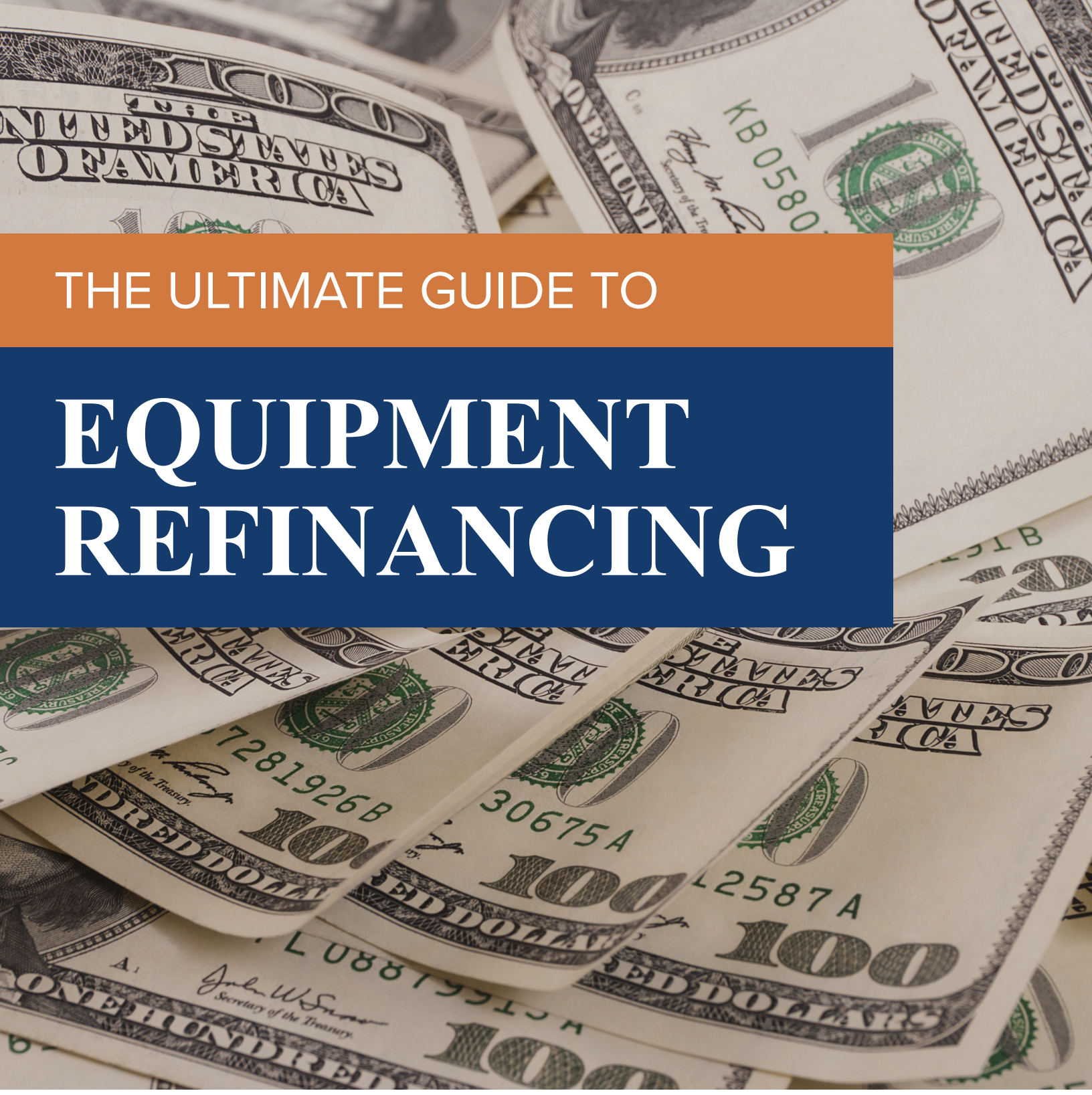


THE ULTIMATE GUIDE TO

EQUIPMENT REFINANCING

Commercial Credit Group

Construction | Manufacturing | Transportation | Waste

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01

EQUIPMENT REFINANCING DEFINED

Refinancing is the process by where the owner of an existing piece (or pieces) of equipment obtains a new loan, to consolidate or replace existing debt, using the equipment as collateral for the loan.

