

Expand your Business' Toolkit

TIPS AND RESOURCES FOR LEASING



TIPS AND RESOURCES FOR ADDING LEASING TO YOUR BUSINESS' TOOLKIT

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Anyone looking to expand their agricultural business, and that includes those in timber and forestry, may want to take a look at the Farm Credit Leasing program.

Leasing options are available on a wide range of items such as tractors, combines, forklifts and equipment. You can lease just about anything for agriculture. That includes facility leases for buildings, grain bins, greenhouses, equipment sheds, basically any kind of fixture to the property.

6 Reasons to Consider Leasing

- 1. 100% Financing.** One of the big things that draw people to the lease product is the 100% financing. There is no percentage down payment. The only thing due at the lease closing is your first rental payment and origination fee so it preserves your working capital. You don't have to pull the liquid cash out of your checking or savings to get the facility built.
- 2. Tax Management Strategy.** Another attractive feature is tapping the lease program as a tax management strategy. You're able to write off the lease payments as an operating expense on your tax return. Because Farm Credit Leasing technically owns the asset you are paying a lease payment. That enables you to write that lease payment off as an expense on your taxes rather than taking the depreciation that you would typically take on a building or facility.



Typically, any type building qualifies as a 20-year depreciable asset. On the lease side, there is a maximum lease period of 10 years. "You're basically accelerating your tax write-off in 10 years rather than depreciating it over 20. For example, if it's a \$100,000 building there is a 15% residual so you're actually only making payments based on \$85,000. The remaining \$15,000 is due at the end of 10 years. The payments are tax deductible.

- 3. Flexible Payment Schedules.** Another attractive feature is that payment schedules can be tailored to your business and are designed to help improve overall cash flow. If you're relying on grain or cattle sales, for example, payments can be set up to be made quarterly, semi-annually or annually to match the sale of those commodities.

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1. No Deed of Trust Mortgage against Your Property.

If the transaction amount is under \$500,000, there is no deed of trust mortgage against your property. The facility itself, that asset, stands as the collateral for the lease so it's not tying up your real estate.

2. Limited Extra Costs. While an origination fee is incurred with either a loan or a lease, there are no appraisal fees, attorney costs or closing costs on a lease.

3. Reduces Maintenance Down Times; Gives Cutting Edge Boost. When it comes to equipment leases, they can help reduce repair and maintenance times. They can also help a business stay on the forefront of technology and up-to-date on the most efficient equipment to keep your business moving smoothly. It helps keep you on the cutting edge of your industry.

Call 844.AGSOUTH to speak with a Leasing Agent

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LEASING PROGRAM HELPS GLOBAL LUMBER BUSINESS

Mike Parton, along with his nephew Tim, of Gilkey Lumber in Rutherford County, oversees their family-owned lumber manufacturing business. Started in 1953 by Mike's father, the hardwood mill initially served the thriving North Carolina furniture industry.

"We used to ship all of our lumber within a 100-mile radius," says Mike. "Today, we ship it all over the world. Most of it goes outside the United States. The main reason for that is the furniture industry pretty much left us. We had to follow them."

Infrastructure Helps Keep This Business Moving

The lumber they ship will end up in furniture and millwork products such as moulding, trim, paneling and flooring. With 65 employees and a process that starts with professional foresters (including Mike's

son Jess) who purchase the timber, Gilkey Lumber's facilities and systems are set up like clockwork to keep each phase moving to meet the international demand. A lot goes into turning timber into lumber.

From the moment logs are unloaded at the Gilkey site, each log is scaled, graded, and recorded into their digital system. They are then de-barked (the bark is sold for landscaping mulch) and then sent to the sawmill building to be manufactured into 4/4 lumber. Lumber graders inspect every board and mark it based on a 5-point system. An optimizer reads the mark and transfers the lumber into a corresponding bin where it is stacked with other boards of the same grade. From there it moves to dry kilns for 30 days.

Four dry kilns that each hold 85,000 board feet are filled to capacity in a special building that is constructed to handle 180 degrees and are heated with a huge boiler using the operation's sawdust. To get an idea of the scale of each kiln, 85,000 board feet equates to 8 to 10 tractor trailer loads of lumber.

The drying step is critical. It's one of the early steps to a fine piece of furniture and happy customers.



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“We dry all our lumber to 8 to 10 percent moisture content,” explains Mike. “It has to be dried down to that so glue lines will hold when the furniture people make a product. You make a high-price piece of furniture and then the glue lines start breaking apart when it gets to the customer’s home and you’ve got a problem.”

While the process continues from there, this gives a glimpse of how critical proper facilities, equipment and technology are to businesses like Gilkey Lumber. It’s all housed in 12 different buildings to keep everything moving to meet the demands for product to fill more than 500 shipping containers each year.

Farm Credit Leasing Option Helps the Bottom Line

Mike says that traditionally their business approach had been to wait until they could afford to build something. He felt that only the leasing companies benefitted. A few years ago, that changed. When Mike and his brother William were looking to add

a new building to handle an automatic de-sticking process for kiln-dried lumber, they learned about the Farm Credit leasing program.

Mike says they had never considered leasing but decided to hear what Farm Credit had to offer. That was followed by some homework.

“Our accountant put all the facts and figures together. Leasing saved a lot on the outlay of our own money. He figured the tax situation and how it would help us on our taxes. It was a good deal so we tried it. We put in about a million dollars’ worth of equipment and then built the building around it. It went very well. We were very happy with it. It was the first time we worked with Farm Credit but it won’t be the last, I can assure you that!”

Mike says the company is now looking toward another large leasing project with Farm Credit. “Because lumber is considered agriculture, Farm Credit just fit right in with us. They are excellent folks to deal with.”

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– Mike Parton, Leasing Customer

