



Loan/Lease vs Buy Analysis

Analysis for: Sample Analysis
Compare: 48 Month Lease - \$1 Buyout Lease vs Cash
Type of Equipment: 2010 Chevrolet Express Van

The following analysis is designed to evaluate the loan/lease vs. buy decision. The scenario that produces the lower present value of cash outflows, is in theory, the method which an organization should use to acquire equipment. Please see below for a list of assumptions that were used in this analysis and a brief definition of key terms.

Assumptions:

Capitalized Cost	\$18,463	Monthly Lease Rate	\$458
Corporate Tax Rate	34%	GVW of Vehicle	6,000 lbs.
Length of Term (months)	48	Cash (1) or Bank Financing (2)	1
Lease/Loan Balance at End of Term	\$0	Cost of Funds	9.0%
Projected Value of Vehicle	\$5,300	Cost of Equity	17.0%
After-Tax Cost of Funds	5.94%		

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Scenario 1

Purchasing Vehicle with Cash

Years	0	1	2	3	4
Loan Proceeds					
Purchase Cost	(\$18,463)				
Repayment of Principle					
Depreciation		\$9,000	\$6,000	\$2,463	\$0
Interest Paid					
Interest Tax Shield					
Depreciation Tax Shield		\$3,060	\$2,040	\$837	\$0
Disposal					\$5,300
Disposal Tax (Loss)/Break					(\$1,462)
Projected Cash Flows	(\$18,463)	\$3,060	\$2,040	\$837	\$3,838
PV of Cash Outflows					
					(\$11,786.36)

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Scenario 2

Lease Finance

Years	0	1	2	3	4
Lease Payments		(\$5,496)	(\$5,496)	(\$5,496)	(\$5,496)
Tax Benefit of Lease Payments		\$1,869	\$1,869	\$1,869	\$1,869
Disposal					\$5,300
Remaining Lease Balance					0
Projected Cash Flows		(\$3,627)	(\$3,627)	(\$3,627)	\$1,673
PV of Cash Outflows	(\$8,378.86)				

Results

Net Leasing Advantage(Disadvantage): \$3,407.50

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Assumptions

1. In order to be conservative, lessee can acquire vehicle at the same cost as ST Capital.
2. Length of lease and loan term are the same.
2. Resale value of vehicle at end of lease/loan term is identical.
3. Cost of Equity=Cost of Funds + 8%
4. With vehicles over 6000 GVW, analysis used double declining balance depreciation.

Definition of Key Terms:

Capitalized Cost: The cost of the vehicle.

Tax Rate: Company's corporate tax rate.

Length of Term: Stated in months, lists the length of the lease and corresponding loan.

Resale Value of Vehicle: Projected market value of vehicle at end of lease/loan term.

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