In the case of an outstanding loan or loans, the new lender issues a new loan, pays off the original lender(s), and creates a new loan. This can result in reduced monthly payments and consolidation of multiple payments into one.

Even if equipment is not subject to existing debt (owned free and clear), it can be used as collateral to support a loan to provide working capital to fund business operations. At times, both reduced monthly payments and working capital can be achieved in one transaction.



02 THE BENEFITS OF REFINANCING EQUIPMENT

Industries that rely on revenue generating equipment are very capital intensive and have a lot of equity tied up in that equipment. Refinancing the equipment can have major benefits to the cash flow and business operations of a company. The top five reasons to refinance equipment are:

1. Lower monthly payments
2. Avoid balloon payments
3. Exercise purchase options on leased equipment
4. Receive cash (turn equipment equity into cash)
5. Consolidate debt

Lower Monthly Payments

Equipment refinancing can often result in lower monthly payments, thereby improving cash flow. This is most often achieved by extending the term of the existing loan and spreading payments over a longer period of time.

Avoid Balloon Payments

Refinancing can be used to avoid an end-of-term balloon payment. Refinancing prior to a balloon payment pays off the original loan with a new loan and provides more manageable monthly payments.

Exercise Purchase Options

Equipment leases have purchase options due at the end of the term of the initial lease. Many equipment lessors will not finance the purchase option despite the lessee making all the payments as agreed. Refinancing used in this regard can finance the purchase option using the equipment as collateral and the proceeds of the loan will pay off the purchase option. The end result being that the equipment is now owned and simply financed.

Receive Cash

Machinery and equipment are capital assets, meaning they contain equity against which a lender may be willing to loan money. A knowledgeable lender that understands the equipment and its value can refinance equipment that is fully paid for or is currently being financed on another loan.

Using equipment that has equity can result in the borrower receiving working capital from the proceeds of loan. The cash can then be used for multiple reasons, including:

- Make purchases – new equipment, raw materials, real estate, building improvements, etc.
- Pay off other loans or obligations – taxes, lines of credit, etc.
- Simply have a cash cushion for when it is needed

Consolidate Debt

Debt consolidation simply means taking multiple loans and refinancing them into one loan with one monthly payment. In the case of equipment financing, the lender evaluates the equity in the equipment to determine which outstanding loans can be refinanced.

The lender then combines the loans into one obligation, pays off the original lenders, and provides one loan with one monthly payment to the company. This simplifies bookkeeping by reducing the number of loan obligations and payments that need to be made.



03

THE BEST TIME TO REFINANCE EQUIPMENT

The best time to refinance equipment is when the existing loan has been paid down to the point where there is more equity in the equipment than what is owed and while there is still remaining expected life in the equipment.

The steps to determining if a refinance makes sense are:

1. Estimate the amount of equity in the equipment, keeping in mind that the equity is calculated based on the actual value of the equipment, not the “accounting” book value (purchase price less depreciation)
2. Estimate, with a lender, the new monthly payment for a refinance
3. Calculate the current monthly payments associated with the equipment debt to be refinanced
4. Subtract the estimated monthly payment for the refinance (point 2) from currently monthly payments (point 3)

If the amount calculated (point 4) is a positive number, it’s most likely that refinancing the equipment makes sense, especially from a cash flow point of view. A seasoned and qualified lender can help you assess equipment value, consider possible loan terms, calculate payments and review options to help your business meet its goals.

On page 13 of this guide, you will find a simple worksheet to help determine if a refinance makes sense.

04 WHAT IS NEEDED FOR A REFINANCE TRANSACTION

Once you've determined that a refinance is beneficial, talk with a lender that specializes in financing the type of equipment you want to refinance.

