EQUIPMENT
Leasing&Finance
THE MAGAZINE FOR INDUSTRY EXECUTIVES

JANUARY | FEBRUARY 2022

STATE OF THE INDUSTRY 2022

6 factors driving equipment finance in the year ahead

Equipment Management: Hard Assets Get a Hard Look

Pathway to Servitization

Driving Innovation in Equipment Finance

ELFA Launches Knowledge Hub

Meet the New ELFA Board Chair

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

EQUIPMENT Leasing & Finance
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EQUIPMENT Leasing & Finance
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IMN Information Management Network In Association with ELFA Equipment Leasing and Finance Association

The 21st Annual

Investors' Conference on Equipment Finance

March 30, 2022 | New York, NY

IMN, along with the Equipment Leasing and Finance Association (ELFA), will host the Annual Investors' Conference on Equipment Finance on March 30, 2022 in New York City. This one-day event focuses on educating investors and equipment finance companies about the latest industry trends and developments.

As the global leader in structured finance conferences with contacts in the fixed income investor and issuer community, we are able to attract a unique audience representing institutional and private investors, alongside key decision makers at the highest level at leasing finance companies.

Now in its 21st year, the return to in-person for this esteemed series promises another program packed with engaging, timely content, as well as ample opportunity for critical business development and networking. The agenda focuses on educating investors and equipment finance companies about the latest industry developments following a turbulent year and provides updates on how sectors are responding and recovering.

Who Should Attend

- CEO/CFO/Finance Directors of Equipment Finance Companies
- Investors and Providers of Private Capital (Private Equity and Hedge Funds)
- Rating Agencies, Investment Bankers
- Credit Enhancers
- Financial Advisors, Lawyers
- Trustees
- Technology Service Providers

For sponsorship opportunities, contact Chris Arnold at carnold@imn.org or (212) 901-0544
For more information, visit www.imn.org/equipment

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By Ralph Petta

Welcome to the Knowledge Hub!

ACCESS TO ELFA research and data is one of the primary benefits of being an ELFA member. As part of our ongoing commitment to providing valuable information to the membership, we are pleased to present the ELFA Knowledge Hub.

We created this new resource in response to your industry information needs.

In 2021 we conducted a series of focus groups with the association's business council steering committees. We asked the Bank, Captive and Vendor Finance, Independent, Service Provider and Small Ticket BCSC to assess ELFA