

The Small Business Owner's Guide to Equipment Financing



EQUIPMENT LEASING AND FINANCING SOLUTIONS
AT COMPETITIVE PRICING AND TERMS



Equipment Financing

Whether your business is product or service-based, having the necessary equipment is vital to keeping your venture operating smoothly. Replacing, upgrading or purchasing equipment for the first time can put a serious pinch on your cash flow but with the right equipment financing, you can get the things your business needs without making a substantial dent in the bottom line.

Equipment financing can take several different forms and what's appropriate for one business may not be for another. After reading this guide, you'll have a better understanding of:

- How equipment financing works
- How the different financing methods compare
- What the pros and cons are for each one

What is equipment financing?

Equipment financing is designed specifically for the purchase of business equipment. Your business makes payments towards what you borrow over time and once the debt is repaid, you own the equipment free and clear. With certain types of equipment financing, the equipment itself serves as collateral so that if you default, the lender assumes ownership.

Depending on how the financing agreement is structured, the lender may impose a blanket lien or require a personal guarantee. A blanket lien allows the lender to lay claim to your business assets, including the equipment itself if you default. **A personal guarantee** does the same with regard to your personal assets so it's important to understand what you're agreeing to before you borrow.

Equipment financing vs. leasing

When you need equipment, you don't necessarily have to buy it—you could lease it instead. This means you're essentially paying the equipment's owner rent each month just as you would if you were leasing office or retail space for your business. At the end of the lease term, you can choose to renew your agreement or you may even be able to buy the equipment outright.

Leasing offers an advantage over financing in that you're not required to offer any sort of down payment to obtain the equipment the way you might be expected to with a loan. Generally, you're not bound by any collateral, lien or personal guarantee requirements. It may also be easier to qualify for a leasing arrangement than financing if your business or personal credit are less than stellar.

There is a potential drawback, however, in terms of the cost difference. Leasing equipment over the long-term means you're not locked in as far as ownership but you could end up paying more to rent than you would by purchasing the equipment instead. Equipment financing: What are the options? Small business owners have multiple financing avenues they can use to get the equipment they need. Deciding which one is the best fit ultimately depends on several factors, including:

- Your personal and business credit scores
- How long you've been in business
- Your annual business revenues
- The desired loan amount
- Your preferred repayment terms

With that in mind, here's a look at five viable ways to finance equipment:

1. Equipment loans

Best for : Newer businesses that need equipment financing to expand operations.

An equipment loan most closely parallels the definition of equipment financing mentioned earlier. The equipment acts as collateral for the loan and it's possible to get up to 100% financing, although some lenders may require a small down payment.

Repayment periods can be as short as 36 months or stretch out over a period of 10 years or more, based on how much you're borrowing. Loan limits can go as high as the cost of the equipment and the **annual percentage rate** for equipment loans can be as low as 6%.

On the plus side, equipment loans can be funded fairly quickly, often in as little as two business days. Since many equipment loan and term loan providers operate within the online sphere only, rather than having a physical location, underwriting is often much more streamlined. It's possible to fill out an application, upload documents such as financial statements or tax records and get an approval decision within 24 hours or less.

With a traditional bank, you may be waiting days or even weeks for your application to go through underwriting. Perfect credit isn't a requirement of obtaining an equipment loan. Lenders do, however, usually require you to be in business for at least one year before applying so you may have a tougher time qualifying if you're still in the startup phase.

2. Term loans

Best for : Established businesses with consistent revenue that want to borrow up to \$5 million.

Term loans are another possibility for small business owners who need quick access to cash for an equipment purchase. As the name suggests, term loans are repaid over a set period of time similar to a mortgage or car loan. Annual percentage rates are lower compared to those associated with equipment loans and they may be fixed or variable.

Term loans can be secured or unsecured, based on how much you're borrowing. If you don't want to use the equipment as collateral, you may have to offer up another business asset as a substitute. While term loan lenders can have higher credit standards than equipment loans that can work to your advantage if you're able to leverage a higher credit score to qualify for a lower interest rate. You may also be able to snag a lower origination fee, which can reduce the cost of borrowing even further. A difference of even one percentage point, either in the APR or the origination fee, could save you thousands over the course of the loan repayment term.

Like equipment loans, it's possible to receive the funds in just a few days thanks to the streamlined application and approval process that online lenders like Rapid capital offer. That efficiency is yet another reason why a term loan may be a more attractive option than one of the alternatives for business owners with a strong credit history.

3. Business line of credit

Best for : Businesses that want fast, flexible equipment funding.

A business line of credit is similar to a personal or home equity line of credit in that the bank makes a certain amount of money available to you that you can draw on again and again. It's possible to obtain a line of credit of up to \$1 million if you own an established business that has a good track record and you've got an good credit.

Business lines of credit can be repaid over a period of a few months or have terms that stretch out up to six years. Funding can be completed in a matter of days and a lower credit score generally isn't a major roadblock to approval. It does, however, mean you'll pay more in interest.

That's where business lines of credit lose some of their luster compared to other financing choices when you need to buy equipment. Rates can easily be higher, which can make your equipment much more expensive over time. That's because a business line of credit is designed to be used in the short-term to cover temporary cash flow gaps rather than large, one-time expenses.

For instance, you could draw on your line of credit to cover payroll one month and pay it back the next or use it to stock up on inventory when business is slow. While a line of credit can offer easy access to cash for an equipment purchase, that convenience often comes at a cost in the form of a higher interest rate. So, let us help you choose prudently and wisely.

FINANCING TYPE	BORROWING LIMITS	APR RANGE	REPAYMENT TERMS	FUNDING SPEED	OTHER REQUIREMENTS
Equipment Loan	Up to 100% of Equipment Value	6% and Up	Up to the life of the equipment	As little as 2 business days	Virtually any credit and all credit scores and types
Term Loan	Up to \$5,000,000	3.5% and Up	Up to 6 years	As little as 2 business days	Virtually any credit and all credit scores and types
Business Line of Credit	Up to \$10,000,000	5% and Up	Up to 6 years	As little as 2 business days	Virtually any credit and all credit scores and types

Weigh your options carefully

When researching equipment financing, there are several things to pay attention to help you narrow down which path you should choose. First, consider the total cost of borrowing. A low interest rate may be appealing but you also have to look at whether you'll pay a loan origination fee or an annual maintenance fee, which could drive up the overall cost, which is why it's better to focus on the APR which is inclusive of all fees associated with a loan.

Next, factor in the repayment terms. A shorter term means the debt is repaid faster but it may entail a higher monthly payment. Opting for a longer term would lower the payments, resulting in less strain on your monthly cash flow but it could increase the interest total once you've paid for the equipment in full.

Finally, review the approval conditions established by the lender. You need to be sure that you meet the minimum guidelines where credit scores, time in business and annual revenues are concerned. You should also be aware of whether a down payment or collateral other than the equipment is required and what the lender's policy is regarding personal guarantees or liens.

*At Rapid Capital, we believe financing a business should be simple, transparent, and fair.
Reach out today or check your own rate in less than a minute.*