To begin the refinance process, it's important to provide a lender with a variety of information. This information allows them to understand the business needs, opportunities, challenges, and goals to make recommendations in the best interest of the borrower. This includes:

1. Information about equipment and current debt obligations
    a. Description of the equipment to be refinanced – make, model, year, hours of service or mileage (allows the lender to determine actual value)
    b. Debt schedule for loans being refinanced and/or debt obligations to be paid
        i. Current principal balances
        ii. Monthly payments

2. Business and financial information on the company
    a. Tax returns or financial statements
    b. Credit references and contact information
    c. Business narrative (help the lender understand business history and future opportunities)

In addition to the information noted above, the lender will also:

1. Require proof of ownership
2. Inspect the equipment
3. Conduct UCC lien, tax, and judgement searches

Proof of Ownership

Proof of ownership is fairly simple for a titled vehicle. If you own the vehicle outright, you should have the title. If the vehicle is still being financed, the financing company will have the title. For a non-titled vehicle, proof of ownership will be the invoice or the bill of sale issued when you purchased the equipment. If you've purchased the equipment from a dealer, this is pretty straightforward.

Equipment Inspection

The inspection will help the lender determine the value of the equipment. Make, model, and year give a baseline for the value, but the condition of the equipment and the number of service hours or mileage on the vehicle will also impact the value. The inspection is typically visual (looking for signs of wear and tear), but photos of the VIN (Vehicle Identification Number) plate or serial plate, and photos of the odometer will provide the additional information needed to complete the inspection.

UCC Lien, Tax, & Judgement Searches

UCC lien, tax, and judgement searches are conducted to determine if another entity already has legal claim on the asset. Even if a search results in another entity having lien rights, a refinance of the asset can result in a payoff and a release of the asset.



05

THE TYPES OF EQUIPMENT THAT CAN BE FINANCED

The type of equipment that can be refinanced most often depends on the lender and both their expertise and knowledge of the equipment. In CCG's case, we finance a variety of revenue-generating equipment in the construction, manufacturing, transportation, and waste industries.

And while equipment lenders won't actually refinance other types of debt or loans, the cash out from equipment refinancing can then be used to reduce accounts payable and pay off outstanding lines of credit, small business loans, tax liens, and even MCA (Merchant Cash Advance) loans.



06

FREQUENTLY ASKED QUESTIONS (FAQS)

Q: Does my equipment need to be appraised in order to refinance it?

A: In most cases, a formal appraisal is not needed. A knowledgeable lender that has experience with the industry and equipment types can assess value without a formal appraisal.

Q: Does my equipment need to be inspected in order to refinance it?

A: Yes. Nearly all lenders will require an equipment inspection. CCG uses one of three methods for inspection: 1) The owner can electronically submit photos, 2) A CCG representative can visually inspect the equipment, 3) We can hire an outside inspector (this is the last resort method).

Q: What determines the value of my equipment?

A: There are a lot of factors to be considered when evaluating equipment, including:

- Equipment type
- Make and model
- Age and usage (hours or miles)
- Condition of the equipment
- Options and attachments
- Market conditions for resale values
- Maintenance

Q: Can I go to any business lender to refinance my equipment?

A: One of the keys is to understand the amount of equity in the existing equipment. A lender that specializes in your industry and has equipment knowledge can provide you with a better (and often faster) valuation than a lender that doesn't typically finance the type of equipment you own. They can also help you leverage the equity in your equipment and enhance your borrowing power.

Q: How long does a refinancing transaction take?

A: A refinancing transaction typically takes no longer than a standard finance purchase transaction. In most cases, the length of time required depends on how quickly the borrower gets the required information to the lender.

Q: Are there restrictions on how I use my working capital?

A: No. Once the refinance transaction is completed and you receive the working capital proceeds, the money is yours to do what you want with it.

Q: How do I know if it's worth it to refinance my equipment?

A: To determine if a refinance is beneficial, you need to understand the value of the equipment and how much you owe on the equipment. If the amount you owe is less than the value of the equipment, refinancing would most likely make sense. You can use the Refinance Worksheet included in this document to help assess your situation.

Q: Can I refinance equipment that's already completely paid for?

A: Typically, yes. If the equipment still has substantial value (equity), it can most likely be refinanced.

Q: How much I can borrow against my equipment?

A: The amount you can borrow can vary by lender. CCG will establish a loan to value based on the attributes of the equipment being refinanced.

REFINANCE CHECKLIST

07

1. Narrative on your business
Your business cannot be summed up by a single number. Your history, your future, and how you've positioned your business for future growth tell a story that goes beyond ink, paper, and a credit score. Prepare a narrative that includes your business's ownership history, customer base, business operations, and future plans to allow your lender to best understand your needs.

