

# A new Life on Leases

**Get what the firm needs when the firm needs it. And shave dollars off the deal.**

**W**hen Dale Chaffin, Chief Operating Officer of Shook Hardy & Bacon, outfitted the firm's new corporate headquarters in Kansas City, he knew what other law office managers also know: Leasing equipment rather than buying is strongly in vogue. But Chaffin took the concept beyond the basics. He issued a request for proposal (RFP), and then figured out how to shave thousands — more than a million, actually — off the total cost of the firm's lease.

Chances are leasing, as an alternative to buying, will factor into your firm's future, too. Driven by a need to keep pace with changing technology and meet financial realities head-on, 80 percent of U.S. companies and professional offices now lease, the U.S. Department of Commerce reports. Increasingly, leasing emerged in the last decade as a way for legal administrators to get what the firm needs when the firm needs it.

#### About the Author

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#### So what's the problem?

The problem lurks in the details. Hidden, undetectable costs — “gotchas” — too easily and too often creep into transactions before a contract is finalized. Last year alone, complaints to the Better Business Bureau related to equipment-leasing deals soared eight fold, according to a recent issue of the New York Times. Legal administrators play a pivotal role in preventing expensive disputes — keeping the practice or firm on the cutting edge while protecting the bottom line. Legal scrutiny is fundamental before implementing any contract, of course. But does a legal review trim costs and guarantee the best financial package? Not necessarily.

Chaffin says, aside from legal considerations, terms and conditions buried in a lease “often relate to favorable financial treatment” which needs to be resolved by a specialist who is active in a competitive market. “I would not give a proposed lease document to the attorney to review until after it has been reviewed by a lease review specialist,” he says.

In the case of Shook Hardy & Bacon (where ALA Past President Bill Mignerone serves as Chief Information Officer), 13 financial institutions — all anxious for the business from one of the top 50 U.S. law firms — responded with more than 70 documents and contracts related to financing the firm's full complement of needs: computers and furni-

as you would choose any professional based on reputation and proven track record. The objective, clearly, is to negotiate a financial solution that fits your business needs, usage needs and economic projections.

One cautionary note comes from a Chicago-based lessor with a two-decade history: Don't be dazzled by the

on the issue even more forcefully. Undetectable and unnecessary fees come under the category he labels "Predatory Leasing Practices" or "The Death Grip Lease." A common ingredient in the "Death Grip Lease" is the end-of-the-lease provision, he notes. Johnson is also a member of the board of directors for the Foundation for Leasing Education.

Expect a professional to counteract costly pitfalls:

- These professionals will wade through complicated financial language.
- They will write a summary.
- And, they will issue a detailed report and comparative analysis.

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ture to telephones, video conferencing and a security system. The challenge then was to mesh the firm's request with the deluge of potential bids.

Buried by an avalanche of paperwork, Chaffin asked a lease-review expert to weed out the noncompetitive, to detect negotiable points and to help arrange equitable financial terms. His aim was to save time and money. He wanted to avoid obsolescence.

### **Before You Begin**

Not all firms have the expertise to tackle the tedious and time-consuming RFP process — so why bother? What, if anything, do you have to lose by skipping it? Some financial experts say discuss details over the telephone or on the golf course when the transaction is small. Others say the finance RFP is essential to any acquisition. You decide. Then generate the document internally or call in a coach.

### **Ask an Expert**

Most lease-review experts represent the finance company, not you. In a volatile lease market, the independent review specialist remains a relatively new and unrecognized phenomenon. Find the right professional by reading trade journals or asking colleagues for a referral. Then choose a lease specialist

lowest payment. A low monthly payment looks like an attractive choice, yet on inspection, other terms vary. As an example, if you lease 500 laptops, the "Captive Leasing Company" (the equipment supplier's leasing company) may introduce a lower rate than a competing leasing company (independent) while unexpected penalties hide in clauses, such as return provisions. Typically, the supplier or vendor may require an 18-month termination notice while an independent lessor requires only 90 days. Insiders know there is value to used equipment that can be resold or recycled; the supplier may welcome the equipment's return; the bank or other financial institution will not. Thus, return provisions in one contract will be more yielding than another.

"Rely on a captive leasing company only if you are absolutely certain of returning the equipment — not planning to, but certain to — and have the ability to return it. Know where it's going to be at the end of the lease," advises the Chicago lessor who spoke confidentially. "In other words, account for all 500 laptops. Entering into a captive lease can easily become a 'pay me now or pay me later' situation."

Finance professor James M. Johnson from the Graduate School at Northern Illinois University, DeKalb, weighs in

A qualified lease review specialist may: 1) write a finance RFP that guides the firm over and around hidden expenses, and 2) compare, analyze and assesses subsequent bids. Sometimes terms of the contract match the request; often, they don't.

Remember, at any point in the process, hiring an independent lease-review expert is not unprecedented and is often justified.

As Curt Boswell, Executive Director of Lathrop & Gage, a firm with eight offices U.S.-wide, including a new office in New York and headquarters in Kansas City, points out, "...because of the myriad of subtle lease terms that have the potential of haunting the lessee during the life of the lease...the skills brought to the process by a well-qualified independent lease specialist can not only contribute to a more reasonable lease charge but also a better understanding of the lease terms and negotiation of these terms."

Through detailed analysis, the field of lenders narrows to a select few; negotiable points are identified so costly charges and penalties — gotchas! — are minimized and the financial institution that fairly and equitably meets your needs is secured. Generally, rates for specialized skills required in drafting a finance RFP are hourly. The subsequent lease review may be tied to hourly rates and/or a percentage of dollars trimmed from the final transaction. ♦