

# 2022 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

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

ESG (Environmental, Social and Governance)

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

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

## Benefits of Equipment Financing and Leasing

Cash Flow or Cash Management

Tax

Financial Reporting

Hedge Against Obsolescence

Convenience and Flexibility

Financial

## 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

Lessee Accounting

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*

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

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*

*Minor Variables*

*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*

*Tracking Success*

### 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

##### Repeat Business

- The Necessity of the Niche
- Tailoring the Benefits of the Product to Prospect Needs
- Proposals/Term Sheets

## 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

## 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
  - Corporations*

- "C" Corporation*

- "S" Corporation*

Non-profit Corporation  
Professional Corporation (“PC”)

*LLCs*

*General Partnerships and Limited Partnerships*

*Sole Proprietors*

Other Variations of Business Entities

Joint Venture

Association

Trust

Municipality

Federal Government

*Qualification to Do Business*

Taxes

Licensing and Being in “Good Standing”

## 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

*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*

#### Personal and Corporate Guarantees

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

#### Corporate Resolutions

*Purpose of The Corporate Resolution*  
*Use of The Corporate Resolution*  
*Elements of The Corporate Resolution*

#### 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*

## 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

## 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*

Lease Syndication Buy & Sell

*Definition*

*Purpose*

*Benefits*

*Drawbacks*

Portfolio Acquisition

*Definition*

*Purpose*

*Benefits*

*Drawbacks*

## 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*
- 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*

## Customer Service

### Pre-Booking Customer Service

### Post-Booking Customer Service

- Payoff*
- Early Termination Payoffs*
- Ending (End of Lease Term)*
- Renewals*
- Legal/Liquidation*
- Sales Tax*
- Property Tax*
- Account Inquiries*
- Contract Adjustments*
- Contract Assumption Scenarios*

*Proactive Payment Relief Scenarios*

*Billing and Collecting*

*Insurance Administration*

*Title Management*

*Account Reconciliations*

## Technology

Customer Experience

Business Functions

*Microservices (APIs)*

*Data Repository, Reporting, Analytic Tools*

*Content Management*

*Corporate Support Systems*

*Business Productivity and Corporate Applications*

Core Software

*CRM*

*Origination System*

*Portfolio Management System*

Future of Equipment Finance Technology

## Portfolio Management

Tracking Portfolio Performance

Portfolio Management and Decision Making

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

Purpose and Responsibilities

*Importance of Industry Knowledge*

*Knowing Which Collection Practices are Lawful and Efficient*

*Maintaining Customer Goodwill*

Primary Responsibilities

*Collection of Lease Contracts*

*General Collections*

*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 Law

*Types of Bankruptcy*

*Liquidating Bankruptcy or Reorganization*

*Voluntary and Involuntary Bankruptcy*

*Bankruptcy Procedures*

*Preferences in Bankruptcy*

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*