2. Equipment and debt to be refinanced
Complete the Refinance Worksheet on the next page to get a clear idea of your company's equipment, the associated liabilities, and the amount you spend to service debt each month. These may include: outstanding loans, outstanding lines of credit, MCA loans, and tax liabilities. With this information, your lender can strategize a refinance program that may lower your monthly payments.

3. Tax returns or financial statements from the last two years
This allows the lender to see how your business has performed: revenue trends, profitability, cash flow, ability to repay, and any changes that have ocurred in the past.

4. A recent interim financial statement
Accountant prepared, QuickBooks or bank statements provide a current snapshot of your financial condition, revenues, profits, and cash flow to provide a more holistic view of your business's health and trajectory.

5. Credit references and contact information
References show your history with other creditors, payment histories, and management of similar debt to help determine creditworthiness.

6. Signed credit authorization and contact information
Providing a signed credit authorization allows the lender to run credit reports on you and your business.

REFINANCE WORKSHEET

08

LENDER/ CREDITOR	ASSET(S) OR LOAN(S) FINANCED	AMOUNT OWED	MONTHLY PAYMENT
	TOTAL:		
	DESIRED MONTHLY PAYMENT:		

EXAMPLE SCHEDULE

LENDER/ CREDITOR	ASSET(S) OR LOAN(S) FINANCED	AMOUNT OWED	MONTHLY PAYMENT
Bank 1	2012 CAT dozer	6,500	1,255
Captive 1	2019 CAT excavator	119,500	2,875
IRS	Tax Liability	42,000	1,927
Bank 2	2009 Peterbilt 387	7,100	1,275
Other Lender	2013 Bobcat E50	12,500	1,350
	TOTAL:	187,600	8,682
	DESIRED MONTHLY PAYMENT:		6,000

09 REFINANCING TRANSACTION EXAMPLES

Waste Company Refinances to Pay Off Business Credit Card Debt

Specializing in roll-off container rental services for home remodelers and roofers, this long-time CCG customer has financed dozens of trucks and containers since 2005.

Situation – Credit card lender places a hold on the customer's account

As a course of business, the company typically used their business credit card to pay landfill bills every other week. The amount charged to the credit card each billing cycle was approximately $200,000. One month, the company unexpectedly incurred more charges than usual. Incorrectly thinking the increased charges were due to fraud, the credit card lender placed a hold on the account. Even after explaining the situation and showing the credit card company that fraud was not an issue, the credit card lender significantly lowered the business's credit limit and threatened to drastically reduce the customer's personal credit limit, and therefore adversely affect his personal credit score, unless the large bill was immediately paid in full.

Solution – CCG refinanced a loan for the customer in order to get cash quick

The customer called their CCG sales representative on a Tuesday morning for help. The credit card lender was giving them until that Friday to make the full payment of about $250,000. Failure to pay the total amount would result in the credit card company not accepting further charges and potentially damaging the owner's personal credit and the company's relationship with its landfill.

CCG was able to quickly refinance the company's existing equipment debt, providing them with the funds to pay off their credit card debt while keeping their monthly loan payment the same. This greatly helped the customer and continued a long-lasting relationship between the customer and CCG.

Aerospace Manufacturer Lowers Monthly Payments & Makes Aquisition

The company started in the early 2000s and specializes in high-end production of components for the aerospace, appliance, military, recreational vehicles, and aftermarket automotive parts industries.

Situation – Manufacturer needs new machine for WIP and new contracts

The owner was looking to purchase a $500,000 horizontal machining center to assist with their growing aerospace work and approached CCG's manufacturing division, Manufacturers Capital, for an equipment loan. They already had eight machines financed with six different lenders, totaling $43,000 in payments per month. Simply adding a new loan for the horizontal machining center would bring their total monthly cash outlay to $50,000, increasing monthly payments by $7,000.

Additionally, they wanted to acquire a finishing business, which performed work that they previously outsourced, to round out their business even further. This acquisition would require $600,000 in working capital to purchase new equipment, tooling and automation.

