To Lease or to Own?

A question I get asked at least once a month (usually more) is, should I lease my next truck or should I own?

Today the answer is almost universal. If you can own, own! Leasing should be the last resort.

Prior to 2000/2001 the answer may have been less concrete. In fact if someone analyzed the leases prior to 2000 the terms were basically the same as owning, sometimes the operator could even walk away from a lease with minimal penalty (something not readily available today).

As discussed in my first book lease/ownership tax differences are virtually non-existent. First of all taxes are NEVER the reason to upgrade equipment anyway (fuel and maintenance should be everything). Nobody saves/looses taxes by deciding to buy/lease. The only thing that happens is deferring taxes or not deferring taxes.

Ultimately then, the only real consideration before 2000 was the interest rates.

If you ask any old timers about the 2000 recession they will tell you the impact it had on trucking. There were literally farmer's fields filled with repossessed trucks. Financing companies lost millions and some were so weak they had to be consolidated. The financing industry was in bad shape.

Executives were forced to do something about the losses. They had to make money… secure money, and as fast as they could. They started to use more aggressive leasing plans.

They also realized a certain percentage of all leases were never paid out to the end of the term. For instance trucks were traded off in the third year rather than the operator making all 48 payments. The new leases included the "interest" to the final 48th payment (it's never called interest in the leases). This means that the operator was forced to pay all 48 payments even though he bought it out (traded it in) some time before the end. They also started leasing trucks over five years rather than the standard four (allowing more "interest" to be paid). The different lease formats are all about probabilities and obligations.

This change in terms created a windfall for financing companies but a much higher risk for operators. Leases were promoted over ownership to take advantage of these small but critical terms. Once the losses were covered however, the windfall benefits to profit became as standard as the market could handle.

Several years ago I had a client (husband and wife team) who wanted to own their own. They found a truck and started negotiating. Even though they put $30,000 down on the truck the dealership told them they did not qualify for owning, they had to lease. Their payments were $3400 per month for 48 months with a small buyout figure at the end. They signed the lease and started driving.

Unfortunately someone hit their truck and totaled it six months into the lease. The insurance provider negotiated with the owner (financing company) and came up with a settlement figure (without input from my client). The insurance provider paid the value to the Leasing company who then called my client for the balance… $12,000 (negotiated down to $10,000). So let's do the math: $30,000 + (6 X $3400) + $10,000 = $60,400… or $10,066 per month… rent!

The reason they lost so much money was because the lease forced them to pay the "interest" for the entire 48 months (not just 6 months as a bank/lender would). This added on an additional $22,000.

Since the client was not listed as the owner the insurance provider had no obligation to negotiate with them. My client was helpless. This loss of control may sometimes be eliminated providing the carrier forces the insurance provider to negotiate with the operator (certainly not a universal position in the industry, since many Carriers self-insure).

The client had 20% down… they had large payments…. There was no reason they could not own. It was pushed on them using the argument there was no difference between owning and leasing… and/or it was better for taxes… in my opinion a lie.

This example exposed a problem in the industry that leasing company executives needed to solve. Operators were carrying super high risk. In response, leasing companies can request or even demand top up insurance. In effect "top up" is an insurance policy paid by the operator yet payable to the leasing company in the event something happens while the entire contract is "under water", "upside down" or in "negative equity". I call it "we've screwed you so bad we know you can't make it without extra insurance" insurance (screwed you insurance).

If you've been asked to buy top up insurance for your lease, you better know you started your business venture upside down and the homeless guy on the street will be worth more than your business is for a few more years yet.

Why would anyone get into a business that starts off at negative and has such a significant possibility of failure? It's usually because operators are making choices based on emotion not sound business sense. Some drivers just can't say no to a shiny new truck. They convince themselves they can't walk away. They believe they are the exception to the rule and since "everyone" is doing it… it must make sense.

Calculate the risks, if they are too high… walk away. At least it doesn't take up ten years or more to financially recover from being a company driver. Not all leases start upside down but the majority of leases on the market are sold with the above mentioned terms.

Other than walk away leases (available at Carriers only… that I've seen) virtually all present day leases have the same short and long term legal liability and responsibilities as ownership (sometimes even more). If you carry all the risks it only makes sense to carry the control as well, otherwise your just securing someone else's bottom line. If this type of lease is the only one presented, find another financing company, another truck or maybe just consider walking away until the industry provides something more just and balanced.

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