

Welcome to part 2 of Direct Finance 101. In case you missed our intro email, be sure to check it out [here](#).

Now we're going to break down two of the most common Direct Finance products: a capital lease and an operating lease. Both of these have many different names, so we'll highlight a few of them to avoid confusion. A capital lease is often referred to as a finance lease or an equipment lease and an operating lease is also known as a tax lease or true lease.

What are the differences between a Capital Lease and an Operating Lease?

	Capital Lease	Operating Lease
In a Nutshell	Similar to a Loan, but with a full term and nominal buyout provision	Lessee rents the system during the term, and buys the system at term
Eligibility	For-profits with tax liability	For-profits with or without tax liability
Deal size for OEG partners	\$50k +	\$500k +
Percentage System Cost Financed	Up to 100%	Up to 100%
Tax Benefits (ITC, Depreciation)*	Go to Lessee	Go to Lessor
Monthly Payments	Generally higher than under an Operating Lease, as Tax Benefits go to Lessee and not Lessor	Generally lower than under a Capital Lease, as Tax Benefits go to Lessor and not Lessee
Tax Deductibility of Monthly Lease Payments*	Only interest portion is tax deductible (though system depreciation also reduces taxable income)	Entire payment is tax deductible (i.e. qualifies as an expense)
Term	5 - 10 years (dependent on Lessee credit)	5 - 15 years (dependent on Lessee credit)
Buyout at Term	\$1.00	System Fair Market Value (FMV)

* Customers should consult a tax professional to discuss their financial and tax goals.

Capital and Operating Lease Q&A:

Q: So what does this mean for your customer? When is a capital lease a good option?

A: Capital leases are ideal for profitable businesses with tax liability (i.e., that can and want to take advantage of the ITC and depreciation) that want to own the system.

Q: When is an operating lease a good option for your customer?

A: An operating lease may be a better fit if your customer is a profitable business with insufficient tax liability. Or maybe your customer has the tax liability, but they are really just looking for the lowest monthly payments. An operating lease typically results in lower monthly lease payments than a capital lease since the lessor is taking the tax benefits, not the business (lessee). Operating leases also facilitate ownership of the system at the end of the term.

The Open Energy Finance Exchange can connect you with capital lease and operating lease options. Looking for another direct finance solution for your customer? We can help with those, too.

To get started securing financing for your customer's solar or energy efficiency project, give us a call at **917-410-7282**.

Have a topic you'd love for OEG to cover in Direct Finance 101? Tell us about it by emailing info@openenergygroup.com.