Solution – Consolidating debt helps lower monthly payment

After speaking with the customer and touring their facility, a representative from Manufacturers Capital identified an opportunity for them to refinance their existing equipment and consolidate debt. This would not only simplify making payments for the owner, who was having to pay 6 lenders each month, but would also provide the company an opportunity to lower their monthly debt service by $6,000, even when adding a new machine purchase.
In this transaction, Manufacturers Capital paid off 8 pieces of their equipment and refinanced 13 additional pieces. This consolidation and refinance resulted in one monthly payment. Since the customer had built up equity in some of those machines, he was able to use that equity as collateral for a working capital loan, which he used to purchase the finishing equipment and other related tooling.

Manufacturers Capital provided this manufacturer with an alternative financing solution that lowered their monthly payments, giving them an opportunity to add the new horizontal machining center without any additional costs and obtain cash for their acquisition.

School Transportation Company Makes Balloon Payment & Pays Off Tax Liens

Founded in the 1950's, this privately-held transportation company specializes in moving passengers, mainly school-aged children, in the Northeast US. In addition to the main student transportation company, they operate a couple of affiliate passenger transportation entities.

They have long-term contracts with many private schools and public-school districts and have steadily grown their customer base. Their growth required the acquisition of additional buses to operate a fleet of over 800 units.

Situation - Growing tax burden and recent capital expenditures put a substantial drain on cash flow

As the company and fleet grew, they needed to address a tax liability to assure continued growth. At the end of 2017, their tax liability totaled more than $4 million. Additionally, they owed a couple of equipment lenders over $400,000, one of which had an impending balloon payment. These obligations jeopardized everything they had worked so hard to build.

However, the company had several positive things going for them. First, it had an abundance of equity in its existing fleet to use as loan collateral. Second, the company had several large, long-term contracts to demonstrate a guaranteed revenue stream. The new loan would not be new debt, but would allow them to pay off the IRS, eliminate several existing lenders, streamline monthly payments and improve cash flow.

Solution - Equipment loan consolidation and refinancing pays off tax lien, reduces monthly payments, and allows for seasonal skip payments

CCG structured a loan that accomplished the following:

- Paid off the total amount of the tax lien, freeing them from a growth impediment
- Reduced the total number of secured lenders, easing the burden on the accounts payable department
- Reduced their monthly debt service, freeing up cash flow
- Provided ongoing seasonal skip payments during their slow season, to help ease cash flow pressure when revenue dips

Crane Operator Purchases Equipment, Refinances, & Improves Cash Flow

Company commenced operations in 1998 and specializes in crane operations and repairs, as well as rigging operations for commercial development, infrastructure, civil maintenance and port operations. Because of two separate insurance incidents the company had posted losses for two consecutive years. As a result, they were unable to obtain financing for a new crane from either their bank or the crane vendor's finance affiliate.

Situation – The bank said it couldn't be done

The Customer required a new crane to take advantage of significant opportunities to expand its business. They placed an order for a new 300 Ton All Terrain crane scheduled to be shipped in less than two weeks. When they approached their bank with this opportunity the bank refused to extend them additional credit based upon recent business losses resulting from two insurance claims asserted against the company. The company also approached the vendor's finance affiliate for financing but was also rejected. The company needed help fast due to the imminent delivery of the crane.

Initially the company was simply looking to fund their purchase of a 300 Ton All Terrain crane at a cost of $1,820,000. But the company was also frustrated with their existing banking relationship. The bank had an existing term note with three cranes and a relationship that was deteriorating.

Solution – Equipment refinance provides for reduced down payment on new equipment

In meeting with the company, CCG determined that the recent losses were not indicative of their long-term business history. CCG was able to offer an alternative transaction that would allow the company to complete the purchase of its new crane and refinance its existing equipment obligations.

Furthermore, the recast of the existing loans would be cash flow neutral, and the equity in the existing equipment allowed for a lower down payment requirement for the new machine.

The new loan structure accomplished the following:

- Allowed them to take delivery of the new crane with nominal down payment and on short notice
- Paid off the total amount of their bank debt, freeing them from a growth impediment
- Structured the repayment schedule to meet their monthly cash flow needs

READY TO GET STARTED?

The experienced team at CCG is ready to help you with your equipment refinancing request. We pride ourselves on providing the fastest turnaround possible because we know your time is valuable. The more information we have upfront, the faster we can make a decision and get you back to running your business.

GET STARTED

Commercial Credit Group

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