Lease vs. Purchase (finance) questions

Definitions:

"Lease" - the rental of equipment over time.

"Finance" - the purchase of equipment with payments over time.

When considering a leased transaction vs. a financed transaction, ask yourself these questions about your agency.

Questions to ask yourself:

1. Is there a chance that you want to own the equipment at the end of the term?
2. Does the equipment need to be cascaded down within the agency or department?
3. Is the equipment usually replaced in a timely manner?
4. Can all of the equipment be located at the end of the lease term?
5. What are the disposal problems?
6. Does your department have an "asset management" program?

If the answer to questions one or two are "yes," you should not enter into a lease. The purchase price of the equipment will cost more than the savings realized by entering into the lease.

If the answers to three or four are "no," you should not enter into a lease. the costs involved with he extension of the contract or the purchase option for the lost equipment usually defeat any cost savings that may have been obtained by entering into a lease.

The answer to question five will need to be looked at on an individual basis. Disposal problems vary between government agencies. Can the old equipment be disposed of in a timely manner, usually be the end of the financed term? If not the additional costs involved could defeat any savings realized in a finance transaction over a lease transaction.

The answer to question six will help you determine if you track your assets well enough to be able to do a lease or a variation of a lease. This ties in to question four and the answer that you provide there.