Tonya Fry discusses the intricacies of financing a crane, whether it's new or used.

New vs. used?

Most crane owners understand that even with economic swings, cranes are excellent long term investments. Most companies that are considering adding a crane to their fleet typically evaluate new and used cranes for several reasons.

Many of our clients considering adding a crane do so to grow their business, increase revenue or replace an aged machine. Or they may need a crane for a specific job.

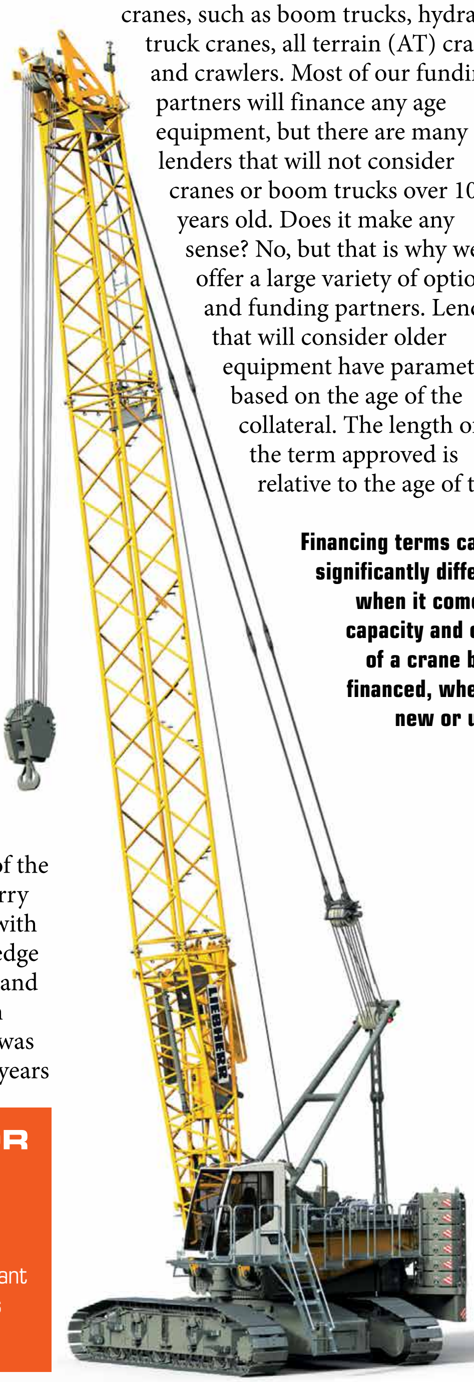
Since the recent recession is indelibly etched in the memories of many, the new versus used crane evaluation is a frequent exercise by crane owners. Even when the crane purchase can be justified and an immediate need is evident, there remains a hesitation to move forward. Oftentimes, a used crane is purchased because it achieve the goal at a lower cost. However, there are also cases in which a new crane is the better decision, especially when comparing financing.

Evaluating the terms

The key factors most discussed when financing a crane purchase – new or used – are rate, term and down payment. The age of the crane can have a significant impact on all three factors.

We find the term is what gets impacted the most in regards to age of the collateral. For more than 20 years Harry Fry & Associates (HFA) has worked with our funding partners to bring knowledge and experience of the crane industry and collateral value to maximize terms on both new and used equipment. HFA was the first company to provide 10-plus years on new cranes as a standard program.

Our funding partners and others in the industry have several criteria when financing a used crane that is significantly different from new cranes. They even go as far as being different between classes of cranes, such as boom trucks, hydraulic truck cranes, all terrain (AT) cranes and crawlers. Most of our funding partners will finance any age equipment, but there are many lenders that will not consider cranes or boom trucks over 10 years old. Does it make any sense? No, but that is why we offer a large variety of options and funding partners. Lenders that will consider older equipment have parameters based on the age of the collateral. The length of the term approved is relative to the age of the collateral. Below are the typical finance terms for new and used cranes:



Financing terms can be significantly different when it comes to capacity and class of a crane being financed, whether new or used.

BOOM TRUCKS:

New units	84 months
1-3 years old	72-84 months
3-5 years old	60-72 months
5-10 years old	48-60 months
10-plus years old	36-48 months

TRUCK CRANES, ATS AND CRAWLERS (70 TONS AND ABOVE)

New units	84-120 months
1-5 years old	84-96 months
5-10 years old	72-84 months
10-15 years old	60-72 months
15-20-plus years old	60 months or less

The main reason for the differences between the terms of truck cranes, ATs, crawlers and boom trucks is that boom trucks are mounted on commercial truck chassis. The premise is based on the concern of high mileage, excessive wear and tear on the chassis and high hours on the crane. Therefore, it is believed that a boom truck will reach the end of its useful life much quicker. Whereby, crawlers, ATs and truck cranes ae considered to have a significant longer useful life and may have terms up to 120 months based model year, mileage/hours and credit of the buyer.

