The Certified Lease & Finance Professional Exam Study Guide

INTRODUCTION

The Certified Lease & Finance Professional Program is presented to the commercial equipment leasing and finance industry as a service of the CLFP Foundation. The prestigious CLFP designation identifies you as a knowledgeable professional to your employer, clients, customers, and peers in the leasing industry. Participation in the CLFP program is voluntary and open to all qualifying individuals.

Recognized industry leaders developed the CLFP Program, which covers significant aspects of commercial equipment leasing and financing. The designation and program were initially created by individuals from the United Association of Equipment Leasing (UAEL). As it developed and expanded, the UAEL gave the program and the designation to the entire industry in 2000, and along with the National Association of Equipment Leasing Brokers (NAELB) and the Eastern Association of Equipment Lessors (EAEL), they created a stand-alone entity called the CLFP Foundation to administer the certification. Today, a volunteer Board of Directors, made up of CLFPs, governs the CLFP Foundation, which is comprised of CLFPs in good standing and continues to be supported by the American Association of Commercial Finance Brokers (AACFB), the National Equipment Finance Association (NEFA), as well as the Equipment Leasing and Finance Association (ELFA).

This study guide was created in 2024 to assist the growing number of professionals seeking assistance obtaining their CLFP designation. Its purpose is to be used with The Certified Lease & Finance Professionals' Handbook and other study methods.

The Foundation has done its best to ensure that the information presented is accurate and reflects the highest standards of good practice within the industry at the time of publication.

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USING THE STUDY GUIDE

Each study plan will vary depending on your background, experience, and goals. Before we dive into the topics that you need to master as a CLFP, take a moment to read through them and reflect on why they are important for your role. You don't have to complete every topic, but you should at least be familiar with them and how they relate to your work. Next, you'll dive into your learning preferences, how to optimize your learning process, and how to create a personalized study plan that suits your needs and aspirations.

The CLFP exam is a valuable opportunity for those who aspire to learn all of the "ins and outs" of the commercial equipment finance industry. You may find that some of the terminology or processes that you learn are different from what you have done before or that there are alternative ways to solve problems. Your success will depend on your experience, new learning, and decision-making abilities.

The self-assessment checklist will show you where to focus your attention and how to plan your study schedule. However, do not rely only on this guide. Successful candidates leverage various tools, for example, a mentor, read The Certified Lease & Finance Professionals' Handbook, attend an Academy for Lease & Finance Professionals (ALFP), take quizzes through Quizlet, etc.

We want to congratulate you on your decision to pursue the CLFP certification. It is a rewarding and meaningful achievement that reflects your dedication and professionalism in the industry.

The CLFP exam is difficult, but you can pass it with enough time and effort. Knowing your motivation and goals for becoming a CLFP can help you stay focused and committed. Being aware of the deadlines and expectations for the exam is also essential for a successful outcome.

To prepare well for the CLFP exam, you need to start early and create your study plan, keeping in mind that your personal motivation for pursuing the CLFP certification is a key factor in your success. Knowing why you want to earn this credential will help you stay focused and committed to your goals. You will also benefit from following the timelines and deadlines set for the exam process.

We hope you enjoy this learning journey. You will gain valuable insights and skills to enhance your role within this industry.

GETTING STARTED

This study guide helps candidates prepare for the CLFP examination by integrating essential elements. It starts with a self-assessment to gauge familiarity with the exam content and reviewing the CLFP Exam Content Outline.

What is Certification?

Credentialing, a term encompassing programs that recognize individuals, programs, or organizations for meeting specific standards, offers numerous benefits. These include enhanced professional credibility, increased job opportunities, and a clear demonstration of competence. Standard credentialing programs in associations are licensure, certificate programs, accreditation, and certification.

The CLFP is a **certification** program, a voluntary process in which individuals demonstrate, by satisfying requirements and passing an assessment, that they possess an established level of knowledge in a particular field. In many cases, the CLFP included specific requirements that must be met to qualify to take the exam; once earned, additional requirements must be fulfilled to maintain the certification.

A CLFP must recertify annually by paying a nominal fee and reviewing and successfully passing a quiz based on industry changes.

Reasons for Earning the CLFP

Each individual who seeks to obtain the certification has their own reason, but throughout the years, these terms are what have been used most:

- Knowledge
- Professionalism
- Dedication
- Community

To read testimonials of why people have pursued the designation, visit the website www.clfpfoundation.org and search for “testimonials.”

It is up to you to determine your reason, but as a CLFP, you commit to lifelong learning and the ongoing pursuit of knowledge in the commercial equipment finance industry.

CLFP Qualifications

Leasing professionals with the following prerequisites may apply:

- CLFP candidates must have a minimum of three years of verifiable equipment leasing and financing experience; however, one year may be substituted with other financial experience; check with us for eligibility requirements. For those with less than three years' experience, please look into the CLFP Associate designation.
- Acceptable character, ability and reputation both within and outside of the industry.
- Pledge, in writing, to adhere to the CLFP Standards of Professional Conduct.
- The CLFP Foundation does not and shall not discriminate on the basis of race, color, religion (creed), gender, gender expression, age, national origin (ancestry), disability, marital status, sexual orientation, or military status, in any of its activities or operations.

Your Commitment to Success

Earning the CLFP designation requires committing to dedicate the time necessary to achieve and maintain it. Recent successful candidates recommend a minimum of six to eight hours a week for study, so you must block time on your calendar well in advance. Remember, the commitment is not yours alone; it may include support from employers and family.

Once you have decided to seek the CLFP designation, commit to doing whatever is required to pass the exam the first time you take it. The CLFP exam is designed to identify those who are proficient in all areas of the industry. That means if you have had a more specialized role in a specific department, you will need to expand your horizons to gain the general knowledge outlined in the other departments. Embrace this challenge as an opportunity to broaden your understanding and excel in your field.

To earn the CLFP successfully, commit yourself to the process. Get excited about the learning opportunities and new knowledge you will acquire. Invite a colleague to prepare for the exam with you or join a study group that has made the same commitment.

Your Self-Assessment

Now that you have committed to seeking the CLFP, your first step should be self-assessment and planning. Your path to earning the CLFP will be unique. You must choose how to prepare based on your motivation, professional and educational background, personal learning preferences, and available resources. The worksheet on the following two pages is designed to help you reflect on your current strengths and plan your path to earning the CLFP designation.

MY PATH TO EARNING THE DESIGNATION

My Motivation

I want to earn the CLFP designation because:

I would like to hold the CLFP designation by this date:

My Background

My professional experience has given me knowledge in the following exam content areas:

Part I - History and purpose of leasing

- ☐ Leasing through the ages
- ☐ History of modern equipment finance
- ☐ Industry participants and sectors
- ☐ Competition to leasing
- ☐ Products
- ☐ Benefits of leasing

Part I - Leasing Law

- ☐ Basis of US Leasing Law
- ☐ UCC
- ☐ Contrasting true lease and lease intended as security
- ☐ Legal entities
- ☐ Qualification to do business

Part II - Financial and Tax Accounting	☐ Lease classification under ASC 842 ☐ Accounting for lessors and lessees ☐ Financial statements ☐ Revenue rulings and procedures ☐ Depreciation
Part II - Pricing	☐ Time value of money ☐ Cash flow diagrams ☐ Formulas and financial calculators ☐ Non-tax pricing ☐ Structuring payments ☐ Tax-based pricing
Part III - Credit	☐ Its role and purpose ☐ Credit process and tools ☐ Information requirements for evaluation ☐ Financial statement analysis and ratios ☐ Deal structuring
Part III - Documentation	☐ Standard lease and financing documents ☐ Major elements and provisions ☐ Standard and titled lease document packages ☐ Municipal and agricultural leasing
Part IV - Sales and Marketing	☐ Its role and purpose ☐ Origination models ☐ Vendor programs ☐ Direct customer origination ☐ Third-party Origination
Part IV - Funding, Operations, and Customer Service	☐ Sources of capital ☐ Standard and titled funding package ☐ Regulatory compliance ☐ Technology ☐ Customer service roles and responsibilities
Part IV - Collections, Asset, and Portfolio Management	☐ Alternative collection processes ☐ Bankruptcy law ☐ Tracking portfolio performance ☐ Asset valuation types ☐ Pre-funding and post-funding roles

RESOURCES

Take advantage of the many tools available to you!

