

[Making the Right Choices for Financing Your Medical Equipment](#)

Healthcare decision makers face continual challenges when it comes to allocating scant resources. Patients demand the best that medical equipment technology has to offer. But the equipment is expensive. Capital budgets typically fall way short of requests for medical technology. It is therefore critical that all aspects of the equipment purchases and financing be carefully considered before a decision is made.

Equipment to purchase:

Deciding what type of equipment to acquire can be a daunting task in and of itself. Let's say you are considering the purchase of a CT scanner. The current and most widely-used model costs around \$1 million new. You've also been approached by a supplier that sells refurbished equipment. His company will sell you a refurbished 16-slice machine for \$400,000. You've also discovered that a new scanner is being rolled out in six months. Although this machine will be able to detect cancer and other diseases in its early stages, the cost is \$1.5 million. What do you do? Will you be able to charge more per scan with the newest technology so that revenues match expenditures? Will you be able to "get by" with the 16-slice for a period of time? These are questions that are at the root of the decision.

Once the decision has been made as to the type of medical equipment to be acquired, the next challenge is to decide what will be the optimal way of financing it. There are many options available, but the most common are borrowing the funds from a lender or leasing the equipment.

Medical Equipment Leasing:

Leases usually run from three to six years and have lower monthly payments than buying the equipment outright and financing it through a lender. That's because the lessee is paying for the use of the equipment during the term rather than owning it. In addition, leasing offers 100% financing, as there is no down payment required other than the first payment and a security deposit equal to a payment. Since the payments are lower, providers are able to improve their cash flow and are more likely to match revenues with expenses. From a tax standpoint, leasing also offers the advantage of writing off 100% of the lease payments.

Many medical professionals also opt for leasing because of its flexibility. A lease can be negotiated in such a way as to include maintenance, upgrades, and other services. At the end of the lease term, the provider has the option to purchase, renew, or simply return the equipment. This is an important advantage, as it guards against equipment obsolescence. At the inception of the lease, you should consider negotiating a fair market value cap or placing an early buyout option in the contract. These details are rarely in a standard lease, so you must ask the lessor for these items.

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Medical Equipment Loans:

When equipment obsolescence or cash flow isn't an issue (which is rare in the medical industry), an equipment loan might be a better alternative. At the end of the lease term, the provider has an asset that he can either continue using or dispose of it on the open market. Borrowers also receive tax benefits, such as the depreciation expense on the equipment and the interest expense incurred during the loan payout.

Using a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortization) is a common method of valuing healthcare practices and hospitals. If a healthcare group is considering going public or selling the business, financing equipment through a lender may be advantageous because it would result in a higher valuation than if they had leased the equipment. Leasing would be an "above the line" expense.

Personal Guarantees:

With both medical equipment leases and loans, personal guarantees from the owners are usually required. This provides a comfort level for the lessor or lender. If there is a default, the lender/lessor can attach personal assets of the lessee for the balance of the loan or lease that isn't satisfied by the liquidation of equipment. Most providers do not want to sign a personal guarantee for obvious reasons. However, if the clinic or practice has a solid track record of profits for five years or more, the lender/lessor will oftentimes abandon the personal guarantee requirement. That is another point that must be negotiated at the inception of the lease.

Choosing a lender or lessee:

Competition is fierce in the equipment financing industry. Acquiring the services of an independent financing consultant is advisable. A properly trained medical equipment financing broker will analyze your particular needs and will know which lender or lessee will be a good fit for your organization. He or she can guide you through the intricate details concerning the contract, which will allow you to achieve optimal capital financing.

About the Author

Kent Harlan has been a CPA since 1984 and is the owner of Ozarks Capital Funding, a firm offering financing in the areas of accounts receivable factoring, [equipment leasing](#), and [financing for healthcare providers](#).

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