Leasing and Factoring
What is difference between leasing and factoring

Lecturer Baitukayeva D.U.

- What Is a Lease?
- A lease is a contract outlining the terms under which one party agrees to rent an asset—in this case, property—owned by another party. It guarantees the lessee, also known as the tenant, use of the property and guarantees the lessor—the property owner or landlord—regular payments for a specified period in exchange. Both the lessee and the lessor face consequences if they fail to uphold the terms of the contract. A lease is a form of incorporeal right.

- KEY TAKEAWAYS
- A lease is a legal, binding contract outlining the terms under which one party agrees to rent property owned by another party.
- The lease guarantees the tenant (also known as the lessee) use of the property and guarantees the lessor—the property owner or landlord—regular payments for a specified period in exchange.
- Residential leases tend to be the same for all tenants, but there are several different types of commercial leases.
- Consequences for breaking leases range from mild to damaging, depending on the circumstances under which they are broken.

Understanding a Lease

- Leases are legal and binding contracts that set forth the terms of rental agreements in real estate and real and personal property. These contracts stipulate the duties of each party to effect and maintain the agreement and are enforceable by each. For example, a residential property lease includes the address of the property, landlord responsibilities, and tenant responsibilities, such as the rent amount, a required security deposit, rent due date, consequences for breach of contract, the duration of the lease, pet policies, and any other essential information.
- Not all leases are designed the same, but all have some common features: rent amount, the due date of rent, the expiration date of the lease. The landlord requires the tenant to sign the lease, thereby agreeing to its terms before occupying the property.

Special Considerations

- Consequences for breaking leases range from mild to damaging, depending on the circumstances under which they are broken. A tenant who breaks a lease without prior negotiation with the landlord faces a civil lawsuit, a derogatory mark on their credit report, or both. As a result of breaking a lease, a tenant may encounter problems renting a new residence, as well as other issues associated with having negative entries on a credit report.
- Tenants who need to break their leases must often negotiate with their landlords or seek legal counsel. In some cases, giving a certain amount of notice or forfeiting the security deposit allows tenants to break their leases with no further consequences.

- Some leases have early termination clauses that allow tenants to terminate the contracts under a specific set of conditions (job-related relocation, divorce-induced hardship) or when their landlords do not fulfill their contractual obligations. For example, a tenant may be able to terminate a lease if the landlord does not make timely repairs to the property.
- The terms of a lease cannot violate state or federal law. So a clause that allows a landlord to enter the premises at any time without notice or one that, via court action, grants a landlord to recover more than statutory limits allow is not enforceable.

