

Interest Rates Insight from Dave Penoff of TCF Equipment Finance

I have been getting a lot of questions about interest rates lately. They went up a lot in late November and early December and customers and dealers are asking what to expect in 2017. I think it is possible that rates will fall back a little bit early in 2017 but everything suggests that over the longer term they will continue to rise.

When the Federal Reserve raised rates 0.25% at their December meeting they said that they were planning 3 rate increases in 2017 if the economy continued to do well.

We are coming off of a 3 - 4 year period of stable low rates and everyone forgets what rates were like before that.

This can pose a problem when you are ordering equipment for a customer as there is no way to know what the rate will be at delivery.

Here at TCF we have some tools to protect the customer against rate increases on ordered equipment:

- 1) We can lock in an interest rate for 90 - 120 days. Once we receive a credit application from the customer we can lock it in for the balance of that month + 90 days.
- 2) We can fund a municipal lease to an escrow account. That sets the rate and payments and then we pay for the equipment when it comes in. The customer can still have the payments start when they choose. We set up an escrow account at another bank and there is usually a fee for this (\$250 - \$500 depending on the size of the lease). The interest clock starts running when we fund the lease to escrow but the small additional interest cost and fee are usually quite a bit less than the impact of a potential rate increase. And while it may not be a lot, the interest earnings from the escrow are paid to the customer. The money sits in the escrow account until you deliver the equipment.
- 3) We can also combine these to minimize the cost if we need longer than 120 days. We would lock the rate and then right before the rate lock expires we would fund the lease to an escrow account. This minimizes the additional interest cost.

The best advice I can give you is to talk to me if you have a situation where any of these tools can help.

I am looking forward to your business in 2017!

Thank you

DAVID R. PENOFF Vice President, Sales Representative
TCF Equipment Finance, A Division of TCF National Bank
1145 Fiesta Drive • Greenwood, IN 46143
P: [317-328-1166](tel:317-328-1166) | F: [888-200-6313](tel:888-200-6313) | C: [317-500-0190](tel:317-500-0190)
dpenoff@tcfef.com