Leasing: Is it the right choice for you?

On-road Editor

Harry Rudolfs

TORONTO, Ont. – Leasing a new truck is a strategy that is growing in popularity. Anyone from a single owner/operator to a large fleet owner can choose to lease rather than buy, but is it the right thing for you?

The main difference between leasing and purchasing a vehicle, of course, is that the lease's ownership will not be in your name.

On the surface, leasing requires less money up front. An individual or company with a good credit rating can step into a lease by making the first and last payments, and thus avoid sinking money into a costly down payment.

Truck leases fall into two broad categories: financial and operating leases. In a financial lease, the residual value of the contract is set and the lessee must purchase the vehicle at the end of term - usually five years.

The operating lease is more like a rental agreement and the unit is returned, usually after 60 months. There are two types of operating leases – "closed" and "open-ended."

In a closed operating lease, the leasing company liquidates the asset when it is returned and takes the loss or gain. Some closed contracts may give the lessee the option of buying the truck at this time for a pre-determined amount.

In the open-ended operating lease, the lessee is responsible for the pre-set value. The leasing company will sell the truck and the lessee will gain or lose money according to the market value. Open-ended leases may also include an option allowing the lessee to buy and sell the truck at the end of term.

Operating leases may include full maintenance packages that range from anywhere from five to 10 cents a kilometre. They also usually contain a mileage cap and penalty for exceeding 100,000 miles per year.

Most owner/operators prefer a bare bones package where they do all the basic maintenance. A mileage cap is not necessary on a financial lease since the lessee is buying the truck anyway.

In some cases, leasing may be advantageous for tax purposes. It also means that your GST will be deducted monthly, while new truck buyers have to pay up front. Sure the purchaser gets it back in three months, but they may have to borrow that money in the meantime (that's $7,000 on every $100,000 worth of truck).

From a fleet perspective, an operating lease can free up money and personnel from truck maintenance. The fixed monthly payment allows for predictability of transport costs for the set term. Some operating contracts can include a "wet lease clause' which includes fuel, and some leasing companies may provide insurance as well, although these are rare these days.

Although the contracts can be complicated, truck leasing is more popular than ever. The big truck manufacturers have each set up their own leasing divisions.

"All the dealerships are looking to get market penetration," says Duane Johnson, leasing manager for Inland Kenworth of Burnaby, B.C. "More and more customers are looking at leasing options. If they don't have a leasing arm they're going to lose that business."

As well there are plenty of third party providers that will find you a truck and write you up a contract.

"It's more convenient," says John Stephens, president of Lease Truck Inc. of Burlington, Ont. "A leasing company will procure you the vehicle and find the money for you."

Interest rates vary depending on availability of funds, the credit risk of the applicant and the length of term. "There's money available at five per cent and there is money available at 9.5 per cent," adds Stephens.

Some carriers buy back their trucks at the end of a lease and then lease them to drivers who want to become owner/operators. This type of contract is sometimes called the "never-never" plan, but it remains a good way for someone to get started in their own business and avoid hefty start up costs. Truck payments are made directly to the carrier and can then be geared to income.

Banks, generally, are reluctant to get into truck leasing. But money is available from credit unions and traditional transport financial houses like GE Capital, Wells Fargo, and CiTi group.

"We recommend that you shop around to at least three different places," says Steve Mulligan vice-president of business development for Transport Financial Services of Waterloo. "If you have a good credit rating and a proven track record as an owner/operator I should think that a financial institution should be begging to take you."

But to answer whether leasing is right for you, it's best to consult a good accountant and find out exactly what the lease will cost. "Anyone can make a payment look good by increasing the residual at the end of the lease," says Mulligan. "Your payment might be only $2,700 but they're charging you 14 per cent interest." □