Leasing Reforms

They are long overdue in our industry

by: Paul Archer, Automated Business Technologies

As office technology dealers, we face a number of challenges in our industry. One of them is navigating through the questionable practices leasing companies employ when it comes to returning equipment before the end of its lease.

Logic would dictate that returning a copier/MFP or printer before its lease expiration date should be a simple matter of paying off the balance and arranging for its return in a relatively short period of time. The process should be that simple. That is how it is in many industries — but not ours, unfortunately. And exactly where does the problem lie? In my view — and the view of many fellow dealers — it is the practices of leasing companies that are at fault.

Consider this scenario. When a dealer wins a new piece of business from a client who has an existing lease agreement in place (facilitated by another dealer) and wants to upgrade from his (or her) present piece of equipment to a new one, the joy can be short-lived, as both the new dealer and the customer often encounter a major challenge — returning the no-longer-wanted equipment to the leasing company.

The first hurdle is determining the remaining balance on the lease of the original equipment. Usually, neither the "losing" dealer nor the leasing company provide accurate payoff numbers to the customer. Often they will defer to the originating dealer (the dealer who lost the sale) and not provide any information to the customer. Thus, the winning dealer and the customer have to work around this by estimating payments based on the remaining months on the lease. But even if the leasing company receives the balance due on the lease (as close as it can be figured), most will not accept the equipment back at their facilities until the term of the lease has concluded.

Many leases contain autorenew provisions, meaning that leases not cancelled within the window of time that cancellation is allowed are automatically renewed for a full year. The process is made more complex because the window of time to cancel the lease is usually somewhere between 90 and 180 days prior to the expiration of the lease. Also, it is rare that leasing companies send notifications of the impending lease expiration. In other industries — the auto industry as one example — there are many notifications that a lease is about to expire. In our industry there are many autorenews that customers do not want. Most customers do not know or remember when the lease is set to expire.

This questionable practice creates multiple headaches for a dealer. For example, a dealer picks up a machine from a customer that originated from a competitor and ends up storing it in his warehouse. That is a big problem. Since the leasing companies will not take the equipment back except at or after lease expiration, the new dealer generally needs to store this piece of equipment for many months. It is not uncommon for a dealer to have half of his warehouse space dedicated to competitive lease takeaways — and some have even hired outside assistance to track all of the machines.

Another headache for the dealer is this: Even though returning the old equipment is the customer's problem, under these conditions it can also become the new dealer's problem. The customer may expect the new dealer to remind them of the lease expiration date and manage the whole process. No matter how carefully a dealer might explain the process, if the customer fails to cancel within the window of time and the lease autorenews, there can then be a disagreement between the customer and the new dealer (whose equipment it wasn't in the first place) over who is morally obliged to pay the lease. There is a significant amount of tracking and record-keeping for what should be a simple process — pay the lease balance and have the leasing company take the equipment back.

In order to accommodate new customers, the "winning" dealer allocates significant warehouse space to store these competitive upgrade machines waiting for their leases to expire. In our case, about half of our total warehouse space is filled with such machines. A small dealership is likely storing dozens of copier/MFPs, each with a different return date.

Larger dealerships are storing hundreds of displaced machines. As a service to new customers, dealers end up monitoring the return date of each individual piece of equipment and then fulfilling the specific return requirements. It is a time-intensive and costly "workaround" for a problem that should not exist.

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Think of the implications of this practice. There could be between 12 and 18 months remaining on the leases of the no-longer-wanted pieces of equipment before the leasing companies will take them back. In addition to the inconvenience of storage, consider that the equipment is losing resale value by being off the market for this period of time.

No other industry I can think of has these kinds of practices in place. So why do they continue? Leasing companies will justify the practices for the following reasons:

(1) They will argue that the means by which leases are securitized (financed) by leasing companies do not allow for early lease cancellations and equipment returns. However, a majority of early lease upgrades are probably the lease-originating vendor (dealer) upgrading its own customers early. Every leasing company allows for this, hence this argument against early lease cancellations does not hold.

(2) Leasing companies may argue that dealers do not want them to allow for early return of equipment on leases lost to competitors. Again, this is not correct. The overwhelming majority of dealers I have talked to support this business practice change when they understand that, in exchange for their former customers being able to return leased equipment when remaining financing payment obligations are met, they can empty their warehouses of competitively upgraded leased equipment. So far, more than 220 members of the Business Technology Association (BTA) have signed a petition asking leasing companies to change this practice. To sign the petition, visit www.bta.org/leasingreturn.

(3) What the leasing companies may not admit (but which could be a key reason for continuing this troublesome practice) is that a significant percentage of competitively upgraded leases are not canceled on time and go into renewal payments. This is likely a significant, if ill-gotten, source of revenue for leasing companies.

This is a problem begging for a solution. And it is potentially a widespread problem, given that 90% of the equipment in the MPS space is leased. Again, no other industry that I can think of — the auto or mortgage industries, for example — has practices like these. In some industries, leasing is regulated by Congress, but not ours.

So, it follows that the solution to this must come from us and the leasing companies. It should not be a difficult "fix." It is as simple as this:

(1) Leasing companies should agree to freely provide the accurate payoff amount to the lessees and make it easy for them to return equipment.

(2) Once the leasing company is paid in full for the equipment, it should take the equipment back right away.

What can you do as an office technology dealer? Let your feelings be known by contacting any of the leasing companies you work with and tell them that you want this problem fixed — that you believe they should provide payoff data as requested and agree to take early returns on equipment when leases are paid in full. And if they do not or will not, move your leasing business to a company that will play reasonably. ■

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