



SOUTHWEST CREDIT

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LEASING - VS - FINANCING

<p>WHAT IS LEASING</p> <p>Leasing is the RENTAL of equipment where a Lessee (the client) rents the equipment from a Lessor (the Leasing Company) who purchases the equipment with the objective to rent that equipment to the Lessee's use for a fixed number of months.</p>	<p>WHAT IS EQUIPMENT FINANCING</p> <p>Equipment financing is lending money to a borrower with the specific purpose to buy equipment. The Lender then takes a First Lien on the equipment purchase as collateral.</p>
<p>CHARACTERISTICS OF A LEASE</p> <ul style="list-style-type: none"> • A Lease is NOT a Loan; therefore, it does NOT appear as Financing and as a Liability for the business and for the guarantors. Therefore, there will be NO impact in the credit scores of the guarantor and business. • Leases have fixed Monthly Payments that most of the time is FULLY TAX DEDUCTIBLE, since the Lease Payment is considered as EXPENSE for the business. Also, Leases do NOT have an Interest Component. They are Expense to the business for the use of the equipment leased. • The owner of the equipment is the Leasing Company. • At the end of the Lease, the Lessee has the option to return the equipment, purchase the equipment through an option to buy, seek another lease for the same equipment, or do a new lease for newer equipment. • Normally, there are NO early pay-offs of the Lease, but the Lessee can accelerate the Lease and pay the remaining Monthly payments. 	<p>CHARACTERISTICS OF EQUIPMENT FINANCING</p> <ul style="list-style-type: none"> • This is considered a LOAN that will create a LIABILITY (debt for the business and for the Guarantor. By being a debt, this will impact the credit score of the Guarantors and the Business. • Equipment financing normally has fixed Amortization payment applied to the loan, with an interest part (expense to the business) and an application-vs-the principal part of the loan. The Client has the right to depreciate the Equipment as an expense. • The owner of the equipment is the Client. Lender has a lien on the equipment. • At the end of the term of the loan, the Client keeps possession of the equipment and if the loan is fully paid, the Liens are released. • Normally, pre-payment of the loan is allowed through a Pay-off amount.
<p>ADVANTAGES OF A LEASE</p> <ul style="list-style-type: none"> • EASIER TO OBTAIN. Leasing is more flexible in the credit criteria it requires; hence, Applicants with credit problems have the ability to get the equipment they need that, otherwise, would be impossible through equipment financing. • NOT A LOAN. That way the Lease does not count against the Liabilities of the company and the Guarantors and DOES NOT affect the credit scores or both. This way, the client can use his/her bank lines for other purposes. Leasing is considered an Off Balance Sheet item. • CAPITAL CONSERVATION. In a Loan, usually you are required to 30% or more down to the vendor. In Leasing, usually there is NO hefty down payment; only ADVANCE Rentals and possible Security Deposits. • CONVENIENCE. Usually there are less requirements of information to provide in a Lease application than in Equipment Financing Applications. • ELIMINATION OF DISPOSAL ISSUES. Leasing allows the customer to return the equipment or upgrade. This can eliminate the risk of owning OBSOLETE EQUIPMENT. 	<p>ADVANTAGES OF EQUIPMENT FINANCING</p> <ul style="list-style-type: none"> • LESS EXPENSIVE THAN LEASING. Usually Equipment Financing is cheaper than leasing in terms of the overall costs of the transaction. The problem is very few companies and individuals qualify for equipment financing, since lenders require "A" credit types. Also, the Lenders usually require a hefty down payment on the equipment, creating a potential cash flow problem for the Client. On top of that scenario, since the Client owns the equipment it becomes very expensive to replace, thereby creating potential problems of obsolescence. • CREATES AN ASSET. This asset, in turn, can be depreciated and the depreciation can be expensed out. The problem is that is also creates a Liability that could hinder the Client's ability to obtain additional financing for other important purposes.

Therefore, we recommend that Financing should be used for other purposes, i.e. acquisition of real estate, Inventory or Working Capital, and should not be used for acquisition of equipment since Leasing offers a better alternative as presented in this comparison.

CUSTOMER ACKNOWLEDGMENT

By signing below I confirm that I have read and fully understand the difference between Leasing vs Equipment Financing.

Lessee: CUAUHTEMOC BECERRA Signature: _____

Date: 6-25-07