders who are familiar and experienced in heavy equipment lending.

Equity financing considers only the current value of, and the remaining debt on, the equipment you own. Based on this ratio, cash can be taken directly out from the equity and used for purchases, debt consolidation, financial support, etc. The process is simple, consisting of an application and equity assessment to identify the available cash, and then the funds can be disbursed. "We work with companies on a national level, as we can do everything on-line," Blair explains. "By completing an application on-line and sending a picture of the equipment, our customers can get a check for cash within a couple business days."

Choosing a finance provider

There are many factors to consider when selecting a finance provider. It is in a company's best interest to select a lender who will view the relationship as a partnership – not a single lending episode. Lenders who are familiar with the industry – trends, equipment, values, etc – will have a greater understanding of long-term val-

ues, industry cycles and other factors influencing your business. They should take the time to answer your questions and have the knowledge you need to make future equipment acquisition and financial decisions. Finding a lender with the right resources, experience and expertise is important to a company's long-term financial success.

"Many of our customers will get pre-approved through a dealer before purchasing equipment. This helps the customer make more informed purchasing decisions, and gives the dealer confidence in the customer's buying power," says Blair, who further explains that by specializing in equipment financing, Heartland is able to apply extensive knowledge and experience in the heavy equipment industry to shorten the approval process down to a single day.

Doing a little research and checking businesses references will give you the confidence to know that they will be acting in your best interest to maintain your company's financial integrity. A good lender should be able to explain the options, and help you make the best decision. ■