

A New Lease on Profits

Equipment leasing entices ISOs with cash-flow benefits

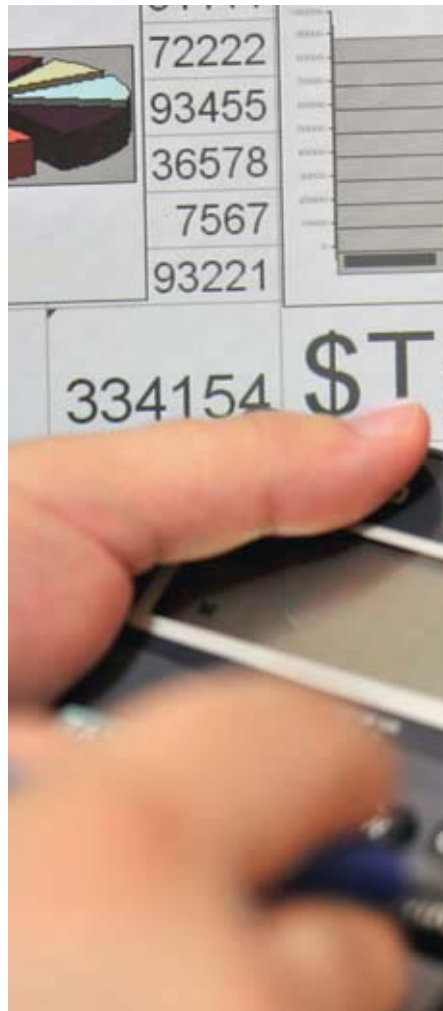
By Julie Ritzer Ross

Leasing credit card terminals and other equipment continues to be an important avenue for expanding business in a tough competitive and economic environment. Some merchants will find leasing to be an attractive option that enables them to free up cash flow, enjoy a tax advantage, and deploy state-of-the-art technology they may not be able to afford otherwise.

“Merchants don’t necessarily opt for leasing agreement over straight equipment purchases, even under recessionary conditions,” says Scott Rutledge, president and CEO of The Phoenix Group, an O’Fallon, Missouri-based distributor whose portfolio of services includes a leasing component. “However, many are receptive to the idea because it frees up their cash flow, offers a tax advantage (costs are considered an operating expense and are deductible in a more favorable way than depreciation), and allows them to deploy new, state-of-the-art technology without paying for equipment that may become obsolete before it has been paid off. It’s definitely worth considering.”

ISOs typically purchase the equipment and lease it to merchants. Then they resell both the equipment and the leases to leasing companies in return for upfront lump-sum payments. Lease terms generally call for monthly payments set by ISOs and repaid over a period of 48 months. The arrangement offers ISOs an immediate income stream, which enables them to build their businesses without waiting for residuals to grow.

“This is an especially attractive benefit for new ISOs” struggling to get off the ground, says Charles Salyer, vice president, strategic operations, at Ladco Leasing in Sherman Oaks, California. Many ISOs with which Ladco works bring in an extra \$2,000 to \$4,000 per month as a result of inking leasing deals with merchants, he adds.



Sufficient cash flow from leasing also increases the feasibility of signing “mom-and-pop” accounts and new merchants, despite the slow rate at which they build substantial residuals. “Merchants are also far more apt to shell out for new and/or pricier equipment if given the option to lease it rather than to own it—yet another boon to ISOs,” says Ron Kincheloe, president of Northern Leasing Systems in New York.

The Right Fit

Certainly, before inking a deal with any leasing entity, due diligence is required. Although ISOs are responsible for set-

ting lease terms and payment amounts, as well as for executing leasing agreements, a reputable leasing firm will help maintain a handle on matters to prevent problems for merchants down the road.

Some leasing companies have faced severe consequences for neglecting the payment terms factor. Several years ago, the Federal Trade Commission and law enforcement agencies from eight states alleged that Leasecomm Corp., a POS leasing firm, was financing “get-rich-quick” schemes by charging astronomically high leasing fees. The FTC and the law enforcement agencies also charged that the company was aware, or should have been aware, that deceptive practices were being used by sales agents to close leasing agreements. Although Leasecomm denied any wrongdoing, it was forced to cancel \$24 million worth of agreements allegedly secured through deceptive practices. It also paid a \$1 million fine and subsequently closed its doors.

Evaluating and ascertaining the stability of leasing companies’ business is equally essential. For instance, look at how long a firm has been in business and whether it has adequate cash reserves to fund its deals. “ISOs want to work with a company that will be around for the long haul and will weather any economic storm,” Kincheloe says. “Longevity is a good indicator.”

Cash reserves, meanwhile, are necessary if ISOs want to avoid writing lease agreements that cannot move forward.

Determining how potential leasing partners fund their leases is yet another piece of the funding puzzle. Some smaller firms “sell” their leases to larger leasing organizations or lease “brokers” that do the job for them. “There is nothing wrong with either option, providing you know exactly what entity bought the paper and how stable it is” from a financial standpoint, Salyer says.

The leasing company's flexibility in terms of merchant acceptance and adding new equipment to its rosters bears examination as well. Some firms are more willing than others to write leases for merchants that do not fit their criteria, giving ISOs more flexibility in adding merchants to their portfolios. Many leasing companies also are moving beyond leasing only credit card terminals and are adding options that range from integrated point-of-sale and payment systems to telecommunications solutions. The more extensive leasing organizations' equipment menus, the greater ISOs' potential to satisfy heightened merchant demands. Also clarify the responsibilities of the leasing company versus the ISO after the deal is signed with a merchant.

Be sure to check references to validate the quality of service leasing companies provide to merchants: Poor service will

reflect badly on the ISO as well. Among the signs of high-caliber service are soliciting merchants' feedback, monitoring calls to customer service desks, addressing inquiries promptly, and assigning specific account managers to work with individual merchants. Conversely, avoid firms that impose random fees and send delinquent accounts to collection without first working with merchants to find an alternative payment solution.

Minimizing Headaches

Practicing due diligence also means taking steps to minimize other potential difficulties with equipment rental arrangements. For example, several years ago, reports of ISOs engaging in "equipment slamming"—such as leasing equipment at highly inflated prices, burying additional fees in contracts, and quickly closing the business after collecting a large profit—

sullied the reputation of the leasing industry. The sale of fraudulent leases to leasing companies by a few unscrupulous ISOs added insult to injury and sparked some reluctance among merchants to pursue leasing arrangements.

"Action by the FTC has eliminated much of the trouble and really reversed the damage, but there are still salespeople and agents who stretch the truth a little, offering merchants terms that aren't available, loopholes for getting out of leases, and other things that don't exist," Salyer says. "But knowing who you're sending out there to sign leases with merchants," and dictating exactly what they can and cannot promise to prospective customers, helps to prevent such problems. **TT**

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