Down payment

Down payment can often be impacted due to the age of the collateral, mileage/hours and of course the overall credit of the applicant. A funding source typically does not have concerns extending 100 percent financing on a unit that is new or a few years old. Cranes typically hold their values well, which translates to less risk for the funding source, and this can be reflected in the down payment required for the transaction. However, as a unit ages, many other concerns come into play, such as the hours, miles, if applicable, and the condition of the equipment. When considering a used crane as collateral, funding sources typically need to do a desktop evaluation to ensure the value of the unit are in line

THE AUTHOR

Tonya Fry graduated with a BA in economics from Stonehill College. She has been the assistant vice president at Harry Fry & Associates since 2004.

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Because they are attached to a commercial chassis, used boom trucks generally have more stringent finance options.

with the market. The hours, miles, and condition will all play into the overall evaluation of the asset, including the exact specifications. If the price of a used unit seems too high relative to the market, the funding source may require the exact specifications of the crane. If that does not satisfy their evaluation, money down may be required for the particular unit.

Creditworthiness

This topic seems simple but many customers do not know how or why their credit scores are affected. For an individual, it is not only payment history that generates their credit score. Obviously, slow pay, tax liens, charge-offs, etc. have a major negative effect on their score. But credit inquiries have a big effect as well. Be aware of who and what you are replying to when it comes to your credit. Believe it or not, having no credit can create a negative effect as much as bad credit. The reason is if a credit report does not show credit most creditors do not want to take a leap of faith. You may own everything outright and paid in cash but in the eyes of creditors they are cautious. Can it be worked out? Yes but it takes a little longer to work through credit.

If a crane or boom truck is 10 years old or less, we can typically obtain 100 percent financing for our customers, depending on their creditworthiness. When an asset is in the 10 to 20-year-old range we find that customers are typically required to put approximately 10 percent down on the purchase. On cranes and boom trucks that are over 20 years old, we find that as much as 20 percent down may be required.

Interest rate

Lastly, one of the factors that can be impacted is interest rate. Credit quality is what tends to impact interest rate the most. However, the interest rate can be impacted for older cranes and boom trucks. We typically do not see an effect on interest rates due to the age of the collateral until a boom truck is closing in on 15 years old. In regards to crawler cranes and truck cranes over 70 to 80 tons capacity, the interest rate tends to be impacted as they approach the 20 year mark. Funding sources that consider financing older units tend to believe they are at a higher risk. Should they get these older cranes back, they have a limited market to sell them to. In addition, many sources do not want to finance older collateral. Since there are not as many sources that will finance the older units, they have the ability to charge a premium rate.

When customers consider the purchase of a crane to add to their fleet, they often consider used cranes because they can add a crane to their fleet less expensively. However, due to the term reduction on older equipment, a customer should also consider the financing options for a new unit as well. For example, a new 40-ton boom truck may sell for $420,000. Since it is new, the unit can be financed for 84 months. This new unit would have a monthly payment of approximately $5,900. However, the customer may find a 2008 model 40-ton boom truck that is a good deal. The price on the 2008 unit is $230,000. Many will figure their payments on $230,000 based on an 84-month term. However, a 2008 unit will probably only receive a term of 48 or 60 months. A 48 month payment is $5,400 per month, and a 60 month payment is $4,400 per month. If a funding source will only approve a 48 month loan, then for $500 more per month, this customer could have a brand new boom truck with full warranty. The 60-month loan does offer a savings, but the condition of the equipment and any repairs should be considered. That said, obviously a company needs to have the creditworthiness to obtain financing on the new unit that is $420,000. If that cannot be obtained, then a used crane will end up being the perfect fit.

In regards to a mobile or crawler crane, differences in financing terms can be significantly different. For example, the approximate price on a new 110-ton crawler is $1,100,000. If the customer received financing for 96 months, their monthly payment will be approximately $14,500. But then the customer may find a two-year old 110-ton crawler for $820,000. If the customer has strong credit, it is possible that they may still be able to obtain the 96-month term. Their payment on this unit would be approximately $10,400. The used crane would offer a savings of almost $4,000 savings per month.

An important thing to keep in mind with used crane financing is that even though the age of the unit may affect down payment, term and interest rate, creditworthiness plays a very important part. The reason a range was provided on the term parameters is because lenders are more apt to approve the longer term on the used cranes if the customer has strong credit. In addition they are more apt to require less money down and offer a competitive interest rate as well.

In conclusion, when purchasing a new or used crane, financing options need to be strongly considered. Customers need to pay close attention to the length of term, down payment and interest rate that will be offered on both. Overall cost of ownership in regards to warranty and repairs, and insurance also need to be considered.