

2023 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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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

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Classification Under 55-540

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Depreciation

Modified Accelerated Cost Recovery System (MACRS)

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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

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
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Issues to Consider Regarding Guaranties

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Elements of The Corporate Resolution

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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*

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- 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

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Forms of Security

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Comparing EFAs To Leases

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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

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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*

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Pre-Booking Customer Service

Post-Booking Customer Service

- Payoff*
- Early Termination Payoffs*
- Ending (End of Lease Term)*
- Renewals*
- Legal/Liquidation*
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- Account Inquiries*
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Portfolio Management

Tracking Portfolio Performance

Portfolio Management and Decision Making

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Financial Risk Indicators

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Ongoing Credit Review

Small-Ticket

Behavioral Scoring and Portfolio Management

Middle- and Large-Ticket

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Purpose and Responsibilities

Importance of Industry Knowledge

Knowing Which Collection Practices are Lawful and Efficient

Maintaining Customer Goodwill

Primary Responsibilities

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General Collections

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Tracking Collection -Specific Portfolio Indicators

Document Collection Activities

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When to Escalate

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Remarketing Repossessed Equipment

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Bankruptcy Law

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Bankruptcy Procedures

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Current Expected Credit Loss Model (CECL)

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Arriving at Residual Values

Return and Maintenance Agreements

Fees

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Credit Reviews & Equipment Inspections

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Establish Risk Parameters

In-Place Value vs. Recovered Value

Legal Impact

Commercially Reasonable Sale vs. Straight Liquidation

Costs to Recover, Recondition, and Sell