

Purchase or Lease?

A guide to Ag Equipment Leasing

Which option is right for you?*

Agricultural equipment is more than machinery – it’s your livelihood. The difference between getting by and getting ahead. You’ve taken an important step forward in considering Alliance Bank to meet your needs. But now the question is, “how should I acquire my equipment?”

With money on the line and your bottom line a constant concern, it’s important to do your research, To consider your specific needs, explore your options and make an informed decision based on the facts. And since your needs are always changing, the right opting today might not be the right option tomorrow. It can get confusing. This is where we can help.

*Other advantages and disadvantages may apply.
Consult your tax and accounting advisors.

	Advantages	Disadvantages
Cash	<ul style="list-style-type: none"> The transaction is over and done with immediately Less paperwork You won the equipment outright from day one 	<ul style="list-style-type: none"> You run the risk of depleting your cash reserves and coming up short in an emergency Keeping the money you invested in your farming operation is generally worth more than the cost of financing
Leasing	<ul style="list-style-type: none"> Depending on term, less money up front Generally lower payments than installment loans of the same term Pay for the use of the equipment, return it at lease end, or exercise your purchase option Enables you to schedule equipment replacement at less cost than a cash purchase Reduces downtime, keeps newer equipment in the fleet longer Expense payments at level amounts vs declining depreciation benefit Increase your cash flow with lower payments and generally lower upfront cost 	<ul style="list-style-type: none"> Depending on the lease type, your equipment does not count as an asset on your financial statement (off-balance sheet financing) Subject to hour restrictions (annually) The equipment does not appear as an asset on financial statements
Loan	<ul style="list-style-type: none"> You own the equipment when you’re done paying for it You can depreciate the equipment The equipment appears as an asset on your balance sheet 	<ul style="list-style-type: none"> Higher upfront requirement (i.e., down payments) Payments are many times higher than a lease
Rent	<ul style="list-style-type: none"> Good for short-term projects, especially when the equipment is not likely to become part of your regular operation 	<ul style="list-style-type: none"> No ownership Not a good option for long-term needs Generally higher payments

A Common Misconception About Leasing

Some farmers believe that leasing is the most expensive form of financing, because, they say, at the end of the term, you still have to pay the purchase option in order to own the machine. However, this thought overlooks several key facts:

1. This is only true if you purchase the equipment.
2. If the equipment is not purchased, it can be returned, giving you a lower equipment use cost than an installment note, and keeping you in control.
3. Total lease payments are almost always less than the original cash price of the equipment.
4. The money saved in lower cash up-front, and low lease payments, can be reinvested back into your farming operation. This saves dollars for other, higher cost forms of borrowing, and increases the return in your operation.

So the idea that leasing always costs more isn't necessarily true. When weighing the cost, it's important to consider all the other factors involved, such as: Internal Rate of Return, Time Value of Money, Tax Implications, and more. The fact is, when a lease is structured properly, your overall cost can be lower than that of a loan – and much, much lower than the cost of paying cash.

How do you know if leasing is right for you?

Alliance Bank knows which questions to ask to determine if leasing is your best option:

- How long will you need the equipment?
- Do you want to own the machine at the end of the term?
- How does it help your financial position?
- Are you interested in keeping up with the latest technology?
- Any chance you'll want to buy out early?
- Are there tax, cash flow, and financial issues you're trying to satisfy?
- Are you more concerned about the lease rate or the overall cost?
- Are you interested in transferring risk?
- Are you looking for the lowest possible payment?

Why lease with us?

Our familiarity with leasing, combined with our Agricultural & Commercial Lending experience, assures your leasing request will be handled professionally and promptly. Your Alliance Bank Ag Lender can help you consider all your financing options.

If you have a question or would like further information, please feel free to contact your local Alliance Bank Lender or call us toll-free at 888-567-2101.