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Obtaining a Long-Term Loan and Determining its Amount for Attracting Leasing

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Abstract: *This article discusses the significance of leasing as a source of financing for business activities. Special attention is given to attracting and assessing long-term loans in leasing financing. Additionally, proposals are provided regarding the advantages of leasing, the calculation of lease payments, and the determination of its effectiveness.*

Keywords: *leasing, credit, effectiveness, guarantee, lease payments, advance payments.*

Introduction

The lack of targeted funding sources for projects that match the scale of enterprises' capital investments is currently one of the main issues in their investment activities. Many entities are experiencing a shortage of funds to finance projects. In this regard, in conditions of limited own funding sources, obtaining long-term loans also becomes problematic. One of the viable ways to attract investments for acquiring fixed assets is leasing.

The Law of the Republic of Uzbekistan "On Leasing" (April 14, 1999, No. 756-1) defines leasing as a type of financial rental in which one party (the lessor) acquires ownership of the property (the leased asset) specified in the leasing agreement at the request of another party (the lessee) and provides it to the lessee for a fee under the conditions specified in that agreement for possession and use for a period exceeding twelve months. [1]

Furthermore, the Law states that a lease agreement must meet one of the requirements, for example, at the end of the lease term, the leased asset is transferred to the ownership of the lessee. It should be noted that the term of the lease agreement exceeds 80 percent of the useful life of the leased asset, or the residual value of the leased asset at the end of the lease agreement must be less than 20 percent of its original cost. [1]

In their activities, enterprises primarily use the following sources of financing:

- equity capital;
- bank credit;
- securities markets [2], [3].

However, in terms of such sources, venture financing for leasing is absent. The latter is relatively inexpensive and is used in the practice of leasing financing. In transition economies, the securities markets are underdeveloped, and commercial banks prefer to work with stable enterprises. Small businesses do not always have access to bank loans. Often, the only source of external financing for such enterprises becomes financial leasing or supplier credits.

Literature Review

The literature review should cover several key aspects, such as the theory of long-term lending, its role in business financing, methods for determining the optimal loan size, and the relationship between loans and leasing. In the works of G.M.Keynes, it is emphasized that long-term lending is an important element of the financial policy of both the state and businesses. In this context, loans can be used to stimulate growth and modernization of enterprises [4].

The key factors in determining the size of a loan are the financial indicators of the company, such as liquidity, profitability, and debt burden. The application of these indicators is discussed in the work of G.Y.Belousov [5].

Economic conditions, interest rates, and inflation play an important role in determining the size of a loan. The work of A.G.Gryaznov demonstrates how external factors influence the decision-making process regarding the amount of credit [6].

In the works of authors such as I.V.Guseva [7] and A.V. Kolesnikova [8], the advantages of leasing are analyzed, including its use for acquiring expensive equipment and its relationship with the company's debt obligations.

Some researchers, such as M.Y.Schmidt, point to the potential complementarity of leasing and loans, where a company can use long-term loans for the initial payment on a lease or to ensure financial stability when entering into leasing agreements [9].

The works of M. I. Gabdullin and A. A. Lavrov discuss how companies can utilize combined methods of financing (credit and leasing) to enhance financial flexibility and reduce risks [10].

The literature review shows that successfully attracting long-term financing and accurately determining its amount requires a thorough analysis of the financial needs of the enterprise, market conditions, as well as the possibility of using leasing as an alternative source of financing. This provides lessees with flexibility in making decisions regarding capital structure and reducing financial risks.

Methodology of the Research

Statistical analysis methods were used in the research process, specifically the methods of comparison, grouping, analysis, and synthesis.

Analysis and Results

During the lease agreement, the leased property remains the property of the lessor (LL). In industrially developed countries, leasing services (LS) can operate without requiring additional guarantees or advance payments. Therefore, the leased property (LP) serves as a guarantee for the leasing transaction. This is possible if the system for returning ownership in such markets operates effectively.

On the domestic market, unfortunately, this does not always happen. For leasing companies to recover property that is their ownership, it is necessary to appeal to an arbitration court and then enforce the court's decision. This is a lengthy and inefficient process. Therefore, leasing companies require additional guarantees, advance payments, or prepayments from domestic lessees, among other things.

The need for the development of leasing activities is determined by the following reasons:

- The wear and tear of fixed assets and their high level;
- The minimization of investment opportunities for enterprises under the influence of factors (in particular, inflation), which can lead to a reduced demand for produced goods and insolvency among the serviced population.

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Currently, leasing serves as a financial instrument that facilitates systematic capital investments. This tool ensures the phased development of enterprises. Compared to other instruments, it allows for the independent acquisition of equipment[1].

Its successful implementation in the domestic market is due to the fact that, compared to other methods of acquiring equipment (payment upon delivery, purchase with deferred payment, bank loan, etc.), leasing has a number of significant advantages (see Fig. 1).

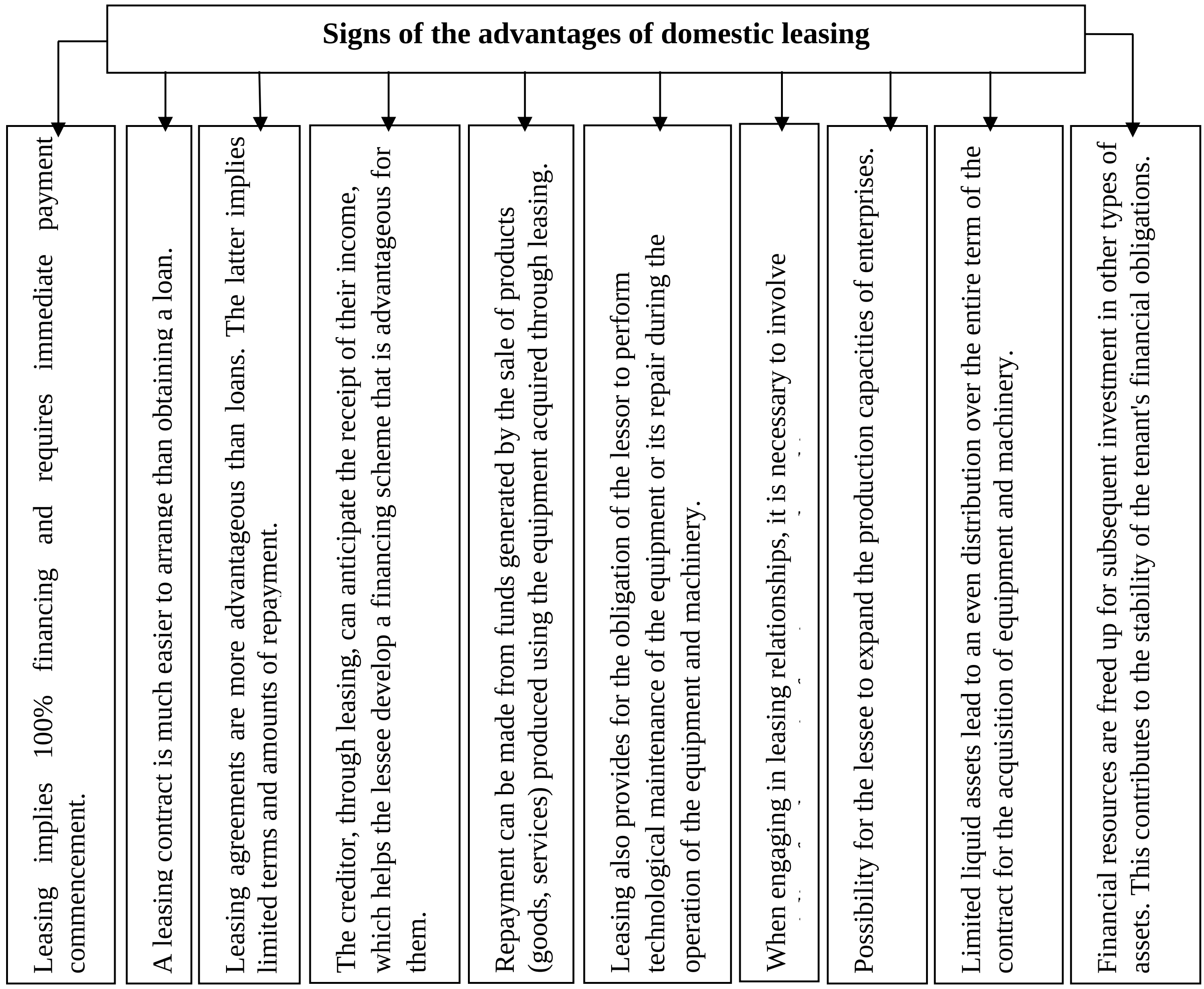

Figure 1. Key Advantages of Leasing [11]

In order to assess the effectiveness of leasing, it is necessary to evaluate its qualitative value. In our opinion, its effectiveness should be understood as the profit and cost savings achieved by a subject in a leasing transaction compared to a bank loan.

For example, to compare leasing and a loan, one should take a bank loan for two years with quarterly interest payments [12].

For example, when purchasing equipment, the lessee (L) will pay the purchase price of the equipment (PPE). This can be expressed with the following formula 1:

[1] Note: payment occurs upon delivery, with purchase on deferred payment terms, bank credit, loans, etc., that is, through leasing, which provides a number of advantages.

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PPE $= R_e V_a E_q + VAT$, (1)

here: $\sum R_e V_a E_q$ – residual value of equipment

VAT – value-added tax, accounted for in the process of buying and selling a leasing object, i.e., equipment.

In the context of quarters, the LL will pay the commercial bank the amount specified in the loan agreement according to Formula 2.

$OQ_f B_{loan.res.} = IR_{p.q} \times \Delta IR_{p.q} LTB_{loan.res.}$, (2)

here: $OQ_f B_{loan.res.}$- One-time quarterly fee for the use of bank loan resources.

$\Delta IR_{p.q} LTB_{loan.res.}$- Interest rate per quarter on a long-term loan.

In this case, the calculations for leasing and credit must take into account: the leasing payments of the lessee in the cost price of the products [13], and the interest expenses on loans incurred during the purchase of fixed assets and other non-current assets. These costs are not included in the cost of products (works, services) [6]. It should also be noted that by choosing leasing, the lessee forfeits the ability to account for depreciation, which would occur if they acquired equipment through a bank loan and owned it.

When calculating the profit for corporate income tax, the lessee can save (SF) funds (see formulas 3, 4, 5, 6):"

SF $= D_{ch} F_{res.} \times \Delta T_r EN / 100{,}0$ (3)

here: $D_{ch} F_{res.}$ - Depreciation charges for full restoration in the t-th period (quarter);

$\Delta T_r EN$ - The income tax rate of the lessee (or the enterprise)

При этом величину $D_{ch} F_{res.}$ следует рассчитывать согласно формуле:

$D_{ch} F_{res.} = \sum R^{es}_{val.} E_{quip.} / R_{es.} S^{serv.}_{life}$, (4)

here: $\sum R^{es}_{val.} E_{quip.}$ - Residual value of equipment acquired through leasing.

$\sum R_{es.} S^{serv.}_{life}$ – Residual service life of leased equipment.

The calculation of payments for additional services of LL for the t-period (quarter) ($C_{al.} P_{ay.} ASt$) is recommended to be carried out using the formula:

$C_{al.} P_{ay.} ASt = BTE + ES_{serv.} + AE_{exp.} + OT_{exp.} LL$ (5)

here: BTE - Business travel expenses of employees of the leasing company.

$ES_{serv.}$ - Expenses for services (legal consultations, information on equipment operation, etc.);

$AE_{exp.}$ – Advertising expenses of the lessor.

$OT_{exp.} LL$ – Other types of expenses for the services of the lessor.

In other words, within the context of all factors, the amount of quarterly lease payments made by the lessee (L) is recommended to be calculated using formula 6:

$L = D_{ch} F_{res.} + C_{al.} P_{ay.} ASt + P_{pay} \mathrm{T}_{tex.maint.}$ (6)

here: $P_{pay} \mathrm{T}_{tex.maint.}$- Payment for maintenance of equipment and machinery.

Here, the calculation and assessment of the economic efficiency of the leasing operation does not require significant labor costs, as it is easy and straightforward. This distinguishes it from the various calculations for its determination from the perspective of leasing companies.

However, it should be noted that such a calculation is also not without its drawbacks. For instance, in this case, leasing payments are undoubtedly calculated based on the average annual value of the asset, and the frequency (or urgency) of their payments does not affect the amount of the leasing payments. Here, the payment amounts can be calculated by dividing the total sum by the number of payments over the lease term. Consequently, in this case, the amount paid for borrowed funds can be related to the average annual amount of outstanding credit for the current year or to the residual value of the asset. This may create an opportunity to consider a systematically changing debt volume and payment under the leasing agreement over a specific period.

Conclusions and Suggestions

Thus, leasing should find application as a means of promoting machinery, equipment, vehicles, and software in the development of the specified activities. It can play a role in creating joint leasing companies with foreign banks and enterprises (firms). This will not only allow for the rapid assimilation of the rich experience of foreign companies in the field of leasing operations but also enable the use of their overseas networks. Moreover, leasing should find widespread application in the domestic economy of our republic. Our existing experience with renting certain types of construction equipment provides grounds to assert that this new concept—essentially novel for the domestic economy—can achieve much broader dissemination among business entities. At the same time, it should be noted that the rental use of construction equipment does not yet fully qualify as leasing in its true sense.

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