RIVER
CAPITAL FINANCE

Glossary of Leasing Terms

Add-On – A transaction to add related equipment to an existing lease. Typically, this term is used when the new equipment is financed using the same end of term structure as was used in the underlying transaction (e.g., Fair Market Value, $1.00 Purchase Option) and the add-on's lease term will terminate on the same date as the original transaction.

Advance Lease Payments – One or more lease payments paid to a leasing company at the beginning of the lease term. Leasing companies commonly require one or two monthly payment(s) to be made in advance.

Alternative Minimum Tax (AMT) – An alternative, separate tax calculation based on the taxpayer's regular taxable income and increased by the taxpayer's preferences for the year. Among the preferences that can increase the taxpayer's alternative minimum taxable income is the accelerated portion of depreciation. After certain exemptions and offsets, the taxpayer is required to pay the larger of the regular tax or the alternative minimum tax.

Amortization – A breakdown of periodic loan payments into two components: Principal portion and interest portion

Appraisal – An evaluation of the value of a specific item of property, usually conducted by a person with expertise with respect to such property.

APR - Annual Percentage Rate – The effective rate when taking into account all fees and compounding.

Audited Financial Statements – An audit is a methodical and objective examination of accounts and items that support the financial statements of the company. It requires the CPA to study the association's accounting system and evaluate the risk of misstatement from error or fraud. An audit also requires the CPA to test the books and financial records to see if they are producing reliable financial data. Unlike a review, an audit requires the CPA to vouch numbers to source documents, confirm balances or other information, trace transactions through the records. An audit is more work and provides a greater degree of assurance that the financial statements are "fairly stated in accordance with generally accepted accounting principles."

Bargain Purchase Option – An option to the lessee to purchase the equipment on the lease for a price that is less than the expected value of the equipment at the end of the lease term.

Basis Points – Units of 1% with each unit equal to 0.01% (1/100%). For example, "50 basis points" is equal to .5% and "200 basis points" is equal to 2%.

Capital Lease – A lease where one of the following conditions will be met: 1. Title passes automatically at lease end; 2. Lease contains a bargain purchase option; 3. Lease term is greater than 75% of the estimated useful life of the equipment; 4. The present value of lease payments is greater than 90% or the equipment price (value).

Coterminous Lease – Two or more leases that are linked together so that they end on the same day regardless of their start date. A lease is not always 24, 36, 48 or 60 months, it may be 41 months etc., in order to make it coterminous with prior leases.

Depreciation – A tax deduction representing a reasonable allowance for wear and tear, and obsolescence of the equipment.

Discount Rate – The interest rate that is used to bring a series of future cash flows to their present value.

End-of-Term Options – Options stated in the lease agreement that give the lessee flexibility in its treatment of the leased equipment at the end of the lease term. Common end-of-term options include purchasing the equipment, renewing the lease or returning the equipment to the leasing company.

Fair Market Value – The price for which the equipment can be sold, at arms length by an informed, unrelated third party.

Fair Market Value Lease – A lease which includes an option for the lessee to either rent the equipment at lease end, purchase it at lease end for the then fair market value price, or return the equipment to the lessor.

Finance Lease – A lease used to finance the equipment as opposed to rent the equipment. From an accounting point of view these are treated as capital leases.

FASB 13 – The group of statements in the Financial Accounting Standards Board (FASB) which establish standards for lease accounting and reporting.

Fixed Purchase Option – An option at lease end that gives the lessee the choice at the inception of the lease to buy the equipment at an agreed upon price in exchange for lower payments during the lease. Also called a balloon loan.

Lease – A contract through which the owner of equipment conveys the right to use the equipment to another party for a specified period of time at a specified amount to be paid.

Lease Purchase – Generally considered a Capital lease or Finance lease. Often they have a below fair market purchase price that is not an option. These are often $1.00 purchase options or called buck out leases.

Lease Schedule – A schedule to the master lease agreement describing the rentals, the equipment and other applicable documents.

Lessee – The party to the lease agreement who is obligated to pay the rentals, and is entitled to use and possess the leased equipment during the lease term.

Lessor – The party to a lease agreement who has the legal title to the equipment and grants the right to the lessee to use the equipment for the lease term.

Master Lease – A continuing arrangement whereby the terms and conditions are agreed upon, and equipment and equipment specific terms such as timing and rate are added as needed. Essentially a line of credit is established ahead of time so that equipment may be added easily.

Off Balance Sheet Financing – A lease that qualifies as an operating lease for financial accounting purposes. They are generally excluded from the balance sheet assets and depreciation. In the income statement they are shown as the amount owed during that fiscal year. This is similar to a rental. These are often disclosed in the notes.

Operating Lease – A lease that is treated under FASB 13 as a true lease. It is accounted for as a monthly expense in the income statement rather than an asset and corresponding liability in the organization's balance sheet.

Payment in Advance – Periodic payments due at the beginning of each period.

Payment in Arrears – Periodic payments due at the end of each period.

Present Value – The discounted value of a payment stream of payments to be received in the future, utilizing a specific interest rate usually representing the company's borrowing rate for a similar acquisition.
Purchase Option – An option to purchase the equipment for as specific amount on a specific date.

Residual Value – The book value that the leasing company estimates the equipment will be worth at the end of the lease term.

Sale and Leaseback – The sale of purchased equipment by a lessee to a leasing company and the subsequent lease agreement for the same equipment was purchased via cash at its acquisition point.

Skip-Payment Lease – A lease that contains a payment stream that has periods where no payments are expected. These may also be deferred leases.

Step-Up and Step-Down Payments – A lease that contains a stream of payments that either increases or decreases as time goes on.

Tax Exempt Entity – Entities that are for federal income tax purposes, (and state and local governments) exempt from paying federal income taxes. These include non-profit charitable organizations. Not for profit is not necessarily the same.

Tax Lease – The owner (lessor) takes the risk and is entitled to the benefits of ownership included tax benefits.

Upgrade – To trade in lease equipment for newer, more advanced equipment during the lease term.

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