Read the Handbook

You must read *The Certified Lease & Finance Professionals' Handbook*

Body of Knowledge

Review this document for key points and concepts

Mentor Program

The Foundation will provide you with a mentor free of cost once you have paid for the exam

Online Toolbox

Study with helpful links and practice problems

Attend an Academy (ALFP)

Optional prep class with access to additional practice materials, including a comprehensive sample exam

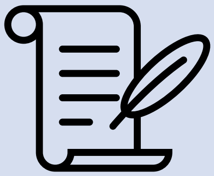
THE CLFP EXAM

- The exam is offered via an online extension to the Google Chrome browser; therefore, it may be taken at any time and anywhere.
- All questions are automatically gradable, e.g., true/false, matching, multiple-choice, etc. (no essays).
- The exam is closed-book, and no study materials may be used.

- A proctoring tool using Artificial Intelligence records the screen and the room environment.
- The exam is comprised of four parts (please see the exam outline on the following page).
- Each part has its own time limit, and the candidate is required to ensure that the overall time limit of eight hours is not surpassed.

- Examination results are provided automatically upon submittal by the Candidate with a pass/fail notification.
- The exam is **cumulative** with a 75% minimum passing score.
- If 75% is not obtained overall, the four parts are considered individually, and only those that the candidate did not pass will need to be taken again.
- Retakes may be scheduled within three business days.

EXAM OUTLINE



Part I - 150 Points (90 Minutes)

History and Purpose of Leasing...75 points

Leasing Law...75 points

Part II - 200 Points (150 Minutes)

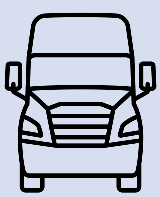
Financial and Tax Accounting...100 points

Pricing..100 points

Part III - 250 Points (120 Minutes)

Credit..100 points

Documentation...100 points



Part IV - 250 Points (120 Minutes)

Sales and Marketing..75 points

Funding, Operations, and Customer Service.............................75 points

Asset and Portfolio Management..100 points

CREATING AND IMPLEMENTING YOUR STUDY PLAN

Deciding to pursue the CLFP certification is a significant commitment. It's not easy, but that makes achieving it all the more rewarding. To give yourself the best chance of success, create a personal study plan that considers a variety of factors, especially these:

- Your work schedule
- Your personal and/or family commitments
- How you learn most effectively
- How much you need to learn vs. what you already know of the exam content

Considering each of these areas and any other factors that may affect your ability to study, decide how much time you can devote to studying each week. Include time for a study group as well as time for individual study. Allow more time than you think you will need!

Successful CLFP candidates study timelines vary; you'll have to decide what will work for you based on your current knowledge and available time. For example, if your schedule is packed with work and personal activities, your available study time may be limited. You'll likely want to start earlier, so there are more weeks between your start and your exam date.

Deciding How to Allocate Study Time

How much time you devote to studying each chapter depends on your current level of understanding of the exam content. For content areas of which you have a good understanding and use every day, your preparation may require only a quick review. For areas with which you are less familiar, you may decide you need more in-depth study or training before taking the exam. Another key indicator for dividing your available study time might be the percentage of the exam devoted to each major content area. Using these two indicators—your perceptions and the exam percentages—estimate the amount of time you will devote to studying each domain.

Defining Good Study Habits

Regardless of your study formats, organizing your study time in ways that make sense will help you keep your study commitments. Define and establish good study habits from the beginning. Know yourself well using the tools provided in this study guide and your history, identify how you study, take a test, how much time you need to read and quiz yourself, etc. Then, decide which resources and how much time will best help you to prepare for the exam.

If possible, commit the same amount of time each week to study so it becomes habitual—perhaps even in the same time frame, such as every Saturday or Monday, Wednesday, and Friday evenings. Block that study time on your calendar! Treat each session as a necessary appointment you can't miss. Finally, block the exam date on your calendar and plan to take the entire day off work; if you're like most candidates, you won't return to the office after the exam.

Build review time into your study schedule. Most CLFP candidates save the last week or two before the exam to review everything; some also schedule time for review along the way. For example, you might review what you studied last week before starting what you will study next. Once you decide what you'll do, add it to your calendar.

Keeping Track of Your Progress

Writing things down seems to help us keep our commitments to ourselves. Doing so also helps us keep track of larger projects, such as studying for the CLFP exam.

There's a lot to review and learn in preparing for the exam. How you track your study progress is certainly up to you; however, it's imperative to have some type of planning/tracking system in place. To get you started, there is a study schedule template you can use to plan and track your study time across as many as 10 weeks. Use it as it is, or perhaps recreate it with more or fewer spaces to better suit your needs. You might even want to format it for your mobile device so you can keep an eye on things when you're on the go.

SAMPLE SCHDULE

Week 1: History of Leasing	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	History of Equipment Finance Through the Ages; History of Modern Equipment Fin an ce	Industry Participants; Industry Sector by Transaction Size	Competition to Equipment Financing; Equipment Finance Products	Equipment Finance Benefits	Summary
Week 2: Leasing Law	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Basis for U.S. Leasing Law	The Uniform Commercial Code; Legal Definition of a Lease	UCC Article 2, 9, 2A, 12	Contrasting True Lease & Lease Intended as Security	Legal Entities; Qualification to Do Business
Week 3: Financial & Tax Accounting	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Classification under ASC 842; Lease Classification for Lessors	Accounting for Lessors	Lessor Accounting for End-of-Lease Options; Accounting for Lessees	Financial Statements; Understanding Financial Statements	Tax Accounting
Week 4: Sales & Marketing	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Roles & Purposes of Sales and Marketing	Marke tin g	Sales	Typical Sales & Marketing Tools;; The Direct Origination Channel; The Vendor Origination Channel	The Third-Party Origination Channel
Week 5: Credit	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Role and Purpose of Credit; Credit Process	Credit Request/Credit Application; Data Gathering & Due Diligence	Know the Origination Channel; Know Your Customer (KYC)	Credit Analysis; Financial Statement Analysis Techniques	Financial Ratios; Deal Structuring; Credit Decision; Credit Scoring & Analysis1
Week 6: Leasing Pricing	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Lease Pricing Fundamentals	Non-Tax Pricing	Computing Unusual Payment S tru ctu re s	Lease Pricing Tools; True (Tax) Lease P ricin g	Appendix 3: Sample Pricing Problems
Week 7: Documentation	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Documentation Process; Three Typical Forms of Lease Contracts; Thirteen Standard Lease and Financing Documents	31 Elements of a Lease Agreement	Exhibits & Schedules; Delivery and Acceptance Certificate (D&A); Personal & Corporate Guaranties; Corporate Resolutions; Real Estate & Landlord Waive rs	Fixture Filing; UCC Financing Statements; Invoice; Advanced Funding/Pre-Funding Agreement; Purchase & Renewal Options; Additional Collateral as Security	Real Estate as Additional Collateral; Equipment Finance Agreements (EFAs); Municipal Leasing Documentation; Agricultural Documentation
Week 8: Funding & Operations	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Sources of Capital	Lease Syndication; Portfolio Acquisition	Regulatory Compilance	Funding; Customer Service	Technology
Week 9: Portfolio Management	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Cross-Functional Considerations for Portfolio Success; Tracking Portfolio P e rfo rm an ce	Ongoing Credit Review; Collections	Bankruptcy Law	Asset Management	Off or review as needed
Week 10: Practice Exam/ALFP/Exam	**Monday**	**Tue sda y**	**Wednesday**	**Thursday**	**F rida y**
	Take the Practice Exam* **If registered for an ALFP, Candidates have access to a comprehensive Sample Exam. If not registered, practicing modules in Quizlet is a helpful option.*	Review areas with missed points	Review sample problems and appendix of book	Review material as needed	Take the Exam

Visit the Foundation's website to access a sample credit problem

CHAPTER 1 - HISTORY AND OVERVIEW

Key Learning Objectives

- Understand the historical evolution of equipment finance from ancient times to the present day, as well as the main factors that influenced its development.
- Recognize the different definitions of a lease from three primary perspectives: tax, accounting, and legal.
- Know the key participants and market segments of the equipment finance industry, as well as their roles and relationships.
- Know the various names and characteristics of equipment finance products, as well as the benefits they offer to customers.

Summary

History of leasing: Equipment finance has been influenced by various economic, political, legal, tax, accounting, and technological factors over time.

Transaction size: One way to classify equipment finance products is by the size of the transaction. Small-ticket transactions are those under $250,000, typically involving equipment such as computers, office machines, vehicles, or software. Middle-ticket transactions range from $250,000 to $5 million and may include equipment such as medical devices, construction machinery, or manufacturing equipment. Large-ticket transactions are those over $5 million and usually involve high-value assets such as aircraft, ships, or rail cars.