Types of Leases

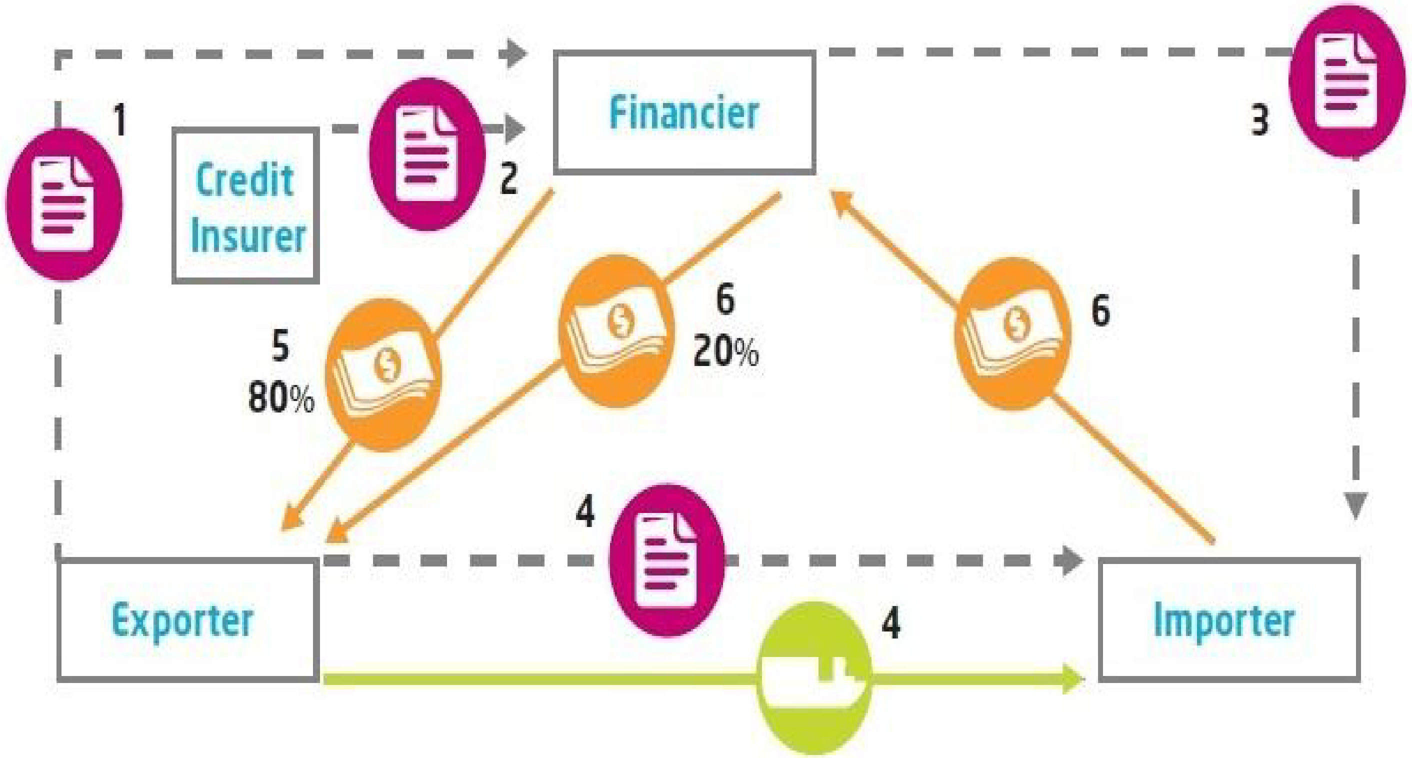
- Beyond residential leases, tenants who lease commercial properties have a variety of lease types available, all of which are structured to assign more responsibility on the tenant and provide greater up-front profit for the landlord.
- Some commercial leases require the tenant to pay rent plus the landlord's operational costs, while others require tenants to pay rent plus property taxes and insurance. The four most common types of commercial real estate leases include:

- Single-Net Leases: In this kind of lease, the tenant is responsible for paying property taxes.
- Double-Net Leases: These leases make a tenant responsible for property taxes and insurance.
- Triple-Net Leases: Tenants who sign these leases pay property taxes, insurance, and maintenance costs.
- Gross Leases: Tenants pay rent while the landlord is responsible for other costs.

What is factoring?

- Factoring, receivables factoring or debtor financing, is when a company buys a debt or invoice from another company. Factoring is also seen as a form of invoice discounting in many markets and is very similar but just within a different context. In this purchase, accounts receivable are discounted in order to allow the buyer to make a profit upon the settlement of the debt. Essentially factoring transfers the ownership of accounts to another party that then chases up the debt.
- Factoring therefore relieves the first party of a debt for less than the total amount providing them with working capital to continue trading, while the buyer, or factor, chases up the debt for the full amount and profits when it is paid. The factor is required to pay additional fees, typically a small percentage, once the debt has been settled. The factor may also offer a discount to the indebted party.
- Factoring is a very common method used by exporters to help accelerate their cash flow. The process enables the exporter to draw up to 80% of the sales invoice’s value at the point of delivery of the goods and when the sales invoice is raised.

Factoring: Process



1 Debt purchase facility entered into between exporter and financier
2 Financier becomes loss payee of credit insurance (or provides debt protection)
3 Notice of assignment of debt (invoice) to financier provided to importer
4 Goods shipped and importer invoiced by exporter
5 Financier purchases invoice and pays 80% proceeds to exporter
6 Importer pays the invoice to financier and exporter receives balance

What is…Forfaiting?

- Forfaiting (note the spelling) is the purchase of an exporter's receivables – the amount that the importer owes the exporter – at a discount by paying cash. The purchaser of the receivables, or forfaiter, must now be paid by the importer to settle the debt. This is a common process used for speeding up the cash flow cycle and providing risk mitigation for the exporter on 100% of the debts value.
- As the receivables are usually guaranteed by the importer's bank, the forfaiter frees the exporter from the risk of non-payment by the importer. When a forfaiter purchases the exporter’s receivables directly from the exporter then it is referred to as a primary purchase. The receivables technically then become a form of debt instrument that can be sold on the secondary market as bills of exchange or promissory notes, this is known as a secondary purchase.