

# 2021 CLFP Body of Knowledge

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# History & Overview of Equipment Finance and Leasing

Ancient History

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*

*Section 167*

*Revenue Ruling 55-540*

1960s

*ITC*

*Accelerated Depreciation*

1970s

*Revenue Procedure 75-21*

*FASB 13*

1980s

*ERTA*

*TEFRA*

*DRA*

*ACRS*

*TRA '86*

*AMT*

*Competitive Equality Banking Act*

1990s

Small-Ticket Scoring Models

Bank Acceptance of TPOs

Creative Financing Structures & Large-Ticket Leasing

*Double-Dip Leases*

*Form and Substance*

*Leveraged Leases*

*Defeased Transactions*

*LILOs, QTEs and TBTs*

*FSC*

*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 842

  - Lease Classification (Lessor)*

    - Sales-Type Leases

    - Direct Financing 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*

*Reconciliation of Retained Earnings or Net Worth*

*Notes to Financial Statements*

## Tax Accounting

### Revenue Rulings & Procedures

*Revenue Ruling 55-540*

*Revenue Procedure 2001-28*

### Classification Under 55-540

*Lease vs. Conditional Sale Contract*

### Depreciation

*Modified Accelerated Cost Recovery System (MACRS)*

*Bonus Depreciation*

*Section 179*

### 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

Rendition Filing and Payment Process

## 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*

Lease Commencement

Interim Funding

*Additional Considerations/Potential Dangers of Use*

## Purchase and Renewal Options

*Parties to The Option*

*Types of Options*

Nominal Option

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*

*Requirement to Perfect Interest*

## Real Estate as Additional Collateral

*Forms of Security*

Deed of Trust

Mortgage

*Requirements for Filing and Perfection*

*Anti-Deficiency Laws*

## Equipment Finance Agreements (EFAs)

*Purpose of EFAs*

*Use of EFAs*

*Documentation for EFAs*

*Comparing EFAs To Leases*

## Municipal Leasing Documentation

## Agricultural Leasing Documentation

# Equipment Finance Operations and Funding

## Matched Funding vs. Pooled funding

## Sources of Capital

Internal Funding

Brokering

Discounting

*With or Without Recourse*

*Benefits*

*Risks*

*Financial Considerations*

*Tax and Operational Considerations*

## Equity and Debt

*Leverage, Gearing Ratio, Weighted Average Cost of Capital*

*Subordinated Debt*

*Warehouse Lines of Credit*

*Permanent or Term Debt*

## Asset Securitization

*Commercial Paper Conduits*

*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*

*Lien Perfection Lease vs. EFA*  
*Electronic Titles (When Auditing and When Perfecting)*  
*Tax Treatment Variables*

## Technology

### Software

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

### Electronic Signatures

*Authentication Options*  
*Signature*  
*Vaulting*

### Business Functions

*3<sup>rd</sup> 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*