

Economic Lease Term

FMV Notice and Renewal

FMV Lease Options

A properly structured Fair Market Value (FMV) lease offers the lessee three options at lease-end. The lessee may choose to (a) purchase the equipment for its then Fair Market Value, (b) return the equipment with no further obligations, or (c) extend the lease for short term increments. FMV leases often result in the lowest monthly payments of any lease type, but should be carefully reviewed before signed.

Purchase Considerations

The ability for the lessee to purchase the equipment at lease-end should be stated in the proposal and in the final lease documentation. The methodology to determine the then fair market value should be in the contract and reference checks should be made to the leasing company's customers that have purchased equipment. Leases with "mutually agreeable" fair market value determination should be avoided, as the leasing company rarely agrees to any purchase price and the lease extends.

Notice Provisions

Because leasing companies must test, refurbish and resell equipment that is returned, preparations for the equipment are often made in advance of the return date. Because of this, leasing companies require the lessee to notify the lessor of their intention to return or purchase the equipment. In most cases, this notice requirement calls for at least 90 days advance notice by the lessee. In some less favorable cases, this advance notice requirement can be 180 or 360 days. In some extreme examples, the leasing company defines a "notice window". This is a period of time in which notice is acceptable (often between 180 and 270 days before lease-end). This provision is nearly impossible to comply with, resulting in an extension of the lease contract.

Renewal Clause

When notice is missed, a properly structured FMV lease will result in a short-term 30-day or 90-day extension of the lease. In some cases, the lease contract may call for minimum extensions of 6 months or even 12 months. In these cases, the lessee missed their chance to return the equipment and must keep obsolete equipment for another year (and make lease payments) before exercising their return option.

Why This is Important

Some leasing companies can hide the true cost of their lease by including onerous purchase options, notice requirements and renewal provisions. By including terms that maximize the leasing company's lease-end revenue, the lease proposal will include artificially low lease rates. Unfortunately, this is often not realized until after the lease has concluded. This magnifies the importance of understanding your leasing partners history, track record, and reputation.