The three lenses: Another way to classify equipment finance products is by the accounting, tax, and legal treatment of the lease or loan. For accounting purposes, a lease may be classified as either a finance lease or an operating lease, depending on whether the lessee assumes substantially all the risks and rewards of ownership of the asset. A finance lease is treated as a purchase of the asset, and the lessee records both an asset and a liability on its balance sheet. An operating lease is treated as a rental agreement, and the lessee only records the lease payments as an expense on its income statement.

Tax lens: For tax purposes, a lease may be classified as either a true lease or a conditional sales contract, depending on whether the lessor retains the tax benefits of ownership of the asset, such as depreciation and interest deductions. A true lease allows the lessor to claim these tax benefits and pass them on to the lessee in the form of lower lease payments. A conditional sales contract transfers these tax benefits to the lessee, who is considered the owner of the asset for tax purposes. The distinction between a true lease and a conditional sales contract is based on several criteria established by the IRS, such as the term of the lease, the purchase option price, and the residual value of the asset.

CHAPTER 1 - HISTORY AND OVERVIEW

Legal lens: For legal purposes, a lease may be classified as either a true lease or a lease intended as security, depending on whether the lessor has a meaningful residual interest in the asset at the end of the lease term. A true lease means that the lessor expects to recover the asset and either re-lease it or sell it to another party. A lease intended as security means that the lessor does not have a residual interest in the asset and that the lease is essentially a secured loan. The classification of a lease for legal purposes affects the rights and obligations of the parties in case of default, bankruptcy, or repossession. The Uniform Commercial Code (UCC) provides the guidelines for determining whether a lease is a true lease or a lease intended as security.

Equipment finance products: As an equipment finance professional, it is important to understand the different types of equipment finance products and how they affect the lessee or borrower in terms of cash flow, tax, financial reporting, risk, and flexibility. By providing sound advice and tailored solutions to their customers, equipment finance professionals can help them achieve their business objectives and optimize their equipment usage.

Competition to equipment finance: There are many alternatives and competitors to equipment finance, such as cash purchases, bank loans, and alternative lenders.

Sample Questions

1. Which of the following is not a common market segment classification for equipment finance transactions?
    a. Small-ticket
    b. Mid-ticket
    c. Large-ticket
    d. Jumbo-ticket

2. Which of the following is a true statement about the Uniform Commercial Code (UCC)?
    a. It is a federal law that regulates all aspects of equipment finance.
    b. It is a state law that is uniform across all states and territories.
    c. It is a body of state statutory laws adopted in whole or in part by all states and the District of Columbia.
    d. It is a body of case law that is based on precedents from previous court decisions.

CHAPTER 1 - HISTORY AND OVERVIEW

3. Which of the following is an example of a lease intended as security?
   a. A lease that transfers all the benefits and burdens of ownership to the lessee.
   b. A lease that allows the lessee to purchase the equipment at the end of the lease term for a nominal amount.
   c. A lease that entitles the lessor to the tax benefits of ownership and the lessee to claim the lease payments as a tax deduction.
   d. A lease that has a terminal rental adjustment clause that effectively guarantees the lessor the residual value.

4. Which of the following is a benefit of equipment finance for cash flow or cash management?
   a. Financing 100% of the equipment cost.
   b. Lower rentals owing to lessor's tax benefits.
   c. Ratio enhancement.
   d. Hedge against obsolescence.

5. Which of the following is a true statement about the Tax Cuts and Jobs Act of 2017?
   a. It removed the corporate alternative minimum tax.
   b. It eliminated the bonus depreciation for equipment finance transactions.
   c. It increased the corporate income tax rate to 35%.
   d. It introduced the current expected credit loss model for equipment finance companies.

6. Which of the following is not a type of equipment supplier in the equipment finance industry?
   a. Dealer/vendor
   b. Third-party originator
   c. Manufacturer
   d. Value-added reseller

7. Which of the following is a type of government leasing?
   a. Synthetic leasing
   b. Split TRAC leasing
   c. Municipal leasing
   d. Sale-leaseback

CHAPTER 1 - HISTORY AND OVERVIEW

8. Which of the following is a characteristic of a finance lease under ASC 842?
    a. The lease term is for the major part of the remaining economic life of the underlying asset.
    b. The lease does not transfer ownership of the underlying asset to the lessee by the end of the lease term.
    c. The present value of the lease payments and any residual value guaranteed by the lessee is less than substantially all of the underlying asset's fair value.
    d. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

9. Which of the following is a type of service company that provides products and services specific to the equipment finance industry?
    a. Technology and software companies
    b. Law firms
    c. Insurance companies
    d. All of the above

10. Which of the following is a factor that influenced the historical evolution of equipment finance?
    a. The introduction of the investment tax credit in 1962
    b. The creation of the Financial Accounting Standards Board in 1976
    c. The emergence of credit-scoring technology in the late 1980s and early 1990s
    d. All of the above

CHAPTER 2 - LEASING LAW

Key Learning Objectives

- Explain the sources and types of U.S. law relevant to equipment finance
- Identify the general principles of contract law and the requirements for a valid, enforceable contract
- Describe the main articles of the UCC that pertain to equipment finance and their implications
- Compare and contrast the different types of business entities and their characteristics
- Understand what it means and the importance of an entity's qualification to do business

Summary

Sources of law for equipment finance: Equipment finance is affected by federal and state law, statutory, regulatory, and case law, and the Uniform Commercial Code (UCC), a body of state laws covering various aspects of commercial transactions.

UCC articles relevant to equipment finance: The UCC includes three articles that are crucial to equipment finance: Article 2 (sales of goods), Article 9 (secured transactions), and Article 2A (leases). These articles define the rights and obligations of the parties involved in equipment finance transactions and provide rules for creating, perfecting, and enforcing security interests in property.

Requirements for a valid contract: Contract law is generally a matter of state law and case law. A valid contract requires an offer and acceptance, mutual agreement on principal terms, consideration, capacity, and legality. Some contracts, such as leases involving payments over $1,000, also need to be in writing to be enforceable.

Difference between a true lease and a lease intended as security: A true lease is a lease that transfers only the right to use and possess the equipment, while a lease intended as security is a disguised loan that transfers the ownership of the equipment. The UCC provides criteria to distinguish between the two types of leases, such as the lease term, the purchase or renewal options, and the residual value risk. The legal treatment of a transaction as a lease or secured financing may have significant implications for bankruptcy purposes.

Concept of a finance lease under UCC Article 2A: A finance lease is a type of true lease in which the lessor is not the manufacturer or supplier of the equipment, the lessor does not select the equipment, and the lessee is aware of its rights against the supplier. A finance lease has several benefits for the lessor, such as the automatic assignment of warranties, the enforceability of the hell-or-high-water clause, and the transfer of the risk of loss to the lessee.

CHAPTER 2 - LEASING LAW

Method of perfecting a security interest under UCC Article 9: A security interest is an interest granted to the lender or lessor in the personal property of the borrower or lessee as collateral for the loan or lease. To perfect a security interest, the lender or lessor must file a financing statement with the appropriate state office, usually the secretary of state. A perfected security interest gives the lender or lessor priority over other creditors or a trustee in bankruptcy in case of a default or insolvency. A purchase money security interest (PMSI) is a special type of security interest that has priority over other security interests in the same equipment if filed within a certain time period.

Common business entities: Corporations, LLCs, partnerships, sole proprietors, joint ventures, associations, trusts, municipalities, and the federal government are just some of the common entities in the equipment finance world. Each has differences and similarities in terms of its formation, governance, liability, taxation, and documentation requirements.

Being in good standing: State requirements for qualification to do business, licensing, and being in good standing vary.

Sample Questions

1. What is the main source of law that applies to equipment finance transactions in the U.S.?
   a. The UCC
   b. The IRS
   c. The SEC
   d. The FTC

2. What is the difference between a true lease and a lease intended as security for state law purposes?
   a. A true lease transfers the ownership of the equipment to the lessee, while a lease intended as security does not.
   b. A true lease creates a security interest in the equipment, while a lease intended as security does not.
   c. A true lease allows the lessee to terminate the lease without paying off the lease, while a lease intended as security does not.
   d. A true lease requires the lessee to buy the equipment at the end of the lease term, while a lease intended as security does not.

CHAPTER 2 - LEASING LAW

3. What is the most common method of perfecting a security interest in personal property under Article 9 of the UCC?
   a. Filing a financing statement
   b. Obtaining a certificate of title
   c. Taking physical possession of the collateral
   d. Recording a deed of trust

4. What is the benefit of having a finance lease under Article 2A of the UCC?
   a. The lessor is absolved of any responsibility for the equipment malfunction or failure to meet the lessee's expectations.
   b. The lessor can charge higher rent than in a regular lease.
   c. The lessor can terminate the lease at any time without cause.
   d. The lessor can retain the residual value of the equipment after the lease term.

5. What is the statute of frauds and how does it affect equipment finance contracts?
   a. The statute of frauds is a law that prohibits fraudulent or deceptive practices in equipment finance contracts.
   b. The statute of frauds is a law that requires certain types of contracts, such as leases involving payments over $1,000, to be in writing to be enforceable.
   c. The statute of frauds is a law that allows oral statements to modify or contradict written equipment finance contracts.
   d. The statute of frauds is a law that imposes a statute of limitations on the enforcement of equipment finance contracts.

6. What is a purchase money security interest (PMSI) under Article 9 of the UCC?
   a. A security interest that is created by the purchase of the equipment by the lessee or borrower.
   b. A security interest that secures the payment of the purchase price of the equipment by the lessee or borrower.
   c. A security interest that has priority over other security interests in the same equipment if filed within a certain time period.
   d. None of the above.

CHAPTER 2 - LEASING LAW

7. What is the difference between a true lease and a lease intended as security?
    a. A true lease is a lease that transfers ownership of the property to the lessee at the end of the lease term, while a lease intended as security is a lease that retains ownership of the property by the lessor.
    b. A true lease is a lease that is recognized as a lease for tax, accounting, and legal purposes, while a lease intended as security is a lease that is treated as a secured financing for tax, accounting, and legal purposes.
    c. A true lease is a lease that has a purchase option for the lessee at the end of the lease term, while a lease intended as security is a lease that has no purchase option.
    d. A true lease has a fixed term and fixed payments, while a lease intended as security has a variable term and variable payments.

8. What is the difference between a “C” corporation and an “S” corporation??
    a. A “C” corporation pays taxes on its profits, while an “S” corporation passes its profits or losses to its shareholders.
    b. A “C” corporation has no limit on the number and types of shareholders, while an “S” corporation does.
    c. A “C” corporation can issue different classes of stock, while an “S” corporation can only issue one class of stock.
    d. All of the above.

9. What is the difference between a choice of law provision and a choice of forum provision in a contract?
    a. A choice of law provision allows the parties to choose which state's law applies to the contract, while a choice of forum provision allows the parties to choose which state's courts will hear any disputes arising from the contract.
    b. A choice of law provision is mandatory, while a choice of forum provision is optional.
    c. A choice of law provision is enforceable, while a choice of forum provision is not.
    d. None of the above.

10. What are the three main sources of law in the U.S.?
    a. Federal law, state law, and common law
    b. Constitutional law, administrative law, and criminal law
    c. Statutory law, case law, and regulatory law
    d. Civil law, contract law, and tort law

CHAPTER 3 - ACCOUNTING

Key Learning Objectives

- Understand the history and evolution of financial and tax accounting in the equipment finance industry.
- Learn about the different types of financial statements, including balance sheets, income statements, and statements of cash flows.
- Gain knowledge of the different accounting methods, including accrual, cash, and tax basis accounting.
- Understand the tax treatments of leases and conditional sales contracts.
- Learn how to analyze and interpret financial statements to assess the financial position and performance of a company.

Summary

The evolution of financial and tax accounting: Financial and tax accounting evolved in response to growth and changes in the equipment finance industry.

History: In the early years of equipment financing, there were no rules to dictate the proper accounting treatment for a lease transaction, resulting in creative methods by accountants to record or omit lease transactions from financial statements.

More recent attempts for consistency: Since the 1960s, multiple standards boards have made many attempts to lay the groundwork for consistent financial reporting of leasing transactions.

Global standards: The International Accounting Standards Board (IASB) and FASB worked to converge the standards of International Financial Reporting Standards (IFRS) and GAAP into one standard set of high-quality global rules.

ASC 842: The U.S. lease accounting standard ASC 842 requires operating leases to be reported on the balance sheet, although it maintains the distinction between finance (formerly called capital leases) and operating leases.

The initial lease conditions dictate the proper treatment of the lease on the books of the lessor and lessee based on criteria presented in ASC 842.

The financial statement lease classifications for a lessor are operating, sales-type, and direct financing.

Taxation: The taxation of leases and conditional sales contracts goes beyond that of lessor and lessee income taxes. The imposition of sales or use and personal property taxes affects both parties.

CHAPTER 3 - ACCOUNTING

Difference between book (accounting) and tax: Lease classification criteria are different for book and tax purposes. Tax classification criteria are not as straightforward as accounting criteria.

Financial statements: There are several types of financial statements prepared in today's business environment, including the balance sheet, income statement, and statement of cash flows. Financial statement notes are crucial to developing an understanding of the accounting methods and policies applied by a company.

Sample Questions

1. What is the term for the single source of authoritative U.S. accounting and reporting standards for financial statements other than guidance issued by the SEC?
   a. Accounting Standards Codification (ASC)
   b. Accounting Principles Board (APB)
   c. International Financial Reporting Standards (IFRS)
   d. Generally Accepted Accounting Principles (GAAP)

2. What is the "new" U.S. lease accounting standard that requires operating leases to be reported on the balance sheet for both lessors and lessees?
   a. ASC 840
   b. ASC 842
   c. ASC 326
   d. ASC 360

3. Which of the following criteria would classify a lease as a sales-type lease for the lessor under ASC 842?
   a. The lease transfers ownership of the property to the lessee by the end of the lease term.
   b. The lease contains an option to purchase the leased property at a bargain price.
   c. The lease term is for the major part (75 percent) of the estimated economic useful life of the leased property.
   d. All of the above.

CHAPTER 3 - ACCOUNTING

4. How does a lessor account for a direct financing lease under ASC 842?
    a. The lessor recognizes sales profit upfront and amortizes any initial direct costs over the lease term.
    b. The lessor defers any sales profit and initial direct costs and recognizes them as interest income over the lease term.
    c. The lessor recognizes rental income on a straight-line basis and depreciates the leased property over the lease term.
    d. The lessor recognizes interest income on the net investment in the lease and does not depreciate the leased property.

5. How does a lessee account for an operating lease under ASC 842?
    a. The lessee records a right-of-use asset and a lease liability at the present value of the lease payments and amortizes them over the lease term.
    b. The lessee records a single lease cost on a straight-line basis and classifies the cash payments as financing activities in the statement of cash flows.
    c. The lessee records a lease expense consisting of an amortization component and an interest component and classifies the cash payments as operating and financing activities in the statement of cash flows.
    d. The lessee records a lease expense consisting of a depreciation component and an interest component and classifies the cash payments as investing and financing activities in the statement of cash flows.

Please note that a large portion of the exam in the Accounting section is dedicated to building a balance sheet and income statement.

CHAPTER 4 - SALES & MARKETING

Key Learning Objectives

- Understand the roles and purposes of Sales and Marketing in the context of equipment finance.
- Learn about the different origination channels, including direct, vendor, and third-party origination.
- Understand the strategies, tools, and techniques used in Sales and Marketing, including market segmentation, market analysis, and the use of technology.
- Learn about the benefits and drawbacks of different origination channels and marketing strategies.

Summary

The roles and purposes of sales and marketing in equipment finance: Sales and marketing are complementary activities that aim to generate leads, promote and differentiate the company and its offerings, and develop and sustain customer relationships.

The types and characteristics of equipment finance origination channels are significant. Direct, vendor, and third-party origination (TPO) are three common channels with unique sales forces, training, customer interaction, relationship objectives, and agreement types. Understanding these differences is key to successful operations in the industry.

The processes and variations of sales and marketing in equipment finance are diverse. These approaches are not one-size-fits-all but depend on various factors such as company structure, culture, resources, and customer preferences. Additionally, they are influenced by industry focus, competitive conditions, and market trends. Recognizing this variability is essential for adapting to the industry's dynamic nature.

The components and benefits of a marketing plan: A marketing plan consists of an executive summary, a situation analysis, a market summary, an environmental audit, and a marketing strategy based on the four Ps of marketing (product, price, promotion, and place). It helps the company identify and pursue profitable opportunities and measure performance.

The activities and tools of sales and marketing in equipment finance: Sales and marketing activities include identifying and qualifying prospects, filling the prospect's needs, developing and maintaining customer relationships, presenting proposals and term sheets, and generating repeat business. Sales and marketing tools include various technology platforms and software for contact and customer relationship management, email and marketing automation, industry-specific software, communication, analytics, and social media.

CHAPTER 4 - SALES & MARKETING

The features and challenges of direct, vendor, and third-party origination channels: Direct origination involves working with the equipment's end-user throughout the origination process and providing customized solutions. Vendor origination involves working with the equipment vendor or dealer to offer financing as a sales tool. Third-party origination involves working with external parties that refer financing opportunities to the lessor. Each channel has its benefits and drawbacks, such as efficiency, control, scalability, risk, and diversity.

Sample Questions

1. What is the purpose of sales and marketing in equipment finance?
   a. To generate leads and promote the company and its offerings.
   b. To develop and sustain customer relationships.
   c. To identify new opportunities and accompanying sales strategies.
   d. All of the above.

2. Sales and marketing are meant to be highly complementary activities.
   a. True
   b. False

3. What is the difference between marketing and sales?
   a. Marketing focuses on the big picture, while sales focus on converting leads.
   b. Marketing is responsible for promoting the company, while sales generate leads.
   c. Marketing is responsible for generating leads, while sales is responsible for promoting the company.
   d. There is no difference between marketing and sales.

4. What are the three most common origination channels in equipment finance?
   a. Direct, vendor, and TPO
   b. Direct, indirect, and TPO
   c. Direct, indirect, and vendor
   d. Vendor, indirect, and TPO

5. Each origination channel's ideal target for marketing and sales efforts differs.
   a. True
   b. False

CHAPTER 4 - SALES & MARKETING

6. What is market segmentation?
   a. The process of finding, developing, and profiting from opportunities.
   b. The process of identifying distinct audiences within a target market.
   c. The process of determining which segments are most profitable to serve.
   d. The process of developing a marketing plan.

7. What are the four traditional elements of marketing?
   a. Product, price, promotion, and people.
   b. Product, price, promotion, and profit.
   c. Product, price, promotion, and performance.
   d. Product, price, promotion, and place.

8. What is the difference between vendor and TPO programs?
   a. A vendor program is a relationship between a lessor and an external party that brings funding opportunities, while a TPO program is a relationship between a manufacturer and an equipment seller.
   b. A vendor program involves a manufacturer and a seller of equipment, while a TPO program involves a lessor and an external party that provides funding opportunities.
   c. There is no difference between a vendor program and a TPO program.
   d. A vendor program is a relationship between a lessor and a lessee, while a TPO program is a relationship between a lessor and an external party that brings funding opportunities.

9. What is the purpose of a marketing plan?
   a. To provide a roadmap for achieving marketing goals.
   b. To identify target markets and develop strategies for reaching them.
   c. To analyze the market and the company's position within it.
   d. All of the above.

CHAPTER 5 - CREDIT

Key Learning Objectives

- Explain the role and purpose of credit analysis in equipment finance.
- Identify the main factors involved in evaluating the creditworthiness of potential lessees and borrowers.
- Describe the different types of data and tools used for credit analysis based on transaction size and origination channel.
- Apply various financial ratios and cash flow calculations to assess a business's profitability, liquidity, leverage, and coverage.
- Demonstrate how to structure a lease or loan transaction to mitigate credit risk and meet the customer's needs.
- Compare the advantages and disadvantages of using credit scoring and automation for credit decisions.
- Recognize the ethical and legal implications of credit analysis and decision-making.

Summary

Credit analysis and decision-making in equipment finance: This function is essential for managing risk and profitability in the equipment finance industry. It involves collecting and analyzing data on customers, equipment, and market conditions, as well as applying credit policies and criteria to approve or decline transactions.

Risk appetite framework: This concept guides equipment finance companies' credit policy and portfolio management. It reflects their strategic objectives and risk tolerance and determines the types and amounts of risk they are willing to take. It also helps them monitor and control their risk exposure and performance.

Credit processes for different transaction sizes and origination channels: The credit processes vary depending on the size and source of the transactions. Small-ticket transactions typically require less data and due diligence and rely more on automated credit scoring and decisions. Medium- and large-ticket transactions require more data and due diligence and involve more human judgment and analysis. Direct, vendor, and broker origination channels also have different credit processes, depending on the relationship and information sharing between the parties.

CHAPTER 5 - CREDIT

Tools and methods for evaluating credit: There are various tools and methods for assessing the creditworthiness of equipment finance customers. These include credit scores, which are numerical ratings based on statistical models; financial ratios, which are indicators of the customers' financial health and performance; cash flow analysis, which is an assessment of the customer's ability to generate and manage cash; industry comparison, which is a benchmarking of the customers' performance and risk against their peers; and deal structuring, which is a way of designing the terms and conditions of the transactions to reduce risk and increase return.

Factors and challenges involved in rendering credit decisions: There are many factors and challenges involved in making credit decisions, such as risk mitigation, credit enhancements, credit scoring models, and automation. Risk mitigation is the process of reducing the potential losses from credit defaults, such as by requiring collateral, guarantees, or insurance. Credit enhancements are features that improve the credit quality of the transactions, such as by adding seniority, subordination, or covenants. Credit scoring models are mathematical formulas that assign credit scores to customers based on their characteristics and behavior. Automation is the use of technology to streamline and speed up credit processes, such as by using online platforms, databases, and algorithms.

Future possibilities and implications of artificial intelligence and machine learning: These technologies can potentially improve the credit scoring and decision process by using data-driven and self-learning methods to analyze complex and dynamic data and to provide more accurate and consistent predictions and recommendations. However, they also pose challenges and risks, such as requiring data quality and security, ethical and legal compliance, and human oversight and intervention.

Sample Questions

1. What is risk mitigation in credit decisions?
    a. The process of reducing the potential losses from credit defaults
    b. The process of increasing the credit quality of the transactions
    c. The process of assigning credit scores to customers
    d. The process of using technology to streamline the credit processes

2. What are credit enhancements in credit decisions?
    a. Features that reduce the interest rate of the transactions
    b. Features that increase the collateral value of the transactions
    c. Features that improve the credit quality of the transactions
    d. Features that speed up the approval of the transactions

CHAPTER 5 - CREDIT

3. What are credit scoring models in credit decisions?
   a. Mathematical formulas that assign credit scores to customers
   b. Statistical methods that estimate the probability of default
   c. Automated algorithms that make credit decisions
   d. All of the above

4. What are the five Cs of credit in credit decisions?
   a. Credit, capacity, collateral, character, and conditions
   b. Collateral, character, cash flow, capital, and conditions
   c. Credit, cash flow, capital, covenants, and coverage
   d. Capacity, collateral, character, coverage, and consistency

5. What does EBITDA stand for?
   a. Earnings Before Investment, Trade, Discount, and Appreciation
   b. Earnings Based on Interest, Trade, Dividend, and Appreciation
   c. Earnings Before Interest, Tax, Depreciation, and Amortization
   d. Earnings Before Investment, Trade, Discount, and Appreciation

6. What is the formula for calculating the debt-service coverage ratio (DSCR)?
   a. DSCR = Net Operating Income / Total Debt Service
   b. DSCR = Gross Operating Income / Total Debt Service
   c. DSCR = Net Operating Income / Total Interest Expense
   d. DSCR = Gross Operating Income / Total Interest Expense

7. What is portfolio-level credit risk management in credit decisions?
   a. The process of evaluating credit risk and granting credit for individual transactions
   b. The process of monitoring the performance of deals that are already on the books
   c. The process of reducing the exposure to certain types of risk within the portfolio
   d. All of the above

8. What is the main purpose of a global cash flow analysis when credit analysts require personal guarantees?
   a. To determine the net worth of the guarantor
   b. To assess the availability of the guarantor's assets in case of default
   c. To combine the business and the guarantor's cash flow situation
   d. To compare the guarantor's income and expenses with industry benchmarks

CHAPTER 6 - PRICING

Key Learning Objectives

- Learn and comprehend the concept of the time value of money.
- Understand the basic concepts and terminology of lease pricing.
- Apply different methods and tools for calculating lease pricing.
- Learn how to use cash flow diagrams
- Recognize the differences and implications of tax-oriented and non-tax pricing.
- Compute unusual payment structures for different scenarios and customer needs.

Summary

The time value of money and its applications: The time value of money is the idea that money available today is worth more than the same amount of money in the future because it can be invested to earn interest or generate income. Financial calculators and software programs are used to perform various calculations involving the time value of money, such as finding the yield, the implicit rate, the lease rate factor, the discount rate, and the internal rate of return of a lease or a loan. There is also various terminology for the major and minor variables used in these calculations, such as term, rate, present value, payments, future value, points, basis points, and fees.

The effects of different payment structures on lease pricing: Different payment structures can affect the yield and the profit of a lease or a loan transaction. Calculations for the payment amount and the interest rate for transactions that involve down payments, advance payments, residual values, balloon payments, and end-of-term payments are complex; however, the use of cash flow diagrams to visualize the timing and the direction of the cash flows in a transaction is helpful.

The challenges and methods of true tax lease pricing: One must know the difference between conditional sales contracts and true tax leases in terms of the tax implications for the lessor and the lessee. A true tax lease can provide tax benefits to the lessor by allowing them to recognize the depreciation expense of the equipment and defer the income taxes. There are challenges in estimating the fair market value residual and the sinking fund rate for a true tax lease, and there are methods of using computer programs to solve the desired payment amount by incorporating the tax benefits.

Sample Questions

1. What is the lease rate factor (LRF)?
   a. The value of rent and residual stated as an annual percentage rate.
   b. The monthly payment stated as a percentage of the original equipment cost.
   c. The interest rate used when discounting a series of payments to the present value.
   d. The total value of a set of cash flows stated as an annual percentage rate.

CHAPTER 6 - PRICING

2. What is the time value of money?
   a. The concept that a dollar tomorrow is worth more than a dollar today.
   b. The concept that a dollar today is worth the same as a dollar tomorrow.
   c. The concept that the value of money does not change over time.
   d. The concept that a dollar today is worth more than a dollar tomorrow.

3. What is the difference between a true tax lease and a conditional sales contract?
   a. In a true tax lease, the lessor recognizes the full amount of the lease payments as rental income and is also entitled to recognize the depreciation expense of owning the equipment, while in a conditional sales contract, the lessor is taxed on the interest accrued.
   b. In a true tax lease, the lessor is taxed on the interest accrued, while in a conditional sales contract, the lessor recognizes the full amount of the lease payments as rental income and is also entitled to recognize the depreciation expense of owning the equipment.
   c. In a true tax lease, the lessor recognizes the full amount of the lease payments as rental income. In contrast, in a conditional sales contract, the lessor is entitled to recognize the depreciation expense of owning the equipment.
   d. In a true tax lease, the lessor is entitled to recognize the depreciation expense of owning the equipment. In contrast, in a conditional sales contract, the lessor recognizes the full amount of the lease payments as rental income.

4. What is the internal rate of return?
   a. The interest rate that makes the present value of the cash flow(s) equal to the investment.
   b. The interest rate used when discounting a series of payments to the present value.
   c. The total value of a set of cash flows stated as an annual percentage rate.
   d. The value of rent and residual stated as an annual percentage rate.

5. What is the difference between compounding and discounting?
   a. Compounding reduces the value of the principal, while discounting increases the amount of principal.
   b. Compounding and discounting both increase the amount of principal.
   c. Compounding and discounting both reduce the value of the principal.
   d. Compounding increases the amount of principal, while discounting reduces the value of the principal.

6. What is a sinking fund rate?
   a. The interest rate that makes the present value of the cash flow(s) equal to the investment.
   b. The interest rate used when discounting a series of payments to the present value.
   c. The earnings rate applied to the balance of investment during the sinking fund phases of a lease.
   d. The total value of a set of cash flows stated as an annual percentage rate.

CHAPTER 6 - PRICING

7. What is the purpose of a residual value estimation?
    a. To determine the value of the equipment at some later date, such as the end of the term.
    b. To determine the value of the equipment at the beginning of the term.
    c. To determine the value of the equipment at the middle of the term.
    d. To determine the value of the equipment at any point during the term.

8. What is the effect of a down payment on a lease?
    a. It increases the total financed amount.
    b. It reduces the total financed amount.
    c. It has no effect on the total financed amount.
    d. Depending on the lease terms, it may increase or decrease the total financed amount.

9. What is a cash flow diagram?
    a. A visual representation of the flow of funds in a transaction.
    b. A visual representation of the flow of funds in a company.
    c. A visual representation of the flow of funds in an economy.
    d. A visual representation of the flow of funds in a market.

10. What are some common lease pricing tools?
    a. SuperTRUMP
    b. InfoAnalysis
    c. T-Value
    d. Microsoft Excel.
    e. All of the above

CHAPTER 7 - DOCUMENTATION

Key Learning Objectives

- Differentiate the three fundamental lease contract categories.
- Comprehend the diverse standard lease documents and their respective functions.
- Recognize common components and clauses found in lease agreements.
- Become familiar with the objectives and varieties of schedules and exhibits included in leases.
- Acknowledge the importance of due diligence and the preparation of documents for municipal and agricultural leases.

Summary

The purpose and scope of documentation: Documentation is a crucial phase of the origination process that involves due diligence, data verification, document preparation, and coordination of tasks. It aims to ensure adequate documentation of the transaction and compliance with ethical standards.

The types and elements of lease contracts: Lease contracts can be written in different forms, such as standard lease agreements, master lease agreements, and plain language agreements. They typically include elements such as lessor and lessee identification, equipment description and location, contract terms, clauses and provisions, signatures, and attachments.

The standard lease and financing documents: Several documents are commonly used in lease and financing transactions, such as lease schedules, exhibits, delivery and acceptance certificates, guaranties, corporate resolutions, real estate waivers, fixture filings, UCC filings, purchase orders, invoices, and purchase options. Each document serves a specific purpose and has its own format and content.

The three forms of purchase and renewal options: Purchase and renewal options are agreements that describe whether and how a lessee can acquire ownership of the equipment at the end of the lease term. The three basic forms are nominal, fair market value, and purchase upon termination. The choice of the option may affect the characterization of the lease as a true lease or a lease intended as security.

The special considerations for municipal leasing: Municipal leasing is a type of financing for public entities that involves tax-exempt interest and non-appropriation clauses. Municipal leases require specific documentation, such as certificates of essential use, bank qualification statements, and Form 8038. Municipal leases also need to comply with the applicable requirements under the Internal Revenue Code and state law.

CHAPTER 7 - DOCUMENTATION

Sample Questions

1. What is the most important facet of documentation?
   a. Length
   b. Clarity
   c. Font size
   d. Font type

2. What is the purpose of a Delivery & Acceptance Certificate (D&A)?
   a. To indicate that the lessee has unconditionally accepted the equipment
   b. To indicate that the lessee has received the equipment
   c. To indicate that the lessee has partially accepted the equipment
   d. To indicate that the lessee has not yet received the equipment but will pay until receipt

3. What is the purpose of a Corporate Resolution?
   a. To demonstrate that the lessor has authorized the signers to validly bind the corporation to the lease
   b. To demonstrate that the lessee has partially authorized the signers to validly bind the corporation to the lease
   c. To demonstrate that the lessee has appropriately authorized the signers to validly bind the corporation to the lease
   d. To demonstrate that the lessee does not have the authority to validly bind the corporation to the lease

4. What is the purpose of a Real Estate Waiver?
   a. To acknowledge that the leased equipment belongs to the lessee and cannot be removed by the lessor
   b. To acknowledge that the leased equipment belongs to the landlord and cannot be removed by the lessor
   c. To acknowledge that the leased equipment belongs to the mortgagee and cannot be removed by the lessor
   d. To acknowledge that the leased equipment belongs to the lessor and can be removed by the lessor

5. What is the purpose of a Master Lease Agreement?
   a. To provide a one-time agreement for a single lease transaction
   b. To provide a series of agreements for multiple lease transactions
   c. To provide an umbrella agreement for a series of lease transactions and simplify the documentation process for each
   d. To provide a complex agreement for a single lease transaction

CHAPTER 7 - DOCUMENTATION

6. What is the purpose of a Purchase Order?
    a. To indicate that the lessor intends to purchase the equipment from the vendor upon fulfillment of certain conditions by the vendor and lessee
    b. To indicate that the lessor has no intention of purchasing the equipment from the vendor
    c. To indicate that the lessee has partially fulfilled the conditions for purchasing the equipment from the vendor
    d. To indicate that the lessee has not yet decided whether to purchase the equipment from the vendor but may exercise the option at the termination of the lease

7. What is the purpose of a UCC Filing?
    a. To relinquish priority lien rights of a creditor and provide notice to inquiring parties of a lessor or secured party's interest in the equipment
    b. To preserve priority lien rights of a debtor and provide notice to inquiring parties of a lessor or secured party's interest in the equipment
    c. To preserve priority lien rights of a creditor and provide notice to inquiring parties of a lessor or secured party's interest in the equipment
    d. To relinquish priority lien rights of a debtor and provide notice to inquiring parties of a lessor or secured party's interest in the equipment

8. What is the purpose of a Plain Language Agreement?
    a. To avoid legalese and make the agreement shorter and more easily understood
    b. To avoid complex language and make the agreement longer
    c. To use a combination of legalese and plain language to make the agreement moderately easy to understand
    d. To use a foreign language to translate the document

9. What is the purpose of a Guaranty?
    a. To provide credit support from primary lessees
    b. To provide credit support from unrelated parties
    c. To provide credit support from third parties that are not primary lessees
    d. All of the above

10. What is the purpose of a Purchase Option?
    a. To provide the lessee with the option to acquire ownership of the equipment at the end of the lease term
    b. To provide the lessee with the option to return the equipment at the end of the lease term
    c. To provide the lessee with the option to extend the lease term
    d. All of the above

CHAPTER 8 - FUNDING & OPERATIONS

Key Learning Objectives

- Understand the structure and functions of equipment finance companies, including funding, operations, and customer service.
- Gain knowledge of the various sources of capital and methods used to fund an equipment finance company.
- Learn about the regulatory compliance requirements for equipment finance companies.
- Develop an understanding of the importance of customer service in the equipment finance industry and the various scenarios that customer service professionals may encounter.
- Understand the role of insurance in equipment finance and the various considerations for insurance administration.

Summary

The types and sources of capital for equipment finance companies: Equipment finance companies need capital to fund their lease and loan portfolios. They can obtain capital from various sources, such as equity, debt, brokering, discounting, and asset securitization. The choice of funding method depends on internal and external factors, such as financial strength, risk tolerance, market conditions, and strategic goals.

The management considerations for funding: Equipment finance companies need to balance several objectives and constraints when deciding on their funding strategy. They must ensure adequate cash flow, flexibility, low cost of funds, manageable interest rate exposure, credit and financial risk, and optimal debt-to-equity ratio. They also need to maintain good relationships with their lenders and investors and monitor their portfolio performance and market trends.

The regulatory compliance issues for equipment finance: Equipment finance companies are subject to various federal and state regulations that affect their operations and customer service. Some of the major regulations include the Bank Secrecy Act, the USA PATRIOT Act, the Equal Credit Opportunity Act, the Servicemembers Civil Relief Act, and the state laws on electronic recycling, security breaches, automatic renewal, licensing, and usury. Equipment finance companies need to be aware of these regulations and comply with them to avoid penalties and reputational damage.

CHAPTER 8 - FUNDING & OPERATIONS

The customer service aspects of equipment finance: Equipment finance companies need to provide excellent customer service throughout the lifecycle of the lease or loan transaction. Customer service involves understanding the customer's needs and expectations, providing accurate and timely information, resolving issues and inquiries, and building long-term relationships. Customer service also covers billing, collecting, insurance administration, title management, and contract adjustments.

Sample Questions

1. What is the difference between subordinated debt and senior debt in equipment finance?
    a. Subordinated debt has a lower interest rate and a higher priority in case of liquidation or bankruptcy
    b. Subordinated debt has a higher interest rate and a lower priority in case of liquidation or bankruptcy
    c. Subordinated debt has a fixed interest rate and a variable maturity date
    d. Subordinated debt has a variable interest rate and a fixed maturity date

2. What are some benefits of discounting as a method of funding in equipment finance?
    a. Higher upfront commission, less credit risk, and no servicing responsibility
    b. Longer-term financing, lower interest rate exposure, and less equipment risk
    c. Easier access to capital markets, off-balance sheet treatment of debt, and higher residual income
    d. Lower cost of funds, greater flexibility, and more control over the lessee relationship

3. What is the final stage of the origination process?
    a. Customer service.
    b. Funding.
    c. Insurance administration.
    d. Title administration.

4. What is the most basic resource that all equipment finance companies need?
    a. Employees.
    b. Equipment.
    c. Capital.
    d. Customers.

CHAPTER 8 - FUNDING & OPERATIONS

5. What are the most common methods of funding in the equipment finance industry today?
   a. Internal funding.
   b. Brokering.
   c. Discounting.
   d. All of the above.

6. What is the simplest form of external funding?
   a. Brokering a lease transaction to a funding source on a one-off basis.
   b. Asset-backed facilities such as lease securitizations.
   c. Internal funding.
   d. Discounting.

7. What is the goal of a company treasury group?
   a. To achieve the highest overall cost of funds.
   b. To achieve the lowest overall cost of funds.
   c. To achieve the highest interest rate exposure.
   d. To achieve the highest credit and financial risk.

8. What is the definition of a broker according to the California Finance Lenders Law?
   a. Any person engaged in the business of negotiating or performing any act as a broker in connection with loans made by a finance lender.
   b. Any person engaged in the business of negotiating or performing any act as a broker in connection with loans made by a finance borrower.
   c. Any person engaged in the business of negotiating or performing any act as a broker in connection with loans made by a finance broker.
   d. Any person engaged in the business of negotiating or performing any act as a broker in connection with loans made by a finance bank.

9. What is the purpose of the Servicemembers Civil Relief Act (SCRA)?
   a. To provide protections for military personnel, impacting financial obligations by capping interest rates, preventing default judgments, and offering foreclosure and eviction protections.
   b. To provide protections for civilians, impacting financial obligations by capping interest rates, preventing default judgments, and offering foreclosure and eviction protections.
   c. To provide protections for military personnel, impacting financial obligations by increasing interest rates, allowing default judgments, and offering foreclosure and eviction protections.
   d. To provide protections for civilians, impacting financial obligations by increasing interest rates, allowing default judgments, and offering foreclosure and eviction protections.

CHAPTER 9 - PORTFOLIO MANAGEMENT

Key Learning Objectives

- Role and importance of portfolio management for equipment finance companies.
- Key characteristics and performance indicators used to segment and evaluate the portfolio.
- The main functions and responsibilities of the collections department.
- The impact of bankruptcy law on equipment finance transactions and contracts.
- The value and challenges of asset management throughout the equipment finance lifecycle.

Summary

The role and importance of portfolio management for equipment finance companies: The portfolio management department's job is to optimize the performance and profitability of the assets they finance and manage the credit and operational risks associated with them. Portfolio management involves segmenting the portfolio into different categories based on factors such as industry, equipment type, lease structure, and customer profile. It also involves monitoring the portfolio for trends, patterns, and anomalies and evaluating it using various performance indicators, such as delinquency, charge-off, yield, and return on equity.

The functions and responsibilities of the collections department: The collections department exists to ensure timely and consistent recovery of payments from past-due customers or customers in default on their lease obligations. The department is responsible for identifying accounts at risk of becoming delinquent or non-performing and contacting and negotiating with customers to resolve payment issues. The department must also document all collection activities and communications and interface with attorneys and asset managers when legal action or repossession is necessary.

The impact of bankruptcy law on equipment finance transactions and contracts: Bankruptcy affects the rights and obligations of both the lessor and the lessee in the event of a bankruptcy filing by either party. A few of the types of bankruptcies that are relevant for equipment finance are Chapter 7 (liquidation), Chapter 11 (reorganization), and Chapter 13 (individual debt adjustment). The bankruptcy law provides for an automatic stay, which prevents the lessor from enforcing its remedies against the lessee or the equipment without court approval. The bankruptcy law also allows the lessee to assume or reject the lease contract, subject to certain conditions and limitations. The preference rules under the bankruptcy law may also require the lessor to return any payments or transfers received from the lessee within a certain period before the bankruptcy filing if they are deemed to be preferential or fraudulent.

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The tasks and challenges of asset management: The asset management department's goal is to maximize the residual value and recovery of the equipment financed by the lessor and to minimize the costs and risks associated with the disposition of the equipment. Asset management involves determining the equipment's fair market value and residual value based on factors such as equipment condition, market demand, and technological obsolescence. It also involves conducting periodic residual value reviews to adjust the expected residual value and depreciation of the equipment according to market changes and customer usage. Asset management also entails recovering and remarketing repossessed equipment through auctions, brokers, or direct sales and complying with legal requirements, such as environmental regulations, title transfers, and tax implications.

Sample Questions

1. What is the main goal of portfolio management in equipment finance?
   a. To align the risk profile to earn optimal risk-adjusted returns
   b. To maximize the residual value and recovery of the equipment
   c. To minimize the costs and risks associated with the disposition of the equipment
   d. All of the above

2. What are three of the types of bankruptcies that are relevant for equipment finance?
   a. Chapter 7, Chapter 8, and Chapter 11
   b. Chapter 7, Chapter 11, and Chapter 13
   c. Chapter 9, Chapter 11, and Chapter 14
   d. Chapter 11, Chapter 12, and Chapter 14

3. What is a preference in bankruptcy, and why is it important to be aware of it?
   a. A preference is a payment made by the debtor to one creditor over another within a certain period before the bankruptcy filing, which may be required to be returned to the bankruptcy estate.
   b. A preference is a claim made by the debtor for the return of leased equipment within a certain period before the bankruptcy filing, which may be denied by the lessor.
   c. A preference is a motion made by the debtor to assume or reject a lease contract within a certain period before the bankruptcy filing, which may be contested by the lessor.
   d. A preference is a request made by the debtor for relief from the automatic stay within a certain period before the bankruptcy filing, which may be granted by the court.

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4. What is the difference between fair market value and orderly liquidation value of an asset?
   a. Fair market value is the amount that the asset could be sold for in an open market, while orderly liquidation value is the amount that the asset would fetch in an auction-style sale.
   b. Fair market value is the amount that the asset could be bought for in an open market, while orderly liquidation value is the amount that the asset would cost in an auction-style purchase.
   c. Fair market value is the amount the asset could be exchanged for in an open market, while orderly liquidation value is the amount the asset would generate in an auction-style trade.
   d. None of the above

5. What is a residual value review, and why is it important for asset management?
   a. A residual value review is a process of evaluating the estimated value of the equipment at the end of the lease term, which helps to adjust the expected residual value and depreciation of the equipment according to market changes and customer usage.
   b. A residual value review is a process of verifying the actual value of the equipment at the end of the lease term. This helps determine the final payment or purchase price of the equipment according to the contract terms and customer preferences.
   c. A residual value review is a process of appraising the current value of the equipment during the lease term. This helps monitor the performance and condition of the equipment according to the maintenance and inspection requirements.
   d. All of the above

5. What alternative collection processes or remedies may a lessor use besides full payment or repossession of the equipment?
   a. Partial payments, extension agreements, changes in due dates
   b. Recovery agreements, forbearance agreements, transfer and assumption agreements
   c. Replevin action, self-help, commercially reasonable sale
   d. Any of the above

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6. Which of the following is incorrect regarding the difference between a liquidating bankruptcy and a reorganization bankruptcy?
   a. A liquidating bankruptcy is one in which the entity stops doing business and sells its assets, while a reorganization bankruptcy is one in which the entity continues to do business and restructures its debts
   b. A liquidating bankruptcy is one in which the entity sells some of its assets to pay off its debts, while a reorganization bankruptcy is one in which the entity merges with another entity to reduce its liabilities
   c. A liquidating bankruptcy is one in which the entity files for bankruptcy protection under Chapter 7 of the U.S. Bankruptcy Code, while a reorganization bankruptcy is one in which the entity files under Chapter 11
   d. A liquidating bankruptcy is one in which the entity transfers its assets to a trustee who distributes them to creditors, while a reorganization bankruptcy is one in which the entity proposes a plan to repay its creditors over time

7. What is the primary purpose of a replevin action in a default scenario?
   a. To obtain an order from a judge requiring the lessee to surrender the equipment
   b. To recover the monetary loss from the lessee or any guarantors
   c. To sell the equipment in a commercially reasonable manner and mitigate losses
   d. To negotiate a settlement with the lessee and avoid litigation

Answer Key

Chapter 1

1. D
2. C
3. B
4. A
5. A
6. B
7. C
8. A
9. D
10. D

Chapter 2

1. A
2. C
3. A
4. A
5. B
6. C
7. B
8. D
9. A
10. C

Chapter 3

1. A
2. B
3. D
4. D
5. A

Chapter 4

1. D
2. A
3. A
4. A
5. A
6. B
7. D
8. B
9. D

Chapter 5

1. A
2. C
3. D
4. B
5. C
6. A
7. D
8. C

Chapter 6

1. B
2. D
3. A
4. A
5. D
6. C
7. A
8. B
9. A
10. E

Chapter 7

1. B
2. A
3. C
4. D
5. C
6. A
7. C
8. A
9. C
10. A

Chapter 8

1. B
2. D
3. B
4. C
5. D
6. A
7. B
8. A
9. A

Chapter 9

1. D
2. B
3. A
4. A
5. A
6. B
7. A

DAY OF THE EXAM

Exam Appointment Details

- The flexibility of the exam timing is in your hands. You have the freedom to choose when to start. However, it's crucial to pay attention to your start time. Each part has its own time limit that will be displayed, and the entire exam does not have a timer. It's a challenge that needs to be completed within eight (8) hours. If you take more than that time, your entire exam will be forfeited, and you will need to retake the exam (including paying the fee).

- It's mandatory to have a government-issued ID readily available upon logging into your exam session for verification. This is a crucial step to ensure the integrity of the exam process and prevent unauthorized access.

General Information

- The room you test in must be a private room. Public spaces such as a library, computer lab, or coffee shop are strictly prohibited. The testing room must be well-lit, quiet, and only accessed by you during the examination. You should be seated at a hard surface, such as a desk or table, and preferably with your back to the main room entrance. This ensures a conducive environment for the exam and prevents distractions.

- You will be required to do a room scan before your exam can begin. This will include a 360-degree scan of the room in which you are testing; therefore, please be sure that your webcam can be rotated to view the entire room and workspace, including behind your computer, on top of, and underneath your desk.
  - Your desk space must be completely clear of any items not approved for use on your exam (see list of prohibited items below).
  - You may enter the exam with one single, blank 8x11 piece of scratch paper during part I. If used, this paper must stay on your desk for the entirety of the Exam, including during breaks.
  - You must be alone in the room throughout the test. Friends, relatives, pets, and children will NOT be allowed in the room or in the vicinity in which you are testing.
  - You may not use more than one monitor during the exam. If you have a second monitor, please unplug it and place it out of reach.

- You are not allowed to leave the room for any reason within each part of the Exam. Breaks are allowed ONLY between parts but NOT during. If there is an emergency, please note the time and inform the Foundation upon completion.

- Please ensure you remain within the webcam frame. If you do not, your exam may not be counted.

- All programs that aren't needed for the exam (including VPN) must be shut down; your screen activity is recorded and will be reviewed.

- Your computer will be scanned for appropriate speed and RAM availability; if you receive a message that you do not have sufficient speed/space, you may continue with the exam, but the Foundation does not guarantee performance.

- If your exam timer runs out, your exam will auto-submit.

- Internet connections are subject to the local internet providers in the area. While it is not the norm, internet connections can, on occasion, be lost momentarily. If this occurs, log back in and resume your exam; the clock does not stop.

- **Obtaining assistance**: If you have any difficulty at all, use the chat option; do NOT contact the Foundation at all, as the clock does not stop, and we cannot assist you. The Foundation has used this proctoring option for a few years now, and not once has there been an issue that we could fix on our end.

Prohibited Items

All candidates are expressly prohibited from having the following items in the room in which they are testing:

- Headphones or earbuds,

- Cameras, cell phones, optical readers, or other electronic devices that include the ability to photograph, photocopy, or otherwise copy test materials,

- Additional computers, monitors, PDAs, iPods, mp3 players, pagers, or other electronic devices with one or more memories,

- Any person, including friends, relatives, pets, and children,

- Notes, books, dictionaries, or language dictionaries,

- Food.

Obtaining Exam Results

- Your results should come automatically to your email upon Exam submittal. If you do not receive results immediately after checking your inbox and junk folder, please e-mail exam@clfpfoundation.org and include your full name, your username (24-xxxx), and exam letter (A, B, C, or D). Please also keep in mind that if you are testing during non-business hours/day (Pacific Time Zone), we will not be available to send results until the following business day.

- Your results will be either a pass (no grade) or fail (with percentages for each Part)

FINAL INFORMATION

Please visit www.clfpfoundation.org to access:

1. FAQs
2. Glossary
3. CLFP Designation Application
4. Registration for an Academy for Lease & Finance Professionals (optional)
5. Information regarding the mentor and/or anonymity program
6. The Body of Knowledge

"Building a better commercial equipment finance industry, one individual at a time"

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