

2020 CLFP Body of Knowledge

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History & Overview of Equipment Finance and Leasing

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Middle Ages

Industrial Revolution

Railroad Industry

Early 1900s

Independent Leasing Companies

Captives

History of Modern Equipment Finance

1950s

Government Efforts to Stimulate Economy

Advancement of Technology

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1960s

ITC

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ERTA

TEFRA

DRA

ACRS

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Small-Ticket Scoring Models

Bank Acceptance of TPOs

Creative Financing Structures & Large-Ticket Leasing

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Form and Substance

Leveraged Leases

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Synthetic Leases

Significant Equipment Growth

2000 - 2010

Rapid Expansion in Leasing Industry

Enron

NorVergence

2008 - 2010 Great Recession

The Collapse of Capital Markets

Failure of Long-Time Players
Tightening of Credit Parameters

Expansion of Banks in Leasing Industry

2010 - Present

Regulation

Dodd-Frank

CFPB

Too Large to Fail

Systematically Important Entity

Exit of GE Capital

Industry Absorption

Low Interest Rate Environment

Low Delinquency Rates

Assets Under Management

Significant Increase in Equipment Loan Financing and Decrease in Equipment Leasing Activity

Combination of Products Within the Industry

Accounting Debate and Changes

Implementing of Changes

Anticipated Impact for Providers and Users of Equipment Financing and Leasing

Emphasis on Automation and Efficiency

Fintech

Further Industry-Specific Software and Options

Increase in Technology Investment

Benefits of Equipment Financing and Leasing

Participants in The Industry

Equipment End-Users (Borrower or Lessee **or Governments**)

Lessors and Lenders

Third Party Originating Organizations

Investors

Equipment Suppliers

Service Companies

Trade Associations and Foundations

Regulators

Industry Sector by Transaction Size

Small-Ticket

Micro-Ticket

Middle-Ticket

Lower Middle-Ticket

Large-Ticket

Competition to Equipment Financing (Direct and Indirect)

Cash

Unsecured Lines of Credit

Personal or Corporate Credit Cards

Merchant Cash Advances

Working Capital

Invoice Factoring

Secured Loans

- Small Business (SBA) Loans
- Home Equity Lines of Credit
- Equity Capital, Public Stock Offerings
- Collateralized or Secured Bonds, Unsecured Bonds
- Capital Budget
- Tax Revenue

Equipment Finance Products

- Capital Lease
- Commercial Term Loan
- Conditional Sales Contract
- Early Buyout Option (EBO)
- Equipment Finance Agreement (EFA)
- Fair Market Value Lease (FMV)
- Finance Lease
- Leverage Lease
- Managed Services (Contract Services)
- Money-Over-Money Transaction
- Net Lease
- Nominal Purchase Option
- Non-Tax Lease
- Tax or True Lease
- Operating Lease
- Purchase Upon Termination Lease (P.U.T.)
- Rental Agreement
- Sale-Leaseback
- Split-TRAC
- TRAC Lease

Five Drivers of the Equipment Finance/Leasing Industry

- Economy
- Cost, Availability, and Variety of Funding
- Turnover of Plant and Machinery
- Marketplace Characteristics (extent and basis of competition and Lessee awareness)
- Public Policy (Tax, Regulations and Law)

Financial and Tax Accounting

Financial Accounting

Classification Under ASC 840 (FKA FASB 13) and ASC 842

Lease Classification (Lessor)

- Sales-Type Leases
- Direct Financing Leases
- Leveraged Leases
- Operating Leases

Lessor Accounting

Financial Statement Compilation (Lessor)

- Direct Financing Lease (Balance Sheet at Inception and Income Statement for First Month)
- Operating Lease (Balance Sheet at Inception and Income Statement for First Month)
- EFA/Loan

End of Lease Options

Lessee Accounting

How Operating and Capital Leases Are Handled

Accounting Basis

Accrual Basis

Cash Basis

Tax Basis

Accountants Reports

Compiled

Reviewed

Audited

Financial Statements

Balance Sheet

Income Statement

Statement of Cash Flows

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Tax Accounting

Revenue Rulings & Procedures

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Revenue Procedure 2001-28

Classification Under 55-540

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Depreciation

Modified Accelerated Cost Recovery System (MACRS)

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Sales and Personal Property Tax

Sales Tax

Requirements Based on Jurisdiction Where Equipment Is Located

Lessee Vs Lessor Responsibilities

Sales Tax Types

Up Front on Cost

Up Front on Sum of Receipts

On Stream

Filing Frequencies

Equipment Exemptions

Personal Property Tax

Requirements Based on Jurisdiction Where Equipment Is Located

Lessee vs. Lessor Responsibilities

Filing Frequency

Assessment Date

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Leasing Law

Basis for U.S. Leasing Law

Statutory, Case and Regulatory Law

Federal Law State Law

General Principles of Contract Law

The Uniform Commercial Code

Conflicts of Law

Choice of Law

Legal Definition of a Lease

UCC Article 2: Sale of Goods

UCC Article 9: Secured Transactions

Financing Statement

Security Interest

PMSI

UCC Article 2a: True Leases

Contrasting True Lease and Lease Intended as Security

Distinctions in Lessee's Bankruptcy

Interest/Usury

Collateral Liability

UCC Rights

Perfection of Security Interests

Residual

Bankruptcy Law

Types of Bankruptcy

Liquidating Bankruptcy or Reorganization

Voluntary and Involuntary Bankruptcy

Bankruptcy Procedures

Automatic Stay.

Plan of Reorganization

Proof of Claim

Assumption/Rejection

Preferences in Bankruptcy

Legal Entities

Corporations

"C" Corporation

"S" Corporation

Non-profit Corporation

Professional Corporation ("PC")

LLCs

General Partnerships and Limited Partnerships

Sole Proprietors

Tradenames

Other Variations of Business Entities

Joint Venture

Association

Trust

Municipality

Federal Government

Qualification to Do Business

Taxes

Licensing and Being in "Good Standing"

Lease Pricing

Lease Pricing Fundamentals

Time Value of Money Concept

Terminology

Yield

Implicit Rate

Running Rate or Stream Rate

Lease Rate or Lease Rate Factor

Discount Rate

Internal Rate of Return

Points

Basis point

Arriving at a Desired Lessor Yield

Calculating Present Value

Major Variables

Term/Number of Payments

Rate

Equipment Cost/PV

Lease Payment

Residual Value

Minor Variables

Indirect Costs

Security Deposit

Number of Advance Payments

Other Fees/Costs

Solving for Any Unknown Element in The Transaction

Cash Flow Diagrams

Application of The Cash Flow Diagram to The Lease Transaction

Structuring of A Payment

Principal Plus Interest

Amortizing Payment

Non-Tax Pricing

Computing Unusual Payment Structures

Pricing Tools (SuperTrump™, TValue™, Financial Calculator, Custom Spreadsheet)

True (Tax) Lease Pricing

Elements Affecting True (Tax) Lease Pricing

Impact of Tax Rate Changes on Lease Profitability

Sales and Marketing

Role and Purpose of Sales and Marketing

Sales and Marketing Coordination and Collaboration

Brand

Top of Mind Awareness

Continuous Contact

Common Equipment Finance Origination Channels

Marketing

Market Segmentation

The Marketing Plan

Components

Keys to Successful Execution

The 4 Ps of Marketing

Monitoring and Measuring Success of the Marketing Plan

Sales

- Filling the Prospect's Need
- Mind the Portfolio
- Sales Participation Throughout the Origination Lifecycle
- Communication and Customer Experience
- The Necessity of the Niche
- Tailoring the Benefits of the Product to Prospect Needs
- Proposals

Typical Sales and Marketing Tools

- Contact and Customer Relationship Management

The Direct Origination Channel

- Definition
- Purpose
- Market Segmentation
- Benefits
- Drawbacks

The Vendor Origination Channel

- Definition
- Purpose
- Market Segmentation
- Marketing Methods
- Programs

Referrals, Third Party, Private Label, Virtual Joint Venture, Joint Venture

- Benefits
- Vendor Support (Guarantees, Recourse, First Net Loss arrangements, Blind Discounts, Repurchase Agreements, Net Loss Indemnity)
- Drawbacks

The Third-Party Origination Channel (TPO)

- Definition
- Purpose
- Similarities to Vendor Origination
- Market Segmentation/Target Identification
- Benefits
- Drawbacks
- Marketing Efforts

Lease Syndication Buy & Sell

- Definition
- Purpose
- Benefits
- Drawbacks

Portfolio Acquisition

- Definition
- Purpose
- Benefits
- Drawbacks

Credit

Role and Purpose of Credit

5 Cs Of Credit

Risk Appetite Framework

PD, LGD, EAD, EL

Credit Process

Small-, Medium-, and Large-Ticket

Credit Request/Credit Application

Data Gathering and Due Diligence

Know the Origination Channel

Know Your Customer

Fraud

Know the Legal Entity

Making the Credit Decision

Credit Evaluation Tools

Credit Scores

Credit Bureaus

Financial Statement Analysis

Non-Traditional Data Sources

Risk Ratings and Risk Scores

Industry Peer Comparison

Financial Statements Analysis

Basic Purpose of Financial Statements

Types of Financial Statements and Impact on Credit Decision

Audit/Review/Compilation/Management Prepared

Audit Opinions

Analysis Techniques

Industry Review and Comparison

RMA, NAICS, SIC

Ratios

Profitability

Gross Profit Margin

Operating Profit Margin

Net Profit Margin

ROA/ROE

Liquidity

Current Ratio

Quick Ratio

Accounts Receivable Turnover

Inventory Turnover

Accounts Payable Turnover

Leverage

Debt to Equity

Debt To EBITDA

Long Term Debt to Capitalization

Cash Flow and Coverage Ratios

EBITDA/EBITDAR

Traditional Cash Flow Analysis

Cash Throw-off

Global Cash Flow Analysis
Debt Service Coverage Ratio (DSCR)
Fixed Charge Coverage Ratio

Impact on Financial Statement Ratios of Lessees Given New Lease Accounting Standard

Recalculate Certain Key Financial Ratios
Revisit Financial Analysis and Evaluation
Decision Impact
Example

Other Financial Information

Personal Tax Returns
Personal Financial Statements

Deal Structuring

Credit Enhancements

Credit Decision

Small-, Mid- and Large-Ticket Decisioning

Credit Scoring and Analysis

Building and Using a Scorecard
Risk Acceptance Criteria & Making Decisions
Scoring Methodology
Future of Credit Scoring

Modeling
Auto-Decisions
AI
Process

Equipment Lease and Financing Documentation

Documentation Process

Standard Documentation

Forms of Contracts
Standard "One-Off" Agreement
Master Agreement
Plain Language Agreement

13 Standard Lease & Financing Documents

Lease Contract
Lease Schedule
Exhibits & Schedules
Delivery & Acceptance Certificate (D&A)
Guaranty
Corporate Resolution
Real Estate Waiver
Fixture Filing
UCC Filings
Cross-Default Agreement
Purchase Order
Invoice
Advance Funding/Prefunding Agreement
Purchase Option

Elements and Provisions of a Lease Contract

Identification of The Parties
Identification and Address of The Vendor/Supplier
Equipment Description
Equipment Location
Terms
Purpose/Intent of Agreement
Acceptance of Equipment by Lessee
Disclaimer of Warranties
Article 2A Provisions
Assignment
Rental Commencement and Other Payments
Non-Cancellation Provisions
Lessee/Lessor Signatures
Choice of Law/Jurisdiction/Venue
Security Deposits
Authorizations, Power of Attorney, Amendments
Location and Use of Equipment
Ownership Provisions
Renewal Provisions
Insurance Requirements
Responsibility for Liens and Tax Liability
Lessee Indemnification of Lessor
Lessor Assignment, Waiver of Defense Clause
Service Charges, Late Fees, Interest
"Time Is of The Essence" Provisions
Default Provisions
Remedies to Default
Cross Default Clause
Attorney Fees/Regarding Enforcement Expense
Severability

Schedules and Exhibits

Delivery and Acceptance

Purpose of the D&A
Use of the D&A
Elements of the D&A
 Acceptance and Representations Regarding Equipment
 Instructions to Pay Supplier (Vendor)
 Unconditional Nature of Acceptance
 "Acceptance" In Advance of Delivery

Personal and Corporate Guarantees

Purpose of The Guarantee
Use in The Lease Transaction
Cross Entity/Corporate/LLC/Partnership Guaranties
Issues to Consider Regarding Guaranties
 Consideration

- Authority to Guaranty
- Obligation Guaranteed
- Waiver of Suretyship Defenses
- Standard Provisions

Corporate Resolutions

- Purpose of The Corporate Resolution*

- Use of The Corporate Resolution*

- Elements of The Corporate Resolution*

- Authority of Corporation to Enter into Lease And/or Guarantee

- Identification of Authorized Signers for The Corporation

Real Estate & Landlord Waivers

- Purpose of The Real Estate/Landlord Waiver*

- Use of The Real Estate/Landlord Waiver*

- Filing Requirements for A Real Estate/Landlord Waiver*

- Landlord Waiver

- Identification of The Parties

- Agreement on Subject and Nature of Fixture

- Waiver of Rights by Landlord/Mortgagee

- Permission to Claim Property

- Legal Description of Property

- Acknowledgment

Fixture Filings

- Purpose of A Fixture Filing*

- Use of The Fixture Filing*

- Form Used for Fixture Filings*

- Filing Requirements*

- Protections Offered from A Fixture Filing*

UCC Filings

- Purpose of UCC Filings in The Lease Transaction*

- Form of The UCC Filing*

- UCC-1

- UCC-3 Amendment/Assignment/Termination Form

- Filing Requirements*

- Filing Location

- Timeliness

- Continuation

- Fees

- Signatures

- Additional UCC Issues*

- Precautionary Filings

Purchase Order

- Parties to The Purchase Order*

- Purpose of The Purchase Order*

- Content of The Purchase Order*

- Representations Required by Supplier

- Disclaimers and Conditions by Lessor

- Use of The Purchase Order*

Invoice

Parties to The Invoice

Purpose of The Invoice

Content of The Invoice

Advance Funding/Pre-Funding Agreement

Parties to The Agreement

Purpose of The Agreement

Terms and Use of The Agreement

Contents and Styles of The Agreement

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Interim Funding

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Purchase and Renewal Options

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Fair Market Value Option (FMV)

PUT Option/Fixed Purchase Option

Renewal Option

Early Buyout Option (EBO)

Additional Collateral as Security

Parties to The Agreement

Purpose of An Additional Collateral Agreement

Form for The Agreement

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Matched Funding vs. Pooled funding

Sources of Capital

Internal Funding

Brokering

Discounting

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Risks

Financial Considerations

Tax and Operational Considerations

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Warehouse Lines of Credit

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Securitizations

Other

Insurance Companies, Pension Funds, Income Funds

Regulatory Compliance

State Regulations

State Electronic Recycling Regulations

State Security Breach Regulations

Automatic Renewal (Evergreen Clause)

California Finance Lenders Law Requirements

Usury

Licensing and Being in "Good Standing"

Federal Regulations

CFPB (Consumer Financial Protection Bureau)

KYC (Know Your Customer)

ECOA (Equal Credit Opportunity Act) (Reg B)

BSA (Bank Secrecy Act)/AML (Anti Money Laundering)/USA PATRIOT Act

OFAC (Office of Foreign Assets Control) and FINCEN (Financial Crimes Enforcement Network)

FDICIA (Federal Deposit Insurance Corporation Improvement Act)

Beneficial Ownership Interest

SCRA (Service Members Civil Relief Act)

SOC (Service Organization Control)

Funding

Standard Funding Package

Invoice

Verification of Executed Documents

Wet Signatures

eSignatures

Vaulting

Insurance

Delivery and Acceptance (D&A)

UCC

Verbal Verification

Tax Treatment

Equipment Inspection

Driver's License

Titled Transactions

POA

Title/MSO

Notary

Driver's License

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Electronic Titles (When Auditing and When Perfecting)
Tax Treatment Variables

Technology

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Analysis, Prioritization, Selection, Implementation, Maintenance, Decommission
Customer Experience
CRM
Origination System
Portfolio Management System

Electronic Signatures

Authentication Options
Signature
Vaulting

Business Functions

3rd Party Services
Data Repository, Reporting, Analytic Tools
Content Management

Infrastructure

Business Process Management
Business Productivity and Corporate Applications
APIs and Integration

Future of Equipment Finance Technology

Customer Service

Pre-Booking Customer Service

Post-Booking Customer Service

Payoff
Early Termination Payoffs
Ending (End of Lease Term)
Renewals
Legal/Liquidation
Sales and Property Tax Implications Lease vs. EFA
Property Tax
Account Inquiries
Contract Adjustments
Contract Assumption Scenarios
Proactive Payment Relief Scenarios
Billing and Collecting
Outsourcing Considerations
Timing Considerations
Insurance Administration
Insurance Considerations for Equipment Finance
Property Insurance
Liability Insurance
Insurance Binders
Insurance Certificates

Force Placed/Automatic Insurance

Insurance Claims

Title Management

Account Reconciliations

Portfolio Management

Tracking Portfolio Performance

Portfolio Characteristics

Portfolio Reporting Performance Indicators

Credit Risk Indicators

Financial Risk Indicators

Business Risk Indicators

Ongoing Credit Review

Small-Ticket

Behavioral Scoring and Portfolio Management

Middle- and Large-Ticket

Periodic Credit Review

Collections

Importance of Industry Knowledge

Knowing Which Collection Practices are Lawful and Efficient

*Fair Debt Collection Practices Act (FDCPA)/National Automated Clearinghouse Association (NACHA),
Etc.*

Maintaining Customer Goodwill

Primary Responsibilities

Collection of Lease Contracts

General Collections

Collection of Residuals

Collection of Taxes

Collection of Insurance Premiums

Collection of Late Charges

Collection of All Other Amounts Due

Identify Accounts at Risk

Tracking Collection -Specific Portfolio Indicators

Document Collection Activities

Secondary Collections Responsibilities

When to Escalate

Interfacing with Attorneys on Litigation Matters

Repossession

Remarketing Repossessed Equipment

Alternative Collection Processes (Remedies)

Bankruptcy Procedures

Current Expected Credit Loss Model (CECL)

Asset Management

Pre-Funding

Equipment Type Implications

Lease Structure Implications

Value Verification

Data Considered in Equipment Valuation

Residual Value Review

Arriving at Residual Values

Return and Maintenance Agreements

Fees

Inspections

Post-Funding

Credit Reviews & Equipment Inspections

Residual Value Adjustments as Required

Default Scenarios

Establish Risk Parameters

In-Place Value vs. Recovered Value

Legal Impact

Commercially Reasonable Sale vs. Straight Liquidation

Costs to Recover, Recondition, and Sell