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Lease-Here, Pay-Here Draws Interest



Written by Jeffrey Bellant
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LAS VEGAS – Industry veterans praised lease-here, pay-here as a good option for dealerships during a discussion at the recent 15th annual Leedom Group National Buy-Here, Pay-Here Convention.

Jim Garvin, Leedom Group's chief financial officer, said there are positives and negatives that go with lease-here, pay-here.

One advantage over traditional buy-here, pay-here is the dealers keeps ownership of the vehicles.

"So from a collateral perspective, you're in a lot better position," Garvin said.

Banks will view the dealer is in a better position for lending against the portfolio once they understand the ownership advantage, he said.

One negative is there are nearly a dozen states that accelerate the sales tax under a lease-here, pay-here operation. But in the other states, the sales tax is paid at the end-of-term.

In buy-here, pay-here, the tax is due when the contract is executed.

Garvin said a dealer is in a stronger financial situation over the life of the business in a lease-here, pay-here operation.

"We like the fact that you've got both lease contracts and a fleet of vehicles that you own," Garvin said.

"The depreciation against the income is a good thing, because you're building your own personal tax shelter that the government blesses. Even the Obama administration hasn't messed with that.

Dave Keller, dealership principal for LarsonAllen, a St. Louis-based accounting firm, said dealers must treat leasing differently than buy-here, pay-here.

"There are a lot of different accounting issues out there," he said. "There's a big difference in the way your financial statements look if you're buy-here, pay-here as opposed to lease-here, pay-here.

"The banks are going to look at you a lot differently."

One of the biggest differences is in the receivable category, because there technically are none, Keller said.

He said there's a huge depreciation expense on the financial statement and other issues that require a dealer to do a little more work to stay on top of the business.

Dave Huber, president of Finance Express, has sought out a lease-here, pay-here tool to offer for dealers.

He expects the Web site to offer one by the first quarter of 2010, if not sooner.

"The bottom line is that it's cash flow," Huber said. "If you're not in a state that accelerates the sales tax – and you're collecting that sales tax out over the course of the loan – it makes a significant cash flow difference for your dealership."

Huber said in today's market cash flow is even more important than a financial statement.

Attorney Emily Marlow Beck agreed with the panel on the benefits of that business model.

She said there fewer laws that affect a lease-here, pay-here business, but there are some negatives.

"The biggest risk of lease-here, pay-here is the risk of re-characterization," she said.

Beck said in any dispute, a plaintiff lawyer or attorney general is not going to care what type of business a dealership is called., whether it's lease-here, pay-here or buy-here, pay-here.

She suggests sitting down with an accountant and lawyer to make sure the deals are true leases for consumer credit purposes, which are different when what accountants use for tax purposes.

"The worse thing that can happen would be to have a transaction that you think is a lease get re-characterized (in a courtroom)

to a credit sale," Beck said.

"Then, all of the sudden, you have failed to comply with all the alphabet soup of laws that apply to credit sales.

"That's kind of like a compliance Armageddon."

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