Equipment Financing & Leasing

A Training Guide to Secured Financing

Second Edition

by

Jim Blumberg
&
Marc J. Marin

Consulting Editor

Jennifer Seitz

The Commercial Finance Institute

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Introduction to Equipment Leasing

Leasing, like many other forms of financing has enjoyed a long and rich tradition of providing the much needed financing that has encouraged economic prosperity. Evidence suggests that an origin of leasing may have started before 2500 B.C. in the ancient Sumerian civilization. It is widely believed that merchants negotiated farming tools, land, water rights and various livestock. Further documented evidence shows that in 1066 A.D., Norwegian Kings leased invasion fleets, including crews, to invade England.

In the early 1870's in the United States, a small company named Bell Telephone Company made the decision to lease it's equipment as opposed to selling it. In the 1940's a car dealer in the Midwest, offered long term fleet leasing. The list of innovators in the leasing industry is endless. As leasing carried forward it's rich traditions into the 21st century, items such as aircrafts, ships, software, website's and satellites are now on the everyday list of leasing possibilities.

Each new year the equipment leasing industry is enjoying tremendous growth. This is partly due to the benefits of obsolescence avoidance, off balance sheet financing, tax issues, availability and overall flexibility leasing offers. Worldwide, leasing is a multi-trillion dollar industry that continually evolves with each new leasing participant. More than one-half of the worlds leases are originated in Europe, Asia and the United States. Statistics indicated that for each 1 billion dollars invested in equipment purchases, more than 30,000 jobs are created. Reports in the late 1990's indicated that more than 85 percent of all U.S. businesses lease some or all of their capital equipment.

With continually evolving markets and the incredible variety of leasing structures, it is easy to see how equipment finance consultants are helping business owners make educated decisions on the acquisition of new equipment. Equipment leasing simply makes sense.

What is Leasing

A lease is a contract for the use of a piece of equipment over a specified period of time where the user of equipment becomes the lessee and agrees to make periodic payments to the lessor of the equipment with specific end of term options.

The lessor is the owner of the leased equipment and makes the initial cash investment for the purchase of the equipment from an equipment vendor. The lessee is the user of the equipment and get's the benefits of its use, just as if they owned it. Leasing allows a business or consumer to finance the usage, without having to finance the purchase.

Simply stated, a lease is a legal agreement whereby the lessee uses the lessor's real or personal property for a specified time and for a specified rental charge.

Why Businesses Lease

The most common reason why leasing is so popular is that it meets the needs of so many types and sizes of businesses. For example, a mature and profitable company may lease equipment to keep bank credit facilities employable. Many young companies lease to conserve cash or because they are unable to qualify for conventional financing. Many firms that utilize high tech computer equipment utilize the benefits of leasing to avoid equipment obsolescence and preserve the ability to upgrade. The financing needs of equipment are as unique as the equipment itself and leasing meets these opportunities in a wide variety of ways. Businesses will often consider leasing for the following reasons:

1. Retain Capital. Leasing allows a lessee to acquire the equipment and technology today while spreading the repayment across time. This allows a business to reserve cash for other day-to-day operating expenses, new opportunities or emergencies.

2. Off Balance Sheet Financing. When a company acquires equipment, it must capitalize the equipment on its balance sheet showing it as an asset. If the company financed the equipment through a conventional loan, it is also required to record the corresponding liability on the balance sheet. If a business leases its equipment, it may be categorized as a rental payment on the income statement, therefore no liability on the balance sheet.

3. Speed. Lessors are able to offer a lessee a leasing program in hours as opposed to days or weeks under a conventional financing arrangement. This allows a business to acquire the equipment in a timely fashion and employ the equipment to generate revenue.

4. Affordability. The acquisition of assets through leasing as compared to an outright purchase, can become more important as the cost of equipment increases. As technology improves and new and more expensive equipment becomes available, many companies find it necessary to acquire the use of new equipment through leasing rather than a direct purchase simply based on the affordability factor. This is true for two reasons:

   - As a general rule, leasing companies will require lower down payments at the inception of the lease;
   - Other incidental costs of acquiring the asset, such as sales tax, installation costs, delivery costs and other "soft costs" can, in many cases be included in the lease payment.

5. Asset Management. A lease provides the usage of the equipment for a specific period of time at a fixed payment price. A lessor may assume and manage the risk of equipment ownership. At the end of the lease term, the lessor may dispose of the equipment.

6. Tax Motivations. When a lease is structured, it may be structured in such a fashion that the lessee qualifies the acquisition as a tax lease under Internal Revenue Service criteria. Under a properly structured tax lease, lease payments are generally deductible for Federal tax purposes as the lease is considered a rental expense and therefore is fully deductible.

7. Customized Solutions. Leasing allows a lessee to structure a financing program that addresses individual business issues, including cash flow, usage, budget, transaction, obsolescence and cyclical fluctuations. For example, a business that experiences seasonal fluctuations may structure a leasing program around the heaviest months.

8. Ownership. An important and often overlooked aspect of equipment leasing is the option of a lessee to acquire the equipment at the end of the lease term.

9. Flexibility and Convenience. As a business grows and its needs change, a business may upgrade a lease at any point through an add-on or master lease program. The fact that leasing is an unregulated industry, allows a lessor to be more aggressive and accommodating in their lending practices. This aggressiveness and adaptability translates directly into flexibility and convenience for a lessee.

10. Obsolescence. Leasing is an extremely attractive option for purchases in which the equipment rapidly becomes obsolete.

Leasing offers many advantages over conventional forms of financing. Acquiring the usage of an asset through a lease can involve less time and red-tape. Additionally, many of the headaches associated with ownership can be transferred to the lessor. For example, a lessee can simply return the equipment at the end of the lease term, thus the lessor must bear the obligation, burden and risk of disposing of the equipment.

As a commercial finance consultant, you can easily offer a one-stop shop for your prospects. There are hundreds of equipment leasing companies throughout the U.S., each with unique programs.

Example 1.

Sample Company, Inc.

Basic Leasing Scenario

Sample Company, Inc., is searching for financing for a piece of production equipment valued at $72,500. This new equipment would allow Sample Company, Inc., to increase production while greatly reducing defects. Sample Company, Inc., has a limited track record and minimal borrowing capacity. The owners, however have excellent personal credit and leasing appears to be an ideal vehicle for the acquisition of the equipment.

Purchase Price	$72,500
Lease Term	60 months
Rate Factor	.02587
Monthly Payment (rental)	$1,875.58
End of Lease Option	Fair Market Value
Advance Payments (2)	$3,751.15

The lease structure allows Sample Company, Inc., the means to acquire the equipment at a reasonable up-front cost, acceptable monthly payments and significant tax benefits.

Ideal Candidates

Equipment leasing is available to any business that requires equipment. With the wide variety of equipment lenders, many have a unique appetite for equipment preferences, varied credits and industry niches. For instance, GE Capital has multiple equipment leasing divisions. One of GE's specialized divisions exclusively handles turbine-jet engines. Other equipment lenders may only specialize in a certain dollar amounts or storied credit situations.

What ever the circumstance, a business can be assured that there is an equipment lessor with industry experience. No two equipment lenders will have the same underwriting parameters when evaluating a potential lessee. Many lessors model decisions simply based on cash-flow, while others look at the equipment/collateral itself. Many employ both methods to make a determination.

Equipment leasing is very similar to conventional lending. Just as a borrower makes payments on a loan to a bank, a lessee makes payments to a lessor. Therefore, a lessor is as concerned with the capability of the lessee to make payments. Regardless of how a lessor determines qualification, they generally will look at six primary qualifications:

- Time in business
- Personal credit of guarantors
- Business credit reports
- Banking relationship
- Trade references
- Equipment

Let's examine each preliminary qualification in detail:

1. Time in business. All lessors look at the time a business has been in operation as a critical factor in making a decision in extending a leasing arrangement. Experience has taught lessors that experience counts. With the high failure rate among businesses with less than 5 years of operating history, most lessors have determined exposure levels (loss tolerances) based on the time in business.

Along with time in business, a lessor will determine how long the current management team has been in place. A company that has a significant operating history that was recently acquired may receive additional scrutiny.

Many lessors will require a business to have a minimum of 2 years time in business. For those businesses that have less than 2 years of operating history, there are lessors who will extend "start-up" programs. Start-up candidates will generally pay higher interest rates and may be required to pledge additional collateral or guarantees.

2. Personal credit history. For privately held or small companies, the owners personal credit history is critical. Like all lending relationships, character is of paramount importance. Personal habits have a significant correlation between a principal's personal credit and the financial well being of a company.

   Most lessors will not extend credit to a prospect if a guarantors personal credit score is below 625 from any of the recognized consumer credit reporting agencies. Any open delinquencies that cannot be reasonably explained or any open judgements or suits will also significantly diminish the prospect as a potential lease candidate.

   Any owner that has more than 20 percent ownership of a company will also be required to release personal credit information. Most lessors are looking for a majority ownership of at least 60 percent to evaluate a prospect. Often times one rotten apple will spoil the deal.

3. Business credit reports. A lessor may rely on certain information contained in a business credit report. Dunn & Bradstreet is the premier provider of this information. This information is utilized to determine certain aspects of a prospects application.

   Such information should substantiate such items as time in business, owners or officers, location, phone numbers, SIC code, sales, financial information, open suits, liens, judgements and may also list other creditors and collateral via a UCC filing.

4. Bank relationship. Many lessors will require a prospect to have had a minimum of a two year commercial banking relationship. A lessor will verify the date the account was opened and how the account was managed overall. A lessor will determine the average daily account balance and if any overdrafts occurred.

5. Trade references. Many lessors will ask for a minimum of three arms-length trade creditors. These creditors must have extended credit to the prospects company with a successful payment track record.

   A lessor will provide a creditor with a "trade reference request" form which asks the following:

   - Exact name of customer
   - Length of relationship
   - Product or service provided to customer
   - High credit extended to customer
   - Payment habits

6. Equipment. A lessor will determine if the equipment being requested is generally associated with the prospects business. For example, you would expect most business to have usage for a computer. However, a lessor may question a prospect who is engaged in the medical industry and seeking to acquire a backhoe.

Pre-qualification

It is necessary to always to first fully understand the leasing product and second to understand simple procedures to effectively qualify a leasing prospect. The ultimate goal is submit a qualified candidate to a lessor and obtain approval, with funding shortly thereafter.

Equipment leasing like all other forms of financing utilizes simple yet effective methods to determine the feasibility of qualifying a business for an equipment lease. These methods are commonly practiced by business development and underwriting personnel throughout the leasing industry. There are four basic rules to remember when pre-qualifying a prospective client.

1. Work over the phone
2. Ask basic questions
3. Justification
4. Competition

Working Over the Phone

Today, business can be conducted over the phone, fax and internet. These are invaluable tools in the pre-qualification process. There is no reason to immediately move into a presentation about leasing and all of it's benefits. First, you may consider simply informing your prospect about your role as a commercial finance consultant.

Once you have established your position as a consultant, it's time to dig deeper into the prospects situation.

Asking Basic Questions

There are several basic questions that need to be asked to determine the potential viability of qualifying for a leasing arrangement. Some of the most effective questions to quickly determine feasibility are:

1. **Tell me about your business?**

Allow a prospect to tell you about their business. This conversation should detail the need for equipment whether specialized in general in nature. During this stage of questions, you should ask the following:

a. How long have you been in business? A prospect should be able to support this by forwarding (at a later time) the filed articles of incorporation, articles of organization or d.b.a certificate.

b. Have there been any changes in ownership within the last 3 years? Remember, a change in the ownership structure may affect how the prospect is viewed by a lessor from a time in business perspective. Also, this is an ideal time to determine if there are any partners with more than 20 percent ownership interest.

c. How is your personal credit? This question will only be necessary in those circumstances where the prospect does not qualify for a corp-only transaction. You should always ask how the personal credit score is of the owners/officers who have a majority interest. If their score is below 625, there may not be many options available.

d. Any prior personal or corporate bankruptcies? An individual can substantially rebuild their credit score within 2 years. However, a prior bankruptcy can complicate a leasing arrangement. If a prospect has had a prior bankruptcy, it is important to determine how long ago and what reason(s) forced the entity to file.

2. **What type of equipment are you looking to acquire?**

This is a critical question to determine the method in which to proceed further. You will need to ask the following questions:

a. Do you have a quote on the equipment? You should determine if the prospect has a written quote from an equipment vendor listing all pertinent information such as:

- Total cost of equipment/payment instructions
- Complete specifications (model numbers, etc.)
- Complete vendor information
- Delivery/availability information

b. Do you have a budget your trying to work within? Ask your prospect if they have a monthly payment in mind.

c. Short or long term usage? Ask your prospect if they need this equipment for a specified period of time or perpetual?

d. How will the equipment be utilized in the business? For instance, a piece of equipment should be germane to the prospects business.

3. **What is your current financial condition?**
Obviously, from the tone of the conversation you will quickly ascertain how cooperative and forthcoming the prospect is. This will be a judgement call on your part. You may choose to forego any questions relating to the financial condition of the company if you determine a reluctance to divulge sensitive information about their financial condition. However, if the prospect called you, there should be little reason for a prospect to withhold any financial information.

There are lessors that will place primary emphasis on collateral values, not cash flow, profitability or stockholders equity.

You should ask your prospect the following questions regarding their financial condition:

- Does the company have a positive net worth? If yes, what is the net worth?
- Is the company profitable? If yes, for how long?

From the response, you will be in a better position to determine if further questioning is warranted.

4. **How soon are you looking to install the equipment?**
This is necessary to determine if your prospect is truly motivated. Do they have a project that requires the acquisition of the equipment or is it replacing an existing item.

Justification

The assessment of the prospect’s needs versus qualification is where you must make a preliminary decision based on your initial conversation if the transaction has some degree of validity.

By now, enough information has been gathered to at least initially surmise whether this is a good candidate for leasing. Is the prospect’s request sensible? If the prospect is a start-up and they are looking for $650,000 in equipment leasing with poor personal guarantors, there is a low likelihood that this transaction will close. You will be in a position to make certain assumptions based on the information provided.

Your primary objective is for you to simply get a gut feel for the overall proposed leasing arrangement and prospects qualification.

Are you competing

It is always helpful to learn if the prospect is seeking financing form other sources. If they are talking with a competitor that you know cannot offer the terms the prospect is seeking or is priced higher, it would give you a distinct competitive advantage.

Let the prospect know that you feel you can help them. Your role as a commercial finance consultant is to find the absolute best lender for each of your prospects and you would like an opportunity to package and present their application package to select lessors on their behalf.

However, you maybe in the situation where the prospect has already received proposals or is in dialogue with other lessors. In that event, you may consider asking the following questions:

1. **Whom have you been speaking with?**
   Again, this may give you a distinct advantage to know which lessor(s) or super-brokers the prospect is having serious dialogue with. Once this is known, it can influence the way you present the product or aid in your pricing in some instances.

2. **Do you have a term sheet?**
   If the prospect has a term sheet in hand and is willing to share the contents, it can greatly improve your position. The existing term sheet(s) will serve as a benchmark in your search. Not only will you know who you are competing against, but what rates, terms and conditions they are proposing.

3. **Is there something special you are looking for?**
   If there is something distinct about your prospects equipment needs or business, you will need to identify it quickly. Your prospect may be seeking a unique financing arrangement such as a sale-lease back, seasonal payment structure, step program, TRAC lease, municipal lease, etc.

Presenting the Product

Equipment leasing is often thought of as a vehicle which only allows the usage or "rental" of the equipment. This is only true if the lessee and lessor agree to this structure. Equipment leasing is a dynamic financing vehicle that can be structured to accommodate tax motivations, balance sheet considerations, conservation of capital or numerous other reasons.

Presenting a leasing solution to a qualified and motivated prospect is simple and straightforward. Because lessors have the capability to structure very unique leasing vehicles, there are generally multiple ways to structure a program that fits the exact needs of the lessee. What is necessary in the equation is to understand exactly what your prospect is attempting to achieve and what leasing vehicle accomplishes these objectives.

Leasing professionals will tell you that 95 percent of the time a company chooses to lease equipment is the accessibility leasing offers.

Explaining the process is very simple:

Mr./Ms., prospect, here's what leasing is capable of offering you:

- You can acquire the equipment for a low down payment. Generally, the first and last payments;
- 100 percent of all soft costs associated with the purchase. This may include tax, delivery & installation charges, maintenance agreements, training, etc.;
- Affordability. We can structure a payment arrangement around the unique needs of your business. This may be weekly, monthly, bi-monthly, seasonally, etc.
- Ownership. We can structure the lease where you may acquire the equipment at the end of the term for an agreed upon price;
- Speed. We can structure an arrangement in hours as opposed to weeks through conventional financing. Thus, the equipment can be immediately implemented;
- Simple application process. For a lease under $75,000, we generally only utilize a only page application.

Explaining leasing can be this simple. Those prospects that recognize the accessibility and flexibility a leasing arrangement offers quickly close as they see the vehicle in the best possible light.

Leasing Fundamentals

Equipment leasing can become a complex financing vehicle for a multitude of reasons. For instance, leasing can be structured to have significant tax ramifications and/or off balance sheet considerations.

Advanced Topic / Writers Point of View

> This publication is designed to provide a basic 101 overview of equipment leasing as a financing vehicle. Because of the complexities of FASB and GAAP accounting principals, we will only touch on the most basic leasing concepts and their practical everyday usage.
>
> \- J. Blumberg

When considering the leasing options available to a qualified lessee, a commercial finance consultant must first have a working knowledge of the common forms of leases and end of term options. Understanding these types will allow you to steer a prospect into the correct leasing vehicle.

Forms of Leasing

1. **True Lease/Operating Lease**
   A true lease or operating lease as it is commonly known as is the "rental" approach. Under this type of arrangement a lessee has the option to acquire the asset at the end of the term for the "fair market value," which generally equates to a minimum of 10% of the purchase amount.

   In a true or operating lease a lessee can fully deduct the monthly lease payments as a rental charge, thereby reducing their tax liability. A true or operating lease is also associated with off-balance sheet financing.

2. **Capital Lease**
   A capital lease also referred to as a "conditional sales contract is an outright purchase. This is similar to a typical bank loan where a lessee

generally owns the equipment from acquisition. Like a typical loan, a lessee thereby takes depreciation and interest into consideration at tax time.

Generally, a capital lease will allow the lessee to acquire the equipment for $1.00, fair market value or a fixed price upon completion of the lease term. Under a capital lease the liability and asset is properly recorded on the balance sheet. Other names for these types of leases may be lease purchase, finance lease, $1 buyout and full payout lease.

3. **Municipal Lease**

A municipal lease is a financing vehicle that used by municipalities, schools or other governmental agencies to acquire equipment and finance it over its useful life. Municipal leases are documented as a lease but have similar characteristics as a loan. The lessee can own the asset at the end of the lease term or may reserve the right to payoff the lease at anytime.

Municipal leasing can be arranged around budgetary constraints that dictate how much equipment a public entity may acquire and when. This form of leasing may provide significant savings to a governmental agency.

Municipal leasing offers many unique financing advantages:

- No debt is created. Payments are subject to non-appropriation as no debt is created, therefore generally it is not subject to voter approval;
- Maximize budgeted funds. Only a current years payments need to be included in the budget.
-

4. **Master Lease**

A master lease is essentially a line of credit in which a lessee may acquire additional equipment. This offers a lessee greater convenience when adding additional equipment as the additional equipment is simply "rolled into" the existing lease arrangement. Each new piece of equipment may have unique end of term options but, the master lease agreement governs the basic terms and conditions. A master lease is ideal for those lessees who have continuing equipment needs.

5. **Sale Leaseback**

A sale leaseback is a tool that is utilized by businesses that need to raise additional working capital. Essentially, equity in certain equipment may be utilized to borrow against. Provided the equipment is acceptable to a lessor, the lessor may purchase the equipment from a business and immediately lease-it-back to them as the lessee.

This provides an immediate cash infusion to a business while restructuring the repayment over a specified period of time. Sale leaseback's are very risky because the eventually lessee is generally experiencing working capital shortfalls. Most lessors that offer sale leaseback programs are collateral lenders. Therefore they are careful to structure loan to value ratios that provide ample "cushion" in the event they are forced to repossess the collateral.

End of Term Options

The end of the term option"wraps-up" the lease arrangement. When the end-of-term option is considered, it is necessary to consider if the lessee wishes to treat the lease as a true/operating lease where they benefit from a tax basis or an operating lease where they benefit from the depreciation.

There are four common end-of-term options:

1. **Fair Market Value Purchase Option (FMV)**

With a FMV option, a lessee will receive the benefit of the lowest possible monthly payment as the end-of-term option may allow the lessee to:

- Return the equipment;
- Acquire the asset for the current fair market value;
- Continue to lease the equipment under a lease renewal.

Generally, a fair market value purchase option is a preferred option for those lessees concerned about equipment obsolescence.

2. **10% Purchase Option**

With a 10 percent purchase option, a lessee will have the option to acquire the asset for 10 percent of the original purchase price. Generally, a lessee that chooses a 10 percent purchase option will have higher monthly payments than a FMV end-of-term option and a lower monthly payment than a $1 dollar buyout lease. A lessee also reserves the right to return the asset at the end of the lease agreement.

3. **Purchase Upon Termination (PUT)**

A lessee that chooses a purchase upon termination end-of-lease option must purchase the equipment at the end of the lease term. This may be a percentage of the original purchase price or predetermined at the inception of the lease. There is truly "no" option at the end of the lease term.

4. **Abandonment Lease**

An abandonment lease is essentially a capital lease. The advantage of an abandonment lease is the transfer of ownership upon completion of the lease term can be made for a "token" sum. A token sum is often considered a $1.00 buyout option.

Advanced Topic / Writers Point of View

In certain States, a $1.00 buyout option is not acceptable. In these States, a lessor will often structure the buyout as $101.00 or similar minimum dollar purchase amount.

- J. Blumberg

Common Concerns & Objections

Many objections are often unanswered questions! As a commercial finance consultant, it is often recommended that during a presentation of the product fundamentals, that areas of general concern to most prospects are brought forward before the prospect even asks. In the equipment leasing industry, there are three common concerns:

- Guarantors
- Interest rate
- Early termination

Guarantors

In the commercial finance industry, a guarantor is almost always a requirement. Because equipment leasing places a great deal of consideration on the owners/officers personal credit rating, it is common to find a prospect that inquires about who can sign as a guarantor.

In a certain percentage of those scenarios a prospect may realize that their personal credit score will not support approval from a lessor. Often these types of prospects will inquire about a "co-signer/co-guarantor." This is often a family member or someone outside of the business. Lessors do not look favorably on these requests.

Only those who are listed on the Articles of Incorporation, Articles of Organization, partnership agreement, etc., are authorized/required to execute as a guarantor on a lease transaction.

Interest Rate

Leasing is as competitive as any other form of financing. The stronger the lessee is financially and the stronger the guarantors are personally, the costs associated with a lease are as competitive than any bank financing arrangement.

For those prospects that have “storied” credit situations, rate is determined by the perceived risk by the lessor. The weaker the transaction, the more the lessee will pay in fees.

In these circumstances, the method in which the lease is structured can offset the potential rate. For instance, a lessee may experience greater tax benefits from a true/operating lease as they may be able to deduct the monthly rental charge. Therefore, the interest rate associated becomes a moot point.

Early Termination

In certain lease arrangements, a lessee may prepay the remaining lease balance. Unlike, a simple interest loan however, the lessor has agreed to the lease based on a certain money factor. Therefore, a lessee will be required to payoff the full balance owed, including all future interest.

In other circumstances, a lease may be non-cancellible where the lessee cannot prepay the lease and is required to make the monthly payments as agreed. Also, the end-of-term option must also be adhered to under a non-cancellible lease arrangement.

Information Gathering

Unlike many other common forms of commercial finance, equipment leasing has a unique application process that is often tied to the transaction size. The equipment leasing industry has "adopted" three common markets:

1. **Small Ticket Leasing**
   Many lessors identify a small ticket leasing transaction as any lease that is between $3,000 to $250,000. It is more common however for a leasing professional to define a small ticket leasing transaction as one that is below $75,000.

2. **Middle Market Leasing**
   Many lessors identify a middle market lease as a lease that is between $250,000 up to $1,000,000.

3. **Large Ticket Leasing**
   A large ticket lease is one that is greater than $1,000,000.

With the unique perspective of the transaction size, lessors have successfully streamlined the application process. One of the driving factors for this efficiency in the application process is for convenience for the equipment vendor. Equipment vendors are not underwriters, they are a pipeline of new business and lessors recognize this.

Lessors have devised methods to quickly and accurately evaluate the information provided by a prospective lessee. An equipment vendor simply wants a timely credit approval for their customer.

Each of the three types of equipment markets has a unique application requirement:

- Small Ticket
  a. Completed application
  b. Equipment quote
  c. Organizational papers

- Middle Market
  a. Completed application
  b. Equipment quote
  c. Financial statements
  d. Organizational papers

- Large Ticket
  a. Completed application
  b. Equipment quote
  c. Financial statements
  d. Organizational papers
  e. Tax returns
  f. Personal financial statements

1. **Application**

Most lessors will accept a generic lease application as a large majority of the lessors ask the same questions. All applications must have a location where an officer, owner or director is to execute on behalf of the company. It is important that at a minimum an application contains the following language:

> The forgoing information is true and correct to the best of my knowledge and is given to (your company) or its agents, assigns, lessors, funders or lenders to induce these agent's, assigns, lessors, funders to consider entering into a financing relationship with this company. I hereby do authorize (your company) agents, assigns, lessors, funders to verify and investigate any and all of the foregoing statements, including but not limited to, my/our creditworthiness and financial responsibility, in any way they may choose. I/We grant (your company) or its agents, assigns, lessors, funders the right to procure any and all credit reports

All questions should be completed or if they are not applicable to a prospects business should be marked as such. Blank areas on an application require further investigation as a lessor may feel the prospect has chosen not to disclose information.

It is important to take the necessary time to ensure that every question has been answered. This may also lead to further questions on your part which may help you to better understand a prospects situation.

2. **Equipment Quote**

A prospect should be able to provide an equipment quote(s) from an equipment vendor. This quote should reflect the purchase price, any/all options requested, delivery requirements, etc. Lessors utilize this information for many reasons. One important reason to require a quote is to confirm this is an arms length sale. Lessors generally will only finance sales from recognized equipment vendors.

For instance, a prospective lessee cannot acquire equipment from an entity in the same business.

3. **Financial Statements**

The larger a leasing opportunity, or if an unusual circumstance dictates, it becomes more critical to have information of a historical financial nature as part of the application package. Many lessors may require at least two fiscal years of reports and the most recent interim financial statement as part of the package.

As a general rule of thumb, you should ask for a minimum of 2 years of historical financial information for any leasing opportunity that is greater than $150,000.

The prospect should include the balance sheet, income statement and any or all notes or attachments that an accountant may include in a prepared statement. This may also include a breakdown on cost of goods sold, separate schedules of G&A expenses, cash flow statements, etc. It is always best to get an original bound copy of the fiscal reports, not a photocopy (no pages of the report(s) should be missing).

On an interim basis, you should expect to receive a current interim financial statement, which may be in-house prepared or done by a bookkeeping service. It should not be more than 6 months old to be of value to a lessor. Many businesses running Quickbooks or Peachtree or any other common form of accounting software, should be able to provide this information with a click of the mouse.

4. **Tax Returns**

A prospect may be asked to furnish a minimum of 2 or 3 years of personal as well as corporate tax returns. This is generally required for middle market or large ticket leasing transactions. For prospective lessees that have "storied credits," it may be advisable to submit tax returns.

Tax returns generally will add a certain amount of validity to the financial information submitted. For instance, a company that only provides compilations (which are merely created by an accountant and no investigation as to the accuracy of the information is provided, as opposed to reviewed or audited financials) a tax return may substantiate information provided.

5. **Organizational Papers**

Always obtain a copy of the complete organizational papers. Utilize the following guidelines:

- Corporations. Articles of Incorporation;
- Limited Liability Company. Articles of Organization;
- Partnership. Partnership Agreement;
- Trade Names. Obtain any Doing Business As (d.b.a.) or fictitious name filings;
- Foreign Corporations. Obtain Foreign Status Certificates from the State in which they have a physical location. For instance, a company may be organized in Delaware but operating in Florida. This is therefore a Delaware Corporation recognized by the State of Florida as a Foreign Corporation operating within its borders.

  All information listed above should be submitted with any amendments or certifications by officers to reflect the amended structure. Remember if a company has been recently acquired through a stock or asset purchase in which management has changed hands, most lessors will consider the business a start-up regardless of the age of the acquisition company. It is important to verify the validity of the applicant through the properly filed and documented corporate papers.

6. **Personal Financial Statements**

Because most prospective client companies are closely held, it is almost always a routine to include the personal financial statement (PFS) of the principals. A principal in most cases, is an officer/owner of 20% or more of the common stock of the applicant company. If it is a partnership, proprietorship or LLC, you must include all of the PFS's for these individuals.

The PFS is helpful to the lender to determine the financial strength (or weakness) of the owners and potential guarantors. Remember, in most leasing arrangements, principals and owners will be expected to personally guarantee the lease. Another matter to keep in mind is that the personal financial statement should be within 90 days of the application date and properly executed by the individuals.

Preliminary Due Diligence

The information and quantity thereof to evaluate a prospect for a potential leasing arrangement will vary with the size of the transaction, type of equipment and proposed lease arrangement. A lessor will take other information into consideration when evaluating a leasing opportunity, such as whether a prospective lessee is publicly traded, privately held or is a sole proprietorship. Other items may include the current economics of an industry or geographical region.

Most lessors have a varied method to determine if a prospective lessee is qualified to receive a lease. This may be a manual underwriting method (i.e. human decision) or based solely by an automated credit decision or scoring model. Most lenders, regardless of the product rely on the three (3) C's of credit when evaluating a potential borrower. Equipment leasing is no exception to this rule.

Generally, collateral, character and capacity are the measures of a borrowers creditworthiness. A lessor needs to determine the capability of the potential lessee to make the agreed upon lease payments. Determining this capability is the essence of the credit decision.

Like all forms of lending, the credit analysis is of great importance. A lessor pursues facts and verifiable information. This information is utilized to avoid risk which equates to bad debt losses. In leasing, there are seven (7) C's of credit that relate specifically to lessors.

1. **Confirmation**
   Confirmation in equipment leasing refers to the ability of the lessor to apply a qualitative risk evaluation. A lessor must be able to confirm information supplied by a prospective lessee as accurate. This is often supplied by a third party via support information or documentation. This information may be tax returns, reviewed or audited financial statements, bank or trade references, business credit reports, etc.

2. **Corroboration**

Corroboration is the act in which a lessor validates the information supplied by a prospective lessee. Often, these sources are bank and trade references.

3. **Catastrophe**

In risk evaluation, catastrophe refers to a lessors ability to adequately assess, the downside risk. A lessor will need to determine this risk and evaluate the overall exposure and degree of probable loss.

4. **Concatenation**

Concatenation is the choosing of those credit variables (and their interrelations) that will determine the credit decision. This essentially is the determination of those items which are important to an individual lessor in making a credit decision.

5. **Classification**

Classification is those variables and their rank in order of importance. For instance, most lessors evaluate the personal credit score of the principals/owners which ranks number one on their concatenation scale.

6. **Collateral**

Collateral is a critical component considering most lessors will look to the equipment itself in the event of default by the lessee. Many lessors have certain equipment preferences for or against certain equipment. These are often referred to as industry or equipment restrictions.

Equipment that maintains its value is obviously superior to equipment that does not support a resale value. For example, manufacturing or construction equipment as opposed to computer or restaurant equipment.

Many equipment lessors are strictly collateral lenders. In the event of a catastrophe, a collateral lender may safely recover by selling the asset via a fair market price.

7. **Category**
Category impacts risk assessment in several unique ways. For instance, specialized equipment may carry additional risks as it may not be easily sold, repossessed or moved. Other forms may be subject to a high degree of abuse, such as rental cars, construction equipment, carpeting, etc.

Once an equipment lessor has evaluated the 7 C’s of credit and overall risk assessment, a lessor must look at credit considerations.

1. **Character**
Character refers to a potential lessee’s apparent or historical personal integrity, honesty and commitment to honor it’s financial responsibilities. This is quickly and easily determined by a review of the lessees personal credit history. Lessors often utilize personal credit as the primary decision making tool.

2. **Capital**
A lessor will evaluate a potential lessee’s capital or net worth position. This will be evaluated against the lessors liabilities. Lessors are concerned with lessees who are highly leveraged in both their personal and business lives.

3. **Capacity**
Capacity refers to a lessee’s ability to repay the obligation. This is critical in all leases as a lessee must demonstrate the ability to service the additional debt load.

4. **Chronological Age**
The chronological age of a company is always taken into consideration. A company with a limited track record or recent history presents increased risk to the lessor as opposed to a company with a verifiable track record. Management or ownership changes with the last 3 years are of concern to a lessor as new management often time poses greater risks to lessors.

5. **Capability**
Capability is the lessee's level of management expertise. Newer management frequently has a lower level of capability than experienced management.

6. **Constraints**
Constraints are defined as unique business, governmental and perhaps social requirements that impact or promote a potential lessee's success. An example is a company that requires equipment that affects the environment (gas stations, painting booths, hazardous materials, etc.)

It is necessary as a commercial finance consultant to perform proper and through preliminary due diligence early in prospect negotiations. As with any lending industry, it is necessary to quickly determine the prospects overall creditworthiness.

A commercial finance consultant must gather the necessary information as soon as possible in an effort to evaluate the potential lessee's request and identify appropriate lessors. In any credit function most applicants will only disclose information that they feel is germaine to the conversation. Often, prospects will deliberately fail to disclose pertinent information.

Many lessors require a lease broker to act as a "credit detective." The leasing industry is a unique animal compared to many other financial service industries. It is important that you attempt to discover and verify information provided by a prospective lessee.

Advanced Topic / Writers Point of View

In the leasing industry there is a common and widely utilized term called disclosure. This translates to everything that a potential lessee tells you, you identify or know, must be disclosed to the potential lessor(s). Failing to disclose this information and in the event this information affected a lessors position will have consequences on your ability to write further business with that lessor.

The leasing industry is a very small community and word (reputations) travel fast. In leasing, integrity is the ticket to furthering your income potential. Always disclose what a prospective lessee tells you.

- J. Blumberg

Many lessors will expect a commercial finance consultant to perform a certain level of due diligence. The amount of due diligence is determined by the experience of the commercial finance consultant and the resources or resourcefulness of the consultant.

The preliminary due diligence performed by most consultants focus on three key areas:

- Application
- Bank reference
- Trade reference

Application

It is critical that for an application be fully completed with all questions answered. Applications that are incomplete immediately raise red flags in the eyes of most lessors. The immediate question that must be asked is whether the prospect is failing to disclose important information which may affect their qualifications for a lease.

Certain areas of the application are critical for the proper completion of due diligence:

1. **Legal Name of Company**
A prospect must disclose the exact name of the company as listed on the organizational papers or any fictitious name filings. Many Secretary of State offices have online capabilities in which a business or it's owners can easily be identified. The name provided should exactly match other documentation supplied by your prospect.

2. **Address, City, State & Zip**
The address provided by the prospect should match the information provided by the Secretary of State or other information obtained from a business credit report. This address should be verified by corroborating information supplied by others.

3. **Phone & Fax Numbers**
The phone and fax numbers will also need to be corroborated. questions may be asked if the phone goes immediately to voice mail or an answering machine. A lessor may also inquire about the age of the phone number as it should match the age of the prospects company. Whom answers the phone and in what manner will also be in question. The phone must be answered as the name of the applicant company or associated fictitious name.

4. **Date Established**
Without question, the exact age of the prospect company must be answered and verified. This will immediately determine the program a prospect may qualify for and in what dollar amount. A prospect must be able to prove their time in business without any question. Lessors key on the time in business requirement.

5. **Legal Structure of Business**
A prospect must disclose the proper legal structure of the business and any or all associated owners, members or partners. This will be corroborated by information provided from the Secretary of State's office.

6. **Type of Business**
A prospect must identify their exact line of business. A lessor will attempt to determine if the asset requested conforms to the industry the prospect operates in.

A lessor may also have industry restrictions in which they will not extend an equipment lease. Certain industries such as restaurants, tanning booths, ATM's, adult entertainment and hazardous material may not qualify for a lessors program.

7. **Equipment Location**
The equipment location is of concern to a lessor more many reasons. The first is to identify where their collateral will be held and second, is the location where they will send the inspector. Generally, it is expected that the physical address of the prospect will also be the location of the equipment. However, for leases that involve a vehicle, ship or aircraft, only certain lessors will consider these pieces of equipment as it is difficult to track moving collateral.

8. **Bank Information**
A lessor needs to identify the prospects banking relationship(s). A lessor will inquire about the age of the relationship, ownership of the account(s), average balances and overall account performance.

9. **Credit References**
A prospect is generally asked to provide three trade references. A lessor will inquire in writing aspects of the relationship, such as exact name of customer, length of relationship, payment history, high credit and goods or services provided.

10. **Vendor Information**
A lessor will require information regarding the equipment vendor. A lessor maintains a vast database of approved vendors. An approved vendor may receive preferred treatment as opposed to a vendor that has no history with a lessor. Lessors are often subject to fraud/collusion between borrowers and vendors. Unrecognized equipment vendors may be subject to additional due diligence by a lessor.

11. **Owner, Officer, Member or Principal Information**
A lessor will require disclosure of all owners, officers, members or principals who have an ownership interest. Certain lessors only require those owners with more than 20 percent to provide personal information.

Like all forms of lending, great emphasis is placed on the character or lack thereof of a prospects owners or officers. A good determination of a character test is evaluating the owners or officers personal credit.

Past or recent bankruptcies coupled with delinquent or collection accounts may indicate an owner or officer who is also experiencing personal cash flow issues. Lessors will key-in on the personal credit scores of the owners / officers.

All applications must be properly executed by an authorized representative of the prospects company.

Bank Reference

A bank reference is a critical component of due diligence. A lessor is attempting to answer four general questions:

- Third party confirmation of prospects name;
- Date account was established should support the time in business indicated on the application;
- Bank balance which will indicate the capital available to the prospect to support the lease payments;
- History of account. This may identify if a prospect has had returned checks or cash flow problems.

Example 2.
Banking Figures

Low 4 = 1,000 - 1,999	Low 5 = 10,000 - 19,999	Low 6 = 100,000 - 199,999
Mod 4 = 2,000 - 3,999	Mod 5 = 20,000 - 39,999	Mod 6 = 200,000 - 399,999
Med 4 = 4,000 - 6,999	Med 5 = 40,000 - 69,999	Med 6 = 400,000 - 699,999
High 4 = 7,000 - 9,999	High 5 = 70,000 - 99,999	High 6 = 700,000 - 999,999

Credit Reference

Similar in nature as a bank reference, but ultimately designed to provide a potential lessor with an idea of how the prospect meets it's obligations. A lessor may be looking to establish an installment payment history. A lessor is attempting to answer eight areas:

- Third party confirmation of prospects name;
- Date account was established should support the time in business indicated on the application;
- Type of product or service provided. This should match the prospects industry and equipment request;
- Length of relationship. A lessor will attempt to determine if the prospect has maintained a satisfactory trade relationship over a certain period of time;
- High credit limit. A lessor will attempt to identify the high amount of credit that has been provided to the prospect;
- Current amount open. A lessor will attempt to identify the amount of credit that is currently outstanding to the prospect;
- Terms extended. A lessor will attempt to obtain the terms in which the creditor has agreed to provide goods/services to the prospect;
- Payment trend. A lessor will attempt to identify how long it takes on average for the prospect to pay the creditors.

Advanced Topic / Writers Point of View

Fraud in a business transaction can be difficult to uncover. A bank trade reference usually reflects facts as a bank is required to provide information under strict guidelines. Bank references are an ideal place to start the due diligence process.

Trade references however, can be manipulated by a prospect asking friends or vendors to alter or provide favorable comments. This is clearly fraud as the prospect is attempting to obtain financing under false pretenses. A commercial finance consultant must utilize caution when relying on trade references.

- J. Blumberg

Once you have determined that a prospect has satisfactorily met the predetermined preliminary due diligence requirements and those of any possible lessors, it is time to package your prospects request.

Advanced Topic / Writers Point of View

Fraud is commonplace in the equipment leasing industry. As lessees become more sophisticated regarding lessor practices the schemes become more complex. The leasing industry is very tight and word spreads fast. Above all else, you must protect your reputation as a professional and therefore scrutinize all application to the best of your abilities.

There are a series of red flags that all lessors key on and therefore, it is important that should one of these flags present itself, that you act accordingly and swiftly. Many of the common red flags are:

- Vendor and prospect are from different geographic areas;
- Vendor in Nevada, prospect anywhere else;
- Prospect in a rush for approval;
- Prospect showing no concern about the rate;
- Multiple trade references which are too good to be true;
- Trade references with similar or like language;
- Financial statements and/or tax returns that indicate a strong borrower without being requested;
- Appearance of financial strength without capacity for even the smallest asset purchase;
- Personal guarantors in different geographic area that prospect;
- The usage of 2 front names (John Roberts, Tony Williams) for a personal guarantor, vendor representative or applicant;
- Equipment incongruities based on the prospects industry;
- Personal guarantor information offered without it being requested on a pubic company;
- Referrals from people that you don’t know;
- Last minute change in ship to location. Many scams utilize actual credit information from large legitimate entities including the address. At the last minute, a prospect will ask the vendor to change the ship to address which is identified as a “satellite office;”
- Applications for $49,500, 74,800 or $99,345. This often identifies a scam that is utilizing an “application only” program which may fly under the radar;

- Continued

- Prospect and vendor related. All transactions must be at arms length;
- Vendor that cannot provide a fixed address;
- Southern California, Texas, Louisiana, South Florida or Stone Mountain Georgia. Many large perpetual frauds have occurred in these areas;
- A prospect is asking that the vendor to be paid A.S.A.P.

Although not all of the above scenarios are an indication of fraud, you must be on the defensive to throughly investigate the prospects request.

In equipment leasing, your reputation should be paramount. Identification of fraudulent activity can be difficult. Rely on information provided by your lessors. When in doubt, ask more questions from your prospect.

- J. Blumberg

Consumer Credit Reports

Consumer credit reports are an everyday component of the equipment leasing industry. As a commercial finance consultant, you will be required to obtain credit reports on prospective equipment leasing transactions. There are three credit reporting agencies that are recognized by most equipment lessors, they are Equifax, Experian (formerly TRW) and Trans Union.

Considering these three agencies collect different information, not all credit reports will contain the same information. It may be advisable for certain prospects that a "tri-merge" report be obtained. Credit reports contain accurate as well as inaccurate information, therefore, it is important to understand the various components of a credit report.

- Identification. This will list the consumers name, address, social security number and date of birth. This may list any name variations such as maiden names, nicknames or surnames. A phone number may also be listed. The identification area is a direct reflection of information the consumer has supplied on various credit applications.

- Accounts. Accounts may also be referred to as "trade lines." They may include credit cards, personal loans, automobile loans, mortgages, child support obligations, etc. Each account will specify the type of credit extended via a definitions page. Each account will also specify the date the account was opened, high credit, monthly payment, and a payment history month by month that can stretch back up to 30 months. Any slow pays, derogatory information, disputes or charge-offs pertaining to a specific account will be listed here.

- Public Filings. A separate area in which bankruptcies, judgements delinquent State or Federal tax obligations against the consumer will be listed. Additionally, delinquent child support payments will be identified separately. Many lessors and financing institutions will regard a delinquent child support payment as an automatic reason for denial.

- Inquiries. Inquires generally will appear at the very end of a credit report. It will list all companies that have inquired about the prospects credit history. This is an excellent tool to identify if other lessors or financing institutions have inquired about the prospects credit.

- Additional Information/Warnings. If a credit reporting agency believes information supplied to various creditors is suspicions, there may be notes to that affect. Such triggers may be multiple social security numbers, multiple addresses. If a consumer places a fraud warning, it may also be listed here.

Credit Report Glossary

Application Scoring
The use of a statistical model to objectively evaluate and score a credit application and check bureau data in order to assess likely future performance. Scores help businesses make decisions such as whether to accept or decline the application.

Bankruptcy
A preceding in the U.S. Bankruptcy Court that may legally release a consumer from repaying debts owed. Credit reports generally will include prior bankruptcies for up to 10 years.

Charge-off
The balance on a credit obligation that a lender no longer experts to be repaid and considers bad debt and therefore is able to write-off. This classification does not discharge the debt.

Collection
The attempted recovery by a creditor or third party of a past-due credit obligation.

Consumer Credit File
A credit bureau record on a given individual. It may include: consumer name, address, social security number, credit history, inquires, collection records, bankruptcy filings, judgements, tax obligations, etc.

Credit Bureau
A credit reporting agency that is a clearinghouse for information on the credit rating of individuals or firms. Often referred to as a "credit repository" or a "consumer credit reporting agency."

Credit Bureau Risk Score
A type of credit score based solely on data stored at a credit bureau. It offers a snap-shot of a consumer's credit risk at a particular point in time.

Credit History
A record of how a consumer has repaid credit obligations.

Credit Obligation
An agreement by which a person is legally bound to repay a debt.

Credit Report
Information communicated by a credit reporting agency regarding a consumer's credit standing.

Credit Risk
The likelihood that a consumer will pay their debts as agreed.

Credit Score
This term is often used to refer to credit bureau risk scores. It broadly refers to a number generated by a statistical model which is used to objectively evaluate information that pertains to making a credit decision.

Default
A failure to make a loan or debt payment as agreed. Often, creditors define default after a consumer is delinquent for a consecutive 30 day period.

Delinquent
A failure to deliver even the minimum payment on a loan or debt payment on or before the time agreed.

Equal Credit Opportunity Act (ECOA)
Federal legislation that prohibits discrimination in credit. ECOA was originally enacted in 1974 as Title VII of the Consumer Credit Protection Act.

Fair Credit Reporting Act (FCRA)
Federal legislation that promotes the accuracy, confidentially and proper use of information in the files of every consumer reporting agency. The FCRA was enacted in 1970.

FICO Score
Credit bureau risk scores produced from models developed by Fiar Isaac Corporation which is commonly known as a FICO score. Fair Isaac credit bureau scores are used by lenders and others to assess the credit risk of prospective borrowers or existing customers, in order to help make credit and marketing decisions. These scores are derived solely from information available on credit bureau reports.

Inquiry
An item on a consumer's credit report that shows that someone with a permissible purpose (under FCRA rules) has previously requested a copy of the consumer's report.

Installment Debt
Debt to be paid at regular intervals over a specified period.

Insurance Bureau Score
An insurance rating based solely on credit bureau data. It offers a snapshot of a consumers insurance risk at a particular point in time. This helps insurers evaluate new and renewal auto and homeowner insurance policies.

Late Payment
A delinquent payment, failure to deliver a loan or debt payment on or before the time agreed.

Revolving Debt
Debt owed on an account that the borrower can repeatedly use and pay back without having to reapply. Credit cards are the most common form of revolving debt.

Key areas to remember when evaluating a consumer credit report is the credit score provided. In equipment leasing, the higher the score the greater likelihood your prospect will be approved.

Example 3.

Sample Consumer Credit Report
Excellent Leasing Candidate

```
SAMPLE CREDIT INFO 101      * * * SUMMARY of Excellent REPORT * * *        Pg 1 of 4
________________________________________________________________________________
_______
Bureau of Choice i.e.: TXPN           101 Credit Campus          Small Town USA 12555
Company   Credit Bureau Company         Co. #: 09
Prepared for: ABC Leasing Company       Subscriber#:  12312312    Case #: CFI010105
Report Type:  INDIVIDUAL Report#: Received:   12/15/04     Released:    12/15/04
Credit Source(s): XP or WU or EX        Processor: 1254-1          Cost:  $2.00
--------------------------------------------------------------------------------
Applicant:    Your Client Name           Appl. SSN: 111-222-3333    DOB/Age
Co-Applicant:                          Co-Appl. SSN:                DOB/Age:
Current Addr:  123 Leasing Street     His Town, SC 99999          Prev. Address at end of report

________________________________________________________________________________
  :                :        :Open :   :     :   Present status   :    :  # of payments
Who/: Subscriber Name       : Subscr # :Date :Type:      :______:# of:  times
Assn:________________________:__________:_____:____: Amount:    :Bal Date: Amount:Mon :past due
Code:              :             :Stat :   :      : Pay- :________: Past :Revi:________
  : Account Number  : Status comment  :Date :Term:     : ment :Balance : Due  :ewed:30 60 90
____:___________________________:_____:____:_______:______:________:______:____:_______+
--------------------------------------------------------------------------------
***** PROFILE SUMMARY *****
--------------------------------------------------------------------------------
Legal Items......      0       Past Due Amts....    N/A    Tradelines.... 29    Inqs/2 Years....     3
Mortgage Bal..... $215917    Mortgage Pmts....   $1232    Paid Accts.... 21    Now Derog.......     0
Install Bal......  $70726      Sch/Est Pmts.....  $3119    Satis Accts... 28    Was Derog.......     0
Revolving Bal....  $42610     Revolving Avail..    79%     Not Paid AA...  0    Oldest Trade.... 12/91
--------------------------------------------------------------------------------
***** RISK SCORES *****
--------------------------------------------------------------------------------
APPLICANT'S RISK SCORES...                                   RISK SCORE RANGE
XP FAIR, ISAAC V2 = 0769       FACTOR CODES = 10,05,14,08             300..850
--------------------------------------------------------------------------------
The information and credit scoring model may be different
than the credit score that may be used by the lender.
--------------------------------------------------------------------------------
***** TRADE LINES *****
--------------------------------------------------------------------------------
A1 BANK OF His Town          BB 1212121  04/96 AUT           12/31/96   IB       9  0  0  0
XP 12121212121212111 PAID SATIS        12/96 060   $15500    $0      $0       $0
XP CLOSED
--------------------------------------------------------------------------------
A2 BANK OF Our Town          BB 1111111  01/97 AUT           11/30/97   IB     11  0  0  0
XP 12121212121212111 PAID SATIS         11/97 066   $16000    $0      $0       $0
XP CLOSED
--------------------------------------------------------------------------------
A1 PB&J                      BB 1199112  06/02 AUT           10/31/04   IC     30  0  0  0
XP 12121212121212111 CURR ACCT          10/04 060   $30000   $572  $17508      $0
--------------------------------------------------------------------------------
A3 BMW FINANCIAL SERVICES    FA          07/04 AUT           10/24/04   IC      4  0  0  0
TB  12121212121       CURR ACCT         10/04 060   $32001   $574  $30515      $0
--------------------------------------------------------------------------------
A1 CAP TWO BK                BC 1111111  12/95 CRC           02/12/96   RB      3  0  0  0
TB  12121212121       PAID SATIS        02/96 REV     $20     $0      $0       $0
```

A4 TROJAN BANK BB 22222122 01/01 CLS 09/15/02 MB 20 0 0 0
TU 233556133 PAID SATIS 09/02 REV $23200 $0 $0 $0
TU CLOSED

A2 TROJAN BANK BB 122544111 09/02 R/C 08/05/03 MB 11 0 0 0
PN 555000000154 PAID SATIS 08/03 360 $221350 $0 $0 $0
PN CLOSED

A1 TROJAN BANK BB 122544111 01/03 AUT 04/09/04 IB 16 0 0 0
XN 55500000077 PAID SATIS 04/04 060 $23757 $0 $0 $0
XN CLOSED

A1 TROJAN BANK BB 122544111 12/03 AUT 08/31/04 IB 8 0 0 0
XP 555000000533 PAID SATIS 08/04 060 $24131 $0 $0 $0
XP CLOSED

A1 TROJAN BANK BB 122544111 12/03 AUT 04/11/04 IC 5 0 0 0
XP 1555000000682 CURR ACCT 04/04 060 $24131 $456 $22703 $0

A1 CHASE YOUR TAIL MTGE FM 55555555 11/96 R/C 09/15/02 MB 70 0 0 0
TU 987987987 PAID SATIS 09/02 180 $92000 $0 $0 $0
XN CLOSED

A1 CITYWIDE HOME LOANS FM 7777777725 09/02 R/C 06/30/04 MB 21 0 0 0
PN 52211122 PAID SATIS 06/04 360 $185000 $0 $0 $0
PN CLOSED

A1 CITYWIDE HOME LOANS FM 7777777725 09/02 CLS 06/30/04 MB 21 0 0 0
PN 21059413 PAID SATIS 06/04 REV $31000 $0 $0 $0
PN CLOSED

A2 FIFTH US BANK PA BC 12355555 08/95 CRC 10/24/02 RB 86 0 0 0
PN 256458888xx PAID SATIS 10/02 REV $9600 $0 $0 $0
PN CREDIT LINE CLOSED - CONSUMER'S REQUEST - REPORTED BY SUBSCRIBER

A1 FIFTH US BANK PA BC 154410.0 09/95 CRC 12/06/01 RB 75 0 0 0
XN 15444110001 PAID SATIS 12/01 REV $6000 $0 $0 $0
XN CREDIT LINE CLOSED - CONSUMER'S REQUEST - REPORTED BY SUBSCRIBER

A1 FIRST IN LINE CREDIT FM 0905392 09/02 AUT 01/31/03 IB 6 0 0 0
XP 265877040200100 NO STATUS 01/03 060 $24852 $0 $0 $0
XP CLOSED

A1 TRUCKIN CC BC 9876543 08/99 CRC 12/03/04 RC 64 0 0 0
XN 511444555410 CURR ACCT 12/04 REV $15000 $57 $2871 $0

A1 G M A C FA 6543210 02/94 AUT 02/01/96 IB 25 0 0 0
XN 111222333444 PAID SATIS 02/96 060 $7500 $0 $0 $0
XN CLOSED

A1 G M A C FF 1542230 12/00 AUT 08/05/02 IB 20 0 0 0
XP 1112223334441 PAID SATIS 08/02 060 $18655 $0 $0 $0
XP CLOSED

Disclaimers would be here as shown on previous page …

A1 HOLD THE BANK BC 125412 01/98 CRC 10/18/02 RB 57 0 0 0
YZ 0002221113 PAID SATIS 10/02 REV $5000 $0 $0 $0
YZ CREDIT LINE CLOSED - CONSUMER'S REQUEST - REPORTED BY SUBSCRIBER

A1 YOUR AMERICA BANK NA BC 0011001 01/99 CRC 12/06/04 RC 71 0 0 0
YZ 1245 CURR ACCT 12/04 REV $25000 $15 $1094 $0

A1 INT"L NATL BK 75757575 BC 12/91 UNK 03/29/96 IB 52 0 0 0
XN 19010444 PAID SATIS 03/96 060 $15240 $0 $0 $0
XN CLOSED

A1 PROVIDING BANK 3332221 BC 09/93 CRC 01/97 10/15/98 RB 62 0 0 0
XP 1454554111 PAID SATIS 10/98 REV $4961 $0 $0 $0
XP CREDIT LINE CLOSED - CONSUMER'S REQUEST - REPORTED BY SUBSCRIBER

A1 WALKOVERYA BANK NA/ BB 22332233 01/97 AUT 10/31/97 IB 10 0 0 0
XP 125444112 PAID SATIS 10/97 UNK $9050 $0 $0 $0
XP CLOSED

A1 WACHOVIA BANK NA/FTU BC 1202270 10/97 CLS 03/18/04 MB 77 0 0 0
XN 125444114 PAID SATIS 03/04 REV $27000 $0 $0 $0
XN CREDIT LINE CLOSED - CONSUMER'S REQUEST - REPORTED BY SUBSCRIBER

A1 WACHOVIA BANK NA/FTU BB 1161327 10/97 SEC 10/31/97 IB 1 0 0 0
PN 125444113 PAID ACCT 10/97 UNK $4050 $0 $0 $0
PN CLOSED

A1 WASHINGTON NEW HOME FM 1999492 11/96 R/C 06/05/02 MB 67 0 0 0
PN 1541541541541 PAID SATIS 06/02 180 $92000 $0 $0 $0
PN CLOSED

A2 WELLS CARGO TRUST BB 36322233 05/04 CLS 09/30/04 MC 5 0 0 0
XN 98798798798798777 CURR ACCT 09/04 REV $57258 $213 $38645 $0

A4 WELLS CARGO TRUST FM 2990858 07/03 R/C 12/01/04 MC 17 0 0 0
XN 987987987987987 CURR ACCT 12/04 360 $220000 $1232 $215917 $0

***** INQUIRIES *****

MY REPORTING SERVICE FR 123112322 12/23/02
XPN INQUIRY

ANOTHER LEASE COM PC 122222111 06/03/03
EFX INQUIRY

COMPETITIVE BANK NA BB 123123123 05/11/04
TU INQUIRY

Disclaimers would be here as shown on previous page

05 - NUMBER OF ACCOUNTS WITH BALANCES
08 - NUMBER OF RECENT INQUIRIES
10 - PROPORTION OF BALANCE TO HIGH CREDIT ON
BANK REVOLVING OR ALL REVOLVING ACCOUNTS
14 - LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED

***** AGE / DATE OF BIRTH *****

XN APPLICANT AGE/DOB: 11/021965

***** EMPLOYMENT *****

A NO TRUCKS MOTOR CO Hired: Reported: 10/94
XN Left: Last Upd: 10/96

***** ADDRESSES *****

A 96 CASH LN Reported: 12/23/02
XPN MONEY TWON, NC 28000-2004 Last Updated: 09/15/04 Last Subs:

A 333 EVER FURTLE FARM CIR Reported: 01/23/99
XN RURAL CITY, SC 29999-5555 Last Updated: 01/23/99 Last Subs:

A 331 EVER FURTLE FARM CIR Reported: 06/13/97
XN RURAL CITY, SC 29999-5555 Last Updated: 02/10/03 Last Subs:

If there are any questions on the above listed Trade Lines, please contact the following...
XN: YOUR BUREAU
1000 CREDIT CAMPUS
SMLL TOWN, SX 44444
(TEL) (NUM_BERS)

Prepared By SUBSCRIBER GROUP IN USA

The real report contains information supplied by the appropriate Credit Bureau Systems named on the reports, which are also denoted within the left column of the report. Its contents have not been verified by the provider of the report and may contain duplicate information. If this report is being used for some real estate loan or lending purposes, it is not a Residential Mortgage Credit Report as defined by FNMA, FHLMC, and FHA/VA guidelines.

* * * E N D O F THIS R E P O R T * * *

Example 4.

Consumer Credit Report

Poor Leasing Candidate

*** * * SAMPLE OF DECLINED R E P O R T * * ***

SERVICE PROVIDER HERE 1 POOR CREDIT STREET…SOME WHERE, SC.. USA

Applicant: JOHN SMITH Appl. SSN: 123-45-6789 DOB/Age:
Co-Applicant: Co-Appl. SSN: DOB/Age:
Current Addr: 2 LOSER LANE Prev. Address:
POOR TOWN, SC 00000

******* PROFILE SUMMARY *******

Legal Items...... **1** **Past Due Amts....** $21109 Tradelines.... 25 **Inqs/2 Years....** 26
Mortgage Bal..... $67318 Mortgage Pmts.... $503 Paid Accts.... 11 Now Derog....... 7
Install Bal...... $23599 Sch/Est Pmts..... $17310 Satis Accts... 18 Was Derog....... 1
Revolving Bal.... $35254 **Revolving Avail..** **23%** Not Paid AA... 0 Oldest Trade....07/87

******* RISK SCORES *******

APPLICANT'S RISK SCORES... RISK SCORE RANGE
EFM FACTA BEACON = 00480 FACTOR CODES = 00038,00010,00013,00018 300..850
SUFFIX - SR *-FILE VARIATION-*

******* LEGAL ITEMS / PUBLIC RECORDS *******

A1 122141211
EFM CMI1211122221 JUDGMENT 01/04 $711
EFM LINE ITEM ASSOCIATED WITH SUFFIX- SR

******* DEROGATORY CREDIT *******

A2 UNORTH BANK 409BB00187 02/01 CRC 11/01/04 R3 45 3 2 4
EF 1225554445 DELINQ 90 11/04 REV $3000 $58 $3490 $174
EF (60-11/04) (90-02/04) (90-02/04) (90-01/04) (90-12/03)
EF (30-07/03) (30-08/04)
EF LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 CAP 8 BANK 122BBBNN111 12/01 CRC 11/01/04 R9 35 1 2 4
EF 3213322214 CHARGE OFF 12/03 REV 4447 $420 $4761 $4761
EF (120-11/03) (120-10/03) (120-09/03) (60-05/03)
EF CHARGED OFF ACCOUNT
EF LINE ITEM ASSOCIATED WITH SUFFIX- SR

A2 CXCCB 125ZZZ15444 04/97 CRC 11/01/04 R3 91 3 4 1
EX 322655666555 DELINQ 90 11/04 REV $4625 $317 $5302 $702
FX (60-10/04) (60-02/04) (60-01/04) (60-12/03) (30-10/03)
FX (30-09/04)

FX   ACCOUNT CLOSED BY CREDIT GRANTOR
FX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 CHILD SUPP   8888Z123456 05/01 F/S   11/01/04   O4   42 0 0 1
FX 111222333   COLL ACCT   11/04 OPN $0 $15046 $15046 $15046
EX   COLLECTION ACCOUNT
EF   CHILD/FAMILY SUPPORT OBLIGATION
EX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 CITY CTRY   888888XYZ123 04/96 CRC   11/01/04   R3   103 4 4 1
FX 123125444554   DELINQ 90   11/04 REV $4600 $303 $4990 $426
FX   (60-10/04) (60-02/04) (60-01/04) (60-12/03) (30-10/03)
FX   (30-08/03) (30-09/04)
FX   ACCOUNT CLOSED BY CREDIT GRANTOR
EX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 ECDF FCU   401C3PO R2D2 04/03 AUT   10/01/04   IC   18 1 0 0
EF 1231231233   CUR WAS 30   09/03 ISC $9880 $300 $5940 $0
EF   (30-08/03)
FX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 ABCD AMER   PO259092WEC 12/00 REV   10/01/04   R9   46 2 1 5
EX 10   CHARGE OFF   09/04 REV $0 $0 $0 $0
EF   (120-08/04) (120-07/04) (120-06/04) (90-04/04) (30-12/03)
FX   ACCOUNT TRANSFERRED OR SOLD
FX   CHARGED OFF ACCOUNT
BF   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 UN VIDEN   12XXX122445 12/99 CRC   06/01/04   R4   54 3 1 8
FX 8648885585BB   DELINQ 120+   06/04 REV $2550 $0 $0 $0
FX   (120-05/04) (120-04/04) (90-02/04) (90-01/04) (120-12/03)
FX   (120-11/03) (30-05/03) (30-04/03) (90-03/04)
FX   ACCOUNT TRANSFERRED OR SOLD
FX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

***** **TRADE LINES** *****

A2 AFHF   133FZ02211 06/98 M/H   10/01/04   IC   76 0 0 0
FX 1010157525   CURR ACCT   10/04 ISC $67687 $503 $67318 $0
FX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A2 CAP 9 BANK   554887CBBBN1 04/97 REV   RC   38 0 0 0
FX 101015752S5   PAID SATIS   06/00 REV $223 $0 $0 $0
FX   ACCOUNT CLOSED BY CONSUMER
FX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 CAP 9 BANK PA   554887CBBBN1 10/99 REV   RC   34 0 0 0
FX 529115160668   PAID SATIS   08/02 REV $1281 $0 $0 $0
FX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 CAP 7 FASB   484BB01456 09/00 REV   RC   21 0 0 0
FX 557009178396   PAID SATIS   06/02 REV $0 $0 $0 $0
FX   ACCOUNT CLOSED BY CREDIT GRANTOR
EX   LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 CBUSEARCH 6456229310 06/00 CHG 10/01/04 RC 52 0 0 0
EX 1112221414 CURR ACCT 10/04 REV $798 $0 $0 $0
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

A1 CXD CB 123122MMM141 07/00 CRC RC 17 0 0 0
EF 1110404769 PAID SATIS 12/01 REV $20 $0 $0 $0
EF ACCOUNT CLOSED BY CONSUMER
EF LINE ITEM ASSOCIATED WITH SUFFIX- SR

***** **INQUIRIES** *****

DAN VISTA 190ON01711 07/22/03
EX INQUIRY
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

BMEX 1234565448 12/16/02
EX INQUIRY
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

BULAMITS 1234565448 09/01/04
EX INQUIRY
FX LINE ITEM ASSOCIATED WITH SUFFIX- SR

CAP THREE AF 1234565448 07/10/04
FX INQUIRY
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

CAP THREE AF 1234565448 08/11/04
EX INQUIRY
EF LINE ITEM ASSOCIATED WITH SUFFIX- SR

WESTERN 1234565448 02/06/04
EX INQUIRY
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

USEFUL DTA 1234565448 09/01/04
FX INQUIRY
FX LINE ITEM ASSOCIATED WITH SUFFIX- SR

GRADY ASSOC 1224554555 09/01/04
EX INQUIRY
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

HAFBCCC 1224554555 09/01/04
EX INQUIRY
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

TBTESTRE 1224554555 09/09/04
EX INQUIRY
EX LINE ITEM ASSOCIATED WITH SUFFIX- SR

***** **RISK FACTOR CODES** *****

AX FACTA BEACON
00010 - PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK REVOLVING OR OTHER REVOLVING ACCOUNTS
00013 - TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN
00018 - NUMBER OF ACCOUNTS WITH DELINQUENCY
00038 - SERIOUS DELINQUENCY, AND DEROGATORY PUBLIC RECORD OR COLLECTION FILED
INQUIRIES IMPACTED THE CREDIT SCORE

***** AGE / DATE OF BIRTH *****

EF APPLICANT AGE/DOB: 19640501

***** **EMPLOYMENT** *****

A SONIC DRIVE INN Hired: Reported: 10/03
EF Left: Last Upd:

A CHURCHES DRIVEIN Hired: Reported: 12/00
EF Left: Last Upd:

A THE KRYSTAL CO Hired: Reported: 5/97
EF Left: Last Upd:

***** **ADDRESSES** *****

A 18 N BROAD ST Reported: 07/97
EF NEW CITY , AL 33333 Last Upd: Last Subs:

A 121 TENT LINED RD Reported: 09/94
EX SEA MIST, CA 99999 Last Upd: Last Subs:

A PO BOX 4995 Reported: 01/93
EF NORTH TOWN, ME 44444 Last Upd: Last Subs:
REPORT COMMENTS:
EX APPLICANT NAME VARIATION: JOHN SMITH SR
FX APPLICANT: INQUIRIES IMPACTED THE CREDIT SCORE

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* * * E N D O F R E P O R T * * *

Upon receipt of a completed application package, obtaining the owners or officers personal credit report should be a priority as it will reveal if the prospect is a realistic candidate for equipment leasing. Once you have determined that the owners/officers personal credit supports a leasing arrangement and have completed the remainder of the preliminary due diligence, you will need to determine which lessors would be best suited for the opportunity.

A commercial finance consultant should generate a professional application package. This information gathered and support documentation provided is a direct reflection on your industry knowledge and professionalism. Professional and well organized application packages generally receive priority attention.

As a commercial finance consultant, you are trying to assist your lessor with credit investigation which may allow you to receive a timely credit approval or denial. Leasing transactions should be packaged in the following manner with consideration being made to the transaction size and information supplied:

- Transaction Summary. If the transaction is unique or has complications or issues that you feel need special attention or clarification. Any information you feel that supports the prospects request. Disclosure is also an important aspect in a transaction summary.

- Application. Typed applications are preferred among most lenders as they are easier to read and process. Hard to read applications that are sloppy or are a fax of a fax may slow down the evaluation process. If a prospect passes the initial due diligence process, it may be worthwhile to re-type an application with the original attached as a supplement.

- Vendor Quote. Always provide the vendor quote as supplied to the prospect. This should be detailed.

- Credit Reports. Attach a copy of the credit report(s) obtained on the owners/officers.

- Bank References. Attach all bank references obtained.

- Trade References. Attach all trade references obtained.

- Transaction Size. Remember that larger transactions or storied credit situations may require additional information:

  a. Financial statements
  b. Tax returns
  c. Personal financial statements

Structuring a Lease

When a lessor has completed the necessary due diligence and determined if a prospect is a viable lease candidate, they will issue a proposal which will outline the general terms and conditions of the lease. A proposal will have the following items detailed:

- Exact lessee name
- Total dollar amount approved
- Detailed list of equipment (should match the vendors quote)
- Lease structure (generally end-of-term options)
- Lease term (number of months)
- Security deposit (number of payments due up-front)
- Guarantors (who must provide a personal guarantee)
- Due diligence/processing fees (paperwork, legal fees, etc.)
- Buy rate (money factor required by the lessor)
    a. It is necessary for a commercial finance consultant to add in their points to the transaction. This will determine the exact monthly payment.
- Maximum allowable commission (number of points a broker may add to the transaction)
- Documentation requirements (all paperwork that must be executed by a lessee)
- Approval valid date
- Any additional requirements

Certain lessors will allow the referring party to issue the formal proposal directly to the prospect under the brokers name. Often the legal documentation is also in the brokers name as the lease will be immediately assigned by the broker to the lessor upon funding of the transaction.

Leasing is one of the few financial products in which a third party (the broker, consultant) may alter the proposed rate structure.

Buy & Sell Rates

When the lessor has provided you with a buy rate (money factor) and has informed you about the maximum allowable commission, you are then able to evaluate your prospects monthly budget and determine the amount of points you can add to the transaction.

Buy & sell rates are two separate numbers which will be utilized on a daily basis. These numbers are generally provided by your lessors on a weekly or monthly basis as they are market driven. Buy rates are yield requirements imposed by lessors which are typically a five digit number such as .02332.

Sell rates are the same as buy rates however, your commission is added to the buy rate which determines the monthly payment for the lessee.

Example 5.

Buy Rates

"A" Credit Borrower

True Lease with FMV End-of-term Option

Term in Months

Equipment Cost	**24**	**36**	**48**	**60**
2,000 - 15,000	.04906	.03432	.02805	.02376
15,001 - 50,000	.04736	.03388	.02717	.02310
50,001 - 75,000	.04719	.03333	.02651	.02255

Example 6.

Sample Company, Inc.

Purchase Price	$72,500
Lease Term	60 months
Rate Factor	.02255
Monthly Payment (rental)	$1,634.88
End of Lease Option	Fair Market Value
Advance Payments (2)	$3,269.76

Determining the monthly payment is a simple equation. Multiply the equipment cost by the buy rate offered. In the above example, if you were not going to add any commission, the monthly payment for Sample Company, Inc., would be $1,634.88.

Determining Commission

While providing the services, you will be entitled to a commission. Commissions will be limited by the lessor based on the size of the transaction and perhaps competitive market conditions. Determining your commission is a simple process.

1. Determine Buy Rate. A buy rate will be provided by the lessor based on credit of the lessee, equipment, cost, term, end-of-term options, etc.

2. Determine Maximum Allowable Commission. Lessors will set limits on the amount of commission you are able to earn. For example, a $20,000 lease may be limited to a maximum of 20 points.

3. Price for Market Conditions. Price to win the transaction. Add only the points that you feel will close the transaction. Be realistic in your expectations.

Example 7.

Adding Points to Determine New Sell Rate

Buy rate provided by lessor	.02345
Commission added	8.00%

Simply multiply .02345 times (X) 1.08 = Sell rate. You must always add your commission to 1.00 basis points. For example, if you were to add 12 points, the calculation would be 1.12

	.02345 X 1.08
New Sell Rate	.025332

In determining the monthly payment amount, simply multiply the equipment cost times the new sell rate.

Equipment Cost	$72,500
New Sell Rate	X .02553
Monthly Payment	$1,850.93

Commission Earned	$5,840.00
Calculation is $72,500 (x) .08	$5,840.00

Documenting a Lease Transaction

Once the prospect has accepted the terms offered by a lessor the formal lease documents must be drafted and forwarded to the prospect. Many lessors allow a commercial finance consultant to generate the necessary formal documents to effectuate the transaction.

As a commercial finance consultant, you may be allowed to chose the form of document which is acceptable to the lessor. There are common "generic" leasing documents which are widely accepted by lessors. Many experienced commercial finance consultants utilize the generic forms as their company name is listed as the lessor. This is important if a commercial finance consultant wishes anonymity during the closing documentation process.

If generic documents are utilized, it is necessary that a commercial finance consultant understands any particular requirements from their lessor to the execution of the generic documents. It is critical that documents are generated and executed properly the first time. This ensures timely funding.

Many lessors require that they generate the formal lease documents where your company will not be listed as the lessor. Take the time to identify which lessors require this practice.

Advanced Topic / Writers Point of View

Consultants that are not familiar with documenting a lease transaction should allow the lessor to generate and facilitate the execution of the documents. Generally, lessees are eager to place the equipment into service and paperwork errors/delays are often deal killers as the lessee may think twice about the arrangement.

- J. Blumberg

Most formal lease documents have five documents that comprise the document package:

1. **Lease Agreement**
   This document lists the terms and conditions of the lease arrangement to include monthly payments, term, parties to transaction, down payment, end of term options, defines the collateral, terms of default remedy rights and other legal considerations.

2. **Guaranty**
   A guarantee will be required from those owners/officers listed on the proposal. This generally is a personal guarantee of non-payment of the lease obligation.

3. **Delivery & Acceptance Form**
   This must be executed by the lessee upon delivery and installation of the equipment. This informs the lessor that the equipment has been accepted by the lessee "as is." This is the document is the consideration that starts the lease transaction.

4. **Purchase Option Addendum**
   This is the form that clearly spells out the end-of-term option agreed by both parties.

5. **Invoice**
   The invoice must list the lessor as the sold to party with the accurate lessors address. The ship to address must list the lessee's exact address. The invoice must have the proper vendors remit to address for payment. All information regarding the equipment must be listed in detail on the invoice(s).

Once a prospect has properly executed the necessary documents or additional support documents required by the lessor, they must include the security deposit. The security deposit or advanced payment must be drawn from the bank account provided on the application without any inconsistencies. The proposal will detail the amount required from the lessee at the lease inception.

Lessor Considerations

Unlike many other industries in the area of commercial finance, the leasing industry is represented by a broad spectrum of participants. Participants range from direct lessors, super-brokers and independent consultants. All have the capability to generate/originate leasing transactions.

One thing that is unique about the leasing industry is the "masking" of a participants true identity. For instance, may super-brokers may represent they are actually a lessor. For the purpose of this publication, a lessor is defined as an entity which actually funds a leasing transaction as opposed to merely brokering it.

It is important that you identify those organizations that are truly a lessor and avoid super-brokers. Many lessors will not allow a "participation" transaction in which a super-broker is submitting a transaction from another broker or consultant. Many broker agreements will lessors clearly prohibit this practice as it adds additional risk to any transaction.

Certain lessors will only accept those consultants who have an experienced track record (more than 2 years time in business) with verifiable references. It is critical in the leasing industry to always present yourself as a professional and above all else, have a lessors best interests ahead of your own. Lessors will discontinue relationships with unprofessional or unethical brokers at the first sign of impropriety.

Consider the following:

- Minimum Volume Requirements. to remain an approved broker. Make sure you understand any minimum after approval volume requirements.
- Geographical Restrictions. Certain lessors will only transact business in certain geographical areas.
- Broker Agreements. Certain broker agreements may have additional clauses that pose unique risks as a leasing broker. Do not hesitate to ask questions.

- Transaction Parameters. Identify the dollar range in which your lessor has comfort.
- Credit Parameters. It is important to identify the credit boundaries (i.e. minimum personal credit score of 600).
- Equipment Preferences. Identify if a lessor has a certain appetite for equipment. These lessors are often specialists and are an excellent resource for specific equipment.
- Financial Strength. It is important to identify the capital structure of the leasing company.
- Obtain References. Do not hesitate to obtain or inquire about a potential lessor. Certain lessors are more friendly to brokers than others.

Glossary

Accelerated Payments
A remedy the lessor can execute in the even of lessee default. All future lease payments are due and payable. No additional interest is due.

Acceptance Letter
A letter signed by the lessee signifying the equipment has been delivered and accepted by the lessee. This letter also serves as authorization for the lessor to release funds to the vendor. This may also be referred to as the D&A.

Add-ons
Features and enhancements that may be installed on the leased equipment.

Advance Payments
One or more lease payments required by the lessor at the origination of the lease. Lease structures commonly require only one or two payment to be made in advance. This term also refers to leasing arrangements in which a lease payment is due at the beginning of each period.

Advance Rental
Any payment in the form of rent made before the start of the lease term. The term also is used to describe a rental payment arrangement in which the lessee pays each rental on a per period basis, as the start of each rental payment period. For example, a quarterly in advance rental program requires a lessee to pay one forth of the annual rental at the start of each consecutive three month period.

Alterations
Modifications to leased equipment, generally subject to restoration at the conclusion of the lease.

Amortization
The process of separating payments into their principal and interest components. An amortized loan is one in which the principal amount of the loan is repaid in installments over the life of the loan with each payment comprised partially of interest and partially of principal.

Arrears Rental
A rental that is due at the end of each period as opposed to an advance rental.

Assignment
A provision within a lease agreement that allows either, neither or both parties of a lease transaction to deliver their obligation to a third party in return for immediate compensation.

Bad Debt
A lease receivable that is written-off because of lessee default.

Balloon Payment
A large payment at the end of the loan allowing smaller payments to be made during the term.

Bankruptcy
An action taken by a party to legally protect its remaining assets by declaring that it cannot pay it's obligations. Generally, liabilities exceed assets.

Bargain Purchase Option
A lease provision allowing the lessee at it's option to purchase the lease property at the end of the lease term for a price sufficiently lower than the expected fair market value of the property, such that exercise of the option appears at the inception of the lease to be reasonably assured.

Bargain Renewal Option
A lease provision allowing the lessee at it's option to extend the lease for an additional term in exchange for periodic rental payments sufficiently lower that the expected fair market value of the property, such that exercise of the option appears at the inception of the lease to be reasonably assured.

Base Term
The initial, non-cancelable term of the lease used by the lessor in computing the payment. The base term is the minimum time period during which the lessee has the use and custody of the equipment.

Basis
The original cost of an asset plus other capitalize acquisition costs such as installation charges and sales tax. Basis reflects the amount upon which depreciation charges are computed.

Basis Point
One-hundredth of a percent (.01%) 300 bp = 3%.

Bundled Lease
A lease that includes additional services such as maintenance, insurance, property taxes, etc., that are paid for by the lessor. The costs of these additional services are built into the lease payments.

Buyout
The amount a lessee must pay the lessor to terminate a lease early. This is usually calculated to include tax recaptures, unpaid property taxes and lost revenue. Also, the agreed upon payment at th tend of the full term contract.

Call Option
An option in a lease such as a purchase or renewal option that is exercised at the discretion of the lessee, not the lessor.

Capital Lease
From a financial reporting perspective, a lease that has the characteristics of a purchase agreement and also meets certain criteria established by the Financial Accounting Standards Board statement number 13. (FASB 13). A capital lease is required to be shown as an asset and a related obligation on the balance sheet of the lessee.

Captive Lessor
A leasing company that has been set up by a manufacturer or equipment dealer to finance the sale or lease of its own products to end users or lessees.

Cash Flow
A measure of an organizations's liquidity that compares cash inflows and outflows. Often shown by adding non-cash expenses to net income.

Certificate of Delivery& Acceptance

A document signed by the lessee to acknowledge the equipment to be leased has been delivered and is acceptable. Many lease agreements state that the actual lease term commences once this document is executed. This document is not to be signed until the equipment is actually delivered. This is sometimes referred to as the D&A form.

Closed-end Lease

A lease that does not contain a purchase or renewal option, thereby requiring the lessee to return the equipment to the lessor at the end of the initial lease term. This may also refer to a vehicle lease in which the lessor absorbs the entire risk of the residual.

Collateral

Equipment or other tangible asset such as a house, car or securities pledged by the lessee to the lessor to offset or minimize the risk of default.

Commitment Fee

A fee require by the lessor at the time a proposal or commitment is accepted by the lessee to lock in a specific lease rate/and or other lease terms.

Commitment Letter

A document prepared by the lessor that sets forth it's commitment, including rate, terms and other conditions to provide lease financing to a lessee. This may also be referred to as a proposal or letter of intent.

Conditional Sales Contract

An agreement for the purchase or an asset in which the lessee is treated as the owner of the asset for federal income tax purposes (and is entitled to the tax benefits of ownership, such as depreciation.) The lessee does not become the legal owner of the asset until all terms and conditions of the agreement have been satisfied.

Contingent Rentals

Rentals in which the amount of the rent is dependent upon some future event other than the passage of time, such as a price index or borrowing rate.

Coupon Book

A book sent to a lessee containing coupons for all payments of the lease.

Some lessors use the book instead of invoices.

Credit References
Banks and suppliers used in the lessee's business and listed on the lease application. Lessors will contact identified references to inquire about a lessees payment habits.

Credit Scoring
An objective method of quantifying creditworthiness by assigning numerical values based on meeting established credit criteria.

Default
A condition whereby the lessee does not make the payments as required by the lease contract.

Depreciation
A means for a firm to recover the cost of a purchased asset, over time, through periodic deductions or offsets to income. Depreciation is used in both a financial reporting and tax context, and is considered a tax benefit because the depreciation deductions cause a reduction in taxable income, thereby lowering a firms tax liability.

Dry Lease
A net lease. This term traditionally is used in aircraft and marine leasing to describe a lease agreement that provides financing only and therefore, requires the lessee to separately procure personnel, fuel and provisions necessary to operate the craft.

Early Termination
Occurs when the lessee returns the leased equipment to the lessor prior to the end of the lease term, as permitted by the original lease contract or subsequent agreement. At times, this may result in a penalty to the lessee.

Economic Life of Lease Property
The estimated period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease.

End-of-term Options
Options stated in the lease agreement that give the lessee flexibility in its treatment of the leased equipment at the end of the lease term. Common end-of-term options include purchasing the equipment, renewing the lease or returning the equipment to the lessor.

Equipment Schedule
A document incorporated by reference into the lease agreement that describes in detail the equipment being leased. The schedule may state the lease term, commencement date, repayment schedule and location of the equipment or other special conditions.

Equipment Specifications
A specific description of a piece of equipment that is to be acquired, including, but not limited to, equipment make, model, configuration and capacity requirements.

Evergreen Lease
A lease that self-renews each year unless the lessee gives notice of its termination within a specified period of time.

Extensions
The process of forgiving a specific monthly rent in return for an extension fee and the lessee's promise to pay at a later date.

Fair Market Value
The value of a piece of equipment if the equipment were to be sold in a transaction determined at arms length, between a willing buyer and a willing seller, for equivalent property and under similar terms and conditions.

Fair Market Value Cap
A high-end limit on a FMV lease that protects the lessee from upside risk for executing the residual at the end of the lease.

Fair Market Value Purchase Option
A lessee option to purchase leased property at the end of the lease for the then determined fair market value negotiated at a specific time.

FASB 13
Financial Accounting Standards Board statement number 13 "Accounting for Leases." FASB 13, along with it's various amendments and interpretations, specifies the proper classification, accounting and reporting of leases by lessors and lessees.

Finance Lease
An expression often times used in the industry to refer to a capital lease or non-tax lease. It is also a type of tax-oriented lease that was introduced by the Tax Equity and Fiscal Responsibility Act of 1982, to be effective in 1984, but later repealed by the Tax Reform Act of 1986.

Full-payout Lease
A lease in which the lessor recovers, through the lease payments, all costs incurred in the lease plus an acceptable rate of return, with little or no dependence on the equipment's residual value.

Full-service Lease
A lease that includes additional services such as maintenance, insurance and property taxes that are paid for by the lessor, the cost of which is built into the lease payments. May also be referred to as a "Bundled Lease."

Funding
The process of paying the manufacturer/vendor for the equipment being placed on lease.

Funding Source
An entity that provides any part of the funds used to pay for the cost of the leased equipment. Funds can come from either an equity funding source such as the ultimate lessor in a lease transaction or a debt funding source, such as a bank or other lending institution.

Generally Accepted Accounting Principles (GAAP)
Accounting standards established by the Financial Accounting Standards Board to assure that external financial statements are fair representation of the economic circumstances of the company. FASB 13, "Accounting for Leases," details the practices for accounting for leases by both lessors and lessees.

Guaranteed Residual Value

A situation in which the lessee or an unrelated third party (e.g., equipment manufacturer, insurance company) guarantees to the lessor that the leased equipment will be worth a certain fixed amount at the end of the lease term. The guarantor agrees to reimburse the lessor for any deficiency realized if the leased equipment is salvaged subsequently at an amount below the guaranteed residual value.

Half-year Convention

A tax depreciation convention that assumes all equipment is purchased or sold at the midpoint of a taxpayer's tax year. The half-year convention allows an equipment owner to claim a half-year of depreciation deductions in the year of acquisition, as well as in the year of disposition, regardless of the actual date within the year that the equipment was placed in service or disposed of.

Independent Lessor

A type of leasing company that is independent of any one manufacturer and as such, purchases equipment from various unrelated manufacturers. The equipment then is leased to the end-user or lessee. This type of lessor also is referred to as a third-party lessor.

Interim Rent

A charge for the use of a piece of equipment for its in-service date or delivery date, until the date on which the base term of the lease commences. The daily interim rent charge typically is equal to the daily equivalent of the base rental payment. The use of interim rent allows the lessor to have multiple deliveries of equipment.

Lease

A contract through which an owner of equipment conveys the right to use the equipment to another party.

Lease Acquisition

The process whereby a lease company purchases or acquires a lease from a lease originator, such as a lease broker or leasing company.

Lease Agreement

The contractual agreement between the lessor and the lessee that sets forth all the terms and conditions of the lease.

Lease Expiration
The time at which the original term of the lease contact has ended.

Lease Line
Also called a "Master Lease." A lease line of credit that a lessee can add additional equipment on to without having to renegotiate a new lease agreement.

Lease Payments
The amount the lessee pays the lessor in return for using the leased equipment, often called rental payments.

Lease Schedule
An addendum to a master lease, stating specific equipment and lease terms.

Lease Term
The fixed, non-cancelable term of the lease. It includes for accounting purposes, all periods covered by fixed-rate renewals options, which for economic reasons appear likely to be exercised at the inception of the lease. This may include for tax purposes, all periods covered by fixed-rate renewal options.

Lessee
The user of the equipment being leased.

Lessor
The owner of the equipment leased to a lessee or user.

Lien
A security interest on property to protect the lender in the event of lessee default.

Maintenance Contract
An agreement whereby the lessee contracts with another party to maintain and repair the leased property during the lease term, in exchange for a payment or stream of payments.

Money-over-Money Lease
A non-tax lease. This type of lease is a conditional sales contract in th guise of a lease, in which the lessee is or will become, the owner of th leased equipment by the end of the lease term and therefore is entitled to the tax benefits of ownership.

Municipal Lease
A lease that meets the special needs of State and local governments. It may contain a non-appropriation clause which states that the only condition under which the entity may be released from its payment obligation is when the legislature or funding authority fails to appropriate funds. Since the lessee is a municipality or an organization supporting the government, it is exempt from paying federal income taxes. For this reason, the IRS does not charge the lessor income taxes on leases to these customers.

Net Lease
A lease in which all costs in connection with the use of the equipment, such as maintenance, insurance and property taxes are paid for separately by the lessee and are not included in the lease rental paid to the lessor.

Non-full Payout Lease
A lease in which cash flows from the payments are insufficient to cover the lessor's cost. The lessor assumes that a re-lease or renewal will take place. Often classified as an operating lease by lessors.

Non-tax Lease
A type of lease in which the lessee is, or will become the owner of the leased equipment and therefore is entitled to all the risks and benefits (including tax benefits) of equipment ownership.

Off-balance Sheet Financing
Any form of financing, such as an operating lease that for financial reporting purposes, is not required to be reported on a firms balance sheet.

Open-end Lease
A lease in which the lessee guarantees the amount of the future residual value to be realized by the lessor at the end of the lease. If the equipment is sold for less that the guaranteed value, the lessee must pay the amount of any deficiency to the lessor. This lease is referred to as open-ended because the lessee does not know its actual cost until the equipment is sold at the end of the lease term.

Operating Lease
From a financial reporting perspective, a lease that has the characteristics of a usage agreement and also meets certain criteria established by the FASB. Such as lease is not required to be shown on the balance sheet of the lessee. The term also is used to refer to leases in which the lessor has taken a significant residual portion in the lease pricing and therefore must salvage the equipment for a certain value at the end of the lease term in order to earn its rate of return.

Original Equipment Cost (OEC)
The amount the lessor pays the vendor for the equipment at the beginning of the lease. Usually includes up-front sales tax.

Payment Stream
The rentals due in a lease.

Payments in Advance
A payment stream in which each lease payment is due at the beginning of each period during the lease.

Payments in Arrears
A payment stream in which each lease payment is due at the end of each period during the lease.

Payoff
Occurs when the lessee purchases the leased asset from the lessor prior to the end of the lease term.

Placed in Service
Delivery and available for use, although the equipment may stil be subject to final installation and/or assembly.

Purchase Option
An option in the lease agreement that allows the lessee to purchase the leased equipment at the end of the lease term for either a fixed amount or at the future fair market value of the leased equipment.

Put Option
An option in a lease (i.e., for equipment purchase or lease renewal) in which the exercise of the option is at the lessor's not the lessee's discretion.

Rate Factor
A percentage amount that, when multiplied by original equipment cost, produces the monthly rental.

Refundable Security Deposit
An amount paid by the lessee to the lessor as security for fulfilment of all obligations outlined in the lease agreement that is subsequently refunded to the lessee once all obligations have been satisfied. Security deposits typically are returned at th end of the lease term, but according to mutual agreement can be refunded at any point during the lease.

Remarketing
The process of selling or leasing the leased equipment to another party upon termination of the original lease term. The lessor can remarket the equipment or contract with another party, such as the manufacturer to remarket the equipment in exchange for a remarketing fee.

Renewal Option
An option in the lease agreement that allows the lessee to extend the lease term for an additional period beyond the expiration of the initial lease term, in exchange for lease renewal payments.

Repossession
A situation in which a lessor reclaims and physically removes the leased equipment from control of the lessee. Usually caused by lessee default.

Residual Value
The value either actual or expected or leased equipment at the end or termination of the lease.

Residual Value
The value either actual or expected of leased equipment at the end or termination of the lease.

Residual Value Insurance
An insurance policy stating the guaranteed residual value on leased equipment. The insurance company pays if the residual is not realized.

Rollover
A change in lease term and/or payment resulting from a change in equipment such as in a takeout or upgrade. The rollover finances those costs associated with the change in equipment and may result in the lessor financing an amount greater than the equipment value.

Sale-leaseback
A transaction that involves the sale of equipment to a leasing company and a subsequent lease of the same equipment back to the original owner who continues to use the equipment.

Salvage Value
The expected or realized value from selling a piece of equipment.

Security Deposit
A dollar amount held by a lessor to protect against default by the lessee. It's refundable at the end of the lease.

Service Lease
A lease for equipment that assigns the lessor the responsibility for maintaining the leased property.

Skipped-payment Lease
A lease that contains a payment stream requiring the lessee to make payments only during certain periods of the year.

Step-payment Lease
A lease that contains a payment stream requiring the lessee to make payments that either increase (step-up) or decrease (step-down) in amount over the term of the lease.

Structuring
The pulling together of may components of a lease to arrive at a single lease transaction. Structuring includes, but is not limited to lease pricing, end-of-term options, documentation issues, indemnification clauses, funding and residual valuations.

Super Broker
Generally a leasing broker who identifies themselves as a direct lessor but merely brokers the transaction.

Tax Lease
A generic term for a lease in which the lessor takes the risk of ownership (as determined by the various IRS pronouncements) and as the owner is entitled to the benefits of ownership, including tax benefits.

Terminal Rental Adjustment Clause (TRAC)
A lessee guaranteed residual value for vehicle leases (automobile, trucks or trailers) with the inclusion of which will not in and of itself disqualify the tax lease status of a tax-oriented vehicle lease.

True Lease
Another term for a tax lease in which for IRS purposes the lessor qualifies for the tax benefits of ownership and the lessee is allowed to claim the entire amount of the lease rental as a tax deduction.

Turnaround Time
The time it takes to make a credit decision and inform the lessee after receiving the lease application.

Uniform Commercial Code (UCC)
A set of standard rules, adopted by States that governs commercial transactions.

Un-guaranteed Residual Value
The portion of residual value for which the lessor is at risk. The lessor takes on the risk that the equipment may or may not be worth this expected value at the end of the lease term.

Upgrade
An option that allows the lessee to add equipment to an existing piece of leased equipment in order to increase its capacity or improve its efficiency.

Useful Life
A period of time during which an asset has economic value and is usable. The useful life of an asset sometimes called the economic life of the asset.

Usury Laws
Laws regulating the charging of interest rates. Most usury laws protect consumers from unauthorized interest rates.

Variable Term Lease
A lease that ends when all payments are made. The term is flexible to accommodate skips and increased rents.

Vendor Lease
A lease offered by a manufacture or dealer to its customers for financing its products.

