

Mayo Business Consulting

Equipment Financing Guide

A practical overview for business owners considering equipment and machinery financing, including SBA-backed financing.

1. Define the Equipment Need

Identify the equipment or machinery the business needs, how it will be used, and how it supports operations, capacity, efficiency, or revenue growth. Obtain detailed descriptions and current vendor quotes whenever possible.

2. Calculate the Total Project Cost

Consider more than the purchase price. Depending on the transaction, total cost may include delivery, installation, taxes, eligible soft costs, and other expenses necessary to place the equipment into service.

3. New vs. Used Equipment

Both new and used equipment may be financeable depending on the lender, program, condition of the equipment, useful life, valuation, and transaction structure. Used equipment may require additional documentation or valuation support.

4. Match Financing to Useful Life

Loan structure and maturity should make sense in relation to the expected useful life of the equipment and applicable program requirements. The goal is to avoid financing an asset substantially beyond the period in which it is expected to provide economic value.

5. Demonstrate Repayment Ability

Lenders evaluate whether business cash flow can support existing obligations plus the proposed equipment debt. Historical financial results, interim statements, projections, and debt service requirements may all be part of this analysis.

6. Prepare Supporting Documentation

Keep vendor proposals, invoices, equipment specifications, purchase agreements, and other documentation supporting the amount and purpose of the financing request. Clear documentation helps the lender understand exactly how loan proceeds will be used.

7. Consider Collateral and Guarantees

The equipment being financed may serve as collateral, and additional collateral or guarantees may be required depending on the lender, loan program, borrower, and transaction. Requirements vary and should be confirmed for the specific financing request.

8. Plan for the Cash Impact

Evaluate the effect of the purchase on working capital. A business should consider not only the new loan payment but also maintenance, insurance, staffing, utilities, training, and other operating costs associated with the equipment.

9. Build a Complete Financing Package

A typical equipment financing package may include:

- Business loan application and borrower information
- Business tax returns and current financial statements
- Business debt schedule
- Equipment quote or purchase agreement
- Description of how the equipment will be used
- Financial projections when appropriate
- Sources and Uses of Funds
- Ownership and management information
- Other documentation requested by the lender or SBA

10. Questions to Answer Before Applying

Why is the equipment needed now? How will it improve the business? What is the total installed cost? How will the purchase affect revenue, expenses, and cash flow? Is sufficient working capital available after the purchase? Having clear answers strengthens the financing presentation.

Equipment Financing Readiness Check
■ Equipment need and business purpose are clearly defined
■ Current vendor quote or purchase agreement is available
■ Total project cost has been calculated
■ Historical financial information is organized

■ Existing business debt is documented
■ Cash-flow impact and repayment ability have been reviewed
■ Supporting equipment documents are ready
■ Financing request is consistent throughout the package

Important: SBA rules, lender policies, eligibility standards, collateral requirements, and documentation requirements can change. This guide is for general educational purposes and is not a commitment to lend or a substitute for current SBA or lender requirements.