In Focus

Leasing Equipment?

Early Payoff calculation could still lead to a big surprise!

Over a year ago, we printed an article about some misunderstood language in leasing agreements that could lead to an unpleasant discovery if you were to pay off your lease or loan early.

If you remember, we revealed that even though many leases or loans through traditional finance companies include "no pre-payment penalty" per se, the way they calculate their payoff amount could mean that you owe more than the original loan itself! We know many of you prefer to pay off your loans or leases early so this could come as quite a disappointment.

Many of you have thanked us for clearing up the sometimes confusing loan or lease terms of other finance companies when it comes to pre-payment. For those of you who missed this article the first time, we would like to re-present it here. We've changed the interest rates to reflect today's scenario.

(July 2001) Many doctors use leasing companies in conjunction with purchasing new equipment. You've probably used one yourself. It's convenient and seems like a good deal. And if you ask them, many leasing companies will tell you that their leases do not have a pre-payment penalty for early termination. But look at a sample payoff amount calculated by the leasing company...you decide whether or not you're being penalized.

Many leasing companies have their own method for figuring your pay off when you want to terminate your lease. It's so easy, anyone can do it. Here's what you do: Take your monthly payment, multiply it times the number of months left in the term, and that's your payoff. The leasing company expects to get full payment whether you pay off your lease early or not. That doesn't sound like much of an incentive. Where's your reward for paying off your lease early? This sounds more like a penalty.

Vision One Credit Union uses a simple interest method of calculating your payoff amount that can save you thousands of dollars. Look at the example of how much you can save with Vision One Credit Union on an equipment loan.

	LEASING COMPANY	VOCU
Principal	**$40,000**	**$40,000**
Term	**60 mos**	**60 mos**
Interest Rate	**6.95%***	**6.95%****
Payoff Month 25	**$28,472.04**	**$25,784.60**
SAVINGS		**$2,687.44**

** Actual effective lease rates may exceed 11%*
*** Includes 1% promotional rate discount (rates subject to change)*

As you have seen through these illustrations, lenders have a language all their own. You may believe the language means something it does not. You need to read and understand the contract language before you sign to make sure you are getting what you think you are getting. Vision One Credit Union will always take the time necessary to explain the details of your loan terms and conditions as well as answer all your questions before you commit to your loan. Count on Vision One Credit Union for clear answers and straightforward explanations.

NOTE: *Many leasing companies continue to charge up to 11% interest on equipment leases. Disclosure of lease rates are not required and are generally not made available. To determine if your rate is too high, compare the sum of payments on the lease (inclusive of any residual payment) to the sum of payments on a Vision One equipment loan.*

PRACTICE PURCHASES - LOAN PROCESS

Message from Steven Omoto, O.D., VOCU Board Member

When I started in private practice in 1978, there were no jobs available and no practices for sale in my hometown. Here we were, with all of our eggs in one basket, two optometrists with no job prospects. My wife and I were coming back to town after a year teaching overseas and we had no choice but to open up our own office. We felt unprepared to do it. There was minimal practice management taught in the optometry schools at that time and we had very little practical experience. We didn't know many optometrists in town, at least none close enough to ask their advice.

We found a location, called the instrument distributor we befriended at school, and then set out to see if we could secure a loan to help us make rent payments, buy frames, dispensary furniture, and equipment. I didn't know where to start. I went to several banks and was politely, and sometimes rudely, turned down because optometrists were considered poor risks. Only physicians were thought to be good risks. I was only able to obtain my first loan because my dad put up his house as collateral. I hope no other OD has to go through what I did to get a loan to open the private office that my wife and I dreamed of having. Unfortunately, that is how things were in the late 70's.

Fortunately, the students who graduate today are armed with more practice management and they have more resources available to them if they want to purchase a practice or enter a partnership. Since many established practices are now for sale, ODs wishing to own a private practice can avoid the high risk of a startup, an option that was not available to us. Today, Vision One Credit Union (VOCU) offers numerous practice purchase loan options, including special financing programs for first time buyers through a joint venture with Vision Service Plan (VSP). The loan department at VOCU will even help you understand what information you need to qualify for the loan.

VOCU has been helping optometrists with business loans for over 50 years. Had I known that we had a credit union to help us, my start may have been a lot easier. Now, I am a volunteer at VOCU. I am a member of the Supervisory and Credit Committees and a Board Member. I volunteer for the VOCU because I want to help private practice optometry survive, as well as thrive.

I want to help you to understand what we review when granting credit.

For Practice Purchases:

1. Practice Cash Flow – is it enough to cover the debt service (the loan), living expenses and personal debt. Sheltering income to manage taxes can be acceptable but it can be detrimental in determining the cash flow, and actually reduce the sale price if expenses appear to be material to the operation of the practice (i.e. inflated cost of goods, wages, etc.). Costs for auto, travel and owner pension are examples of expenses that can help shelter income but can easily be added back to cash flow as they are not material to the operation of the practice (you should consult with your accountant for appropriate shelters).
2. What We Review:
   a) Tax returns for the past 3 years.
   b) Financial statements for the current period, including accounts receivable and payable balances. If the practice is seasonal, we might ask for the same period statements or collected revenue totals for last year.
   c) Revenue - Breakdown of all revenue sources (VSP, Medicare, etc.), average revenue per patient visit, and the ease of revenue transition to new owner.
   d) Cost of Goods Sold – How they were accounted for at year-end, the interim, and actual inventory amounts.
   e) If you are selling one of several practice locations – maintain internal breakdowns of direct revenues and costs for each location, identify costs shared by multiple locations (like a central office lab), and the consolidated internal financial data must match the tax return.
   f) Staffing – Costs including wages, taxes, insurance, and etc. The actual number of employees including part timers.
3. Personal (Buyer):
   a) Credit report – do you pay your bills?
   b) Personal financial statement.
   c) Personal cash flow requirements.
   d) Sustainable income outside the practice.

I hope all this will help you understand what our financial institution looks for when a loan application is reviewed. I also hope all of you get to enjoy the profession of private practice optometry as much as I have. Private practice ownership is the way to go!

Vision One CREDIT UNION

Advancing Independent Optometry

Office Address
3279 Ramos Circle
Sacramento, CA 95827

Phone/Fax Numbers
800.327.2628 Toll Free
916.363.4293 Phone
916.363.4298 Fax
888.777.7505 24 Hour Account Manager

Business Hours
Monday-Friday, 8am-5:30 pm P.S.T.

Website/Online Banking
www.visionone.org

Worldwide Withdrawal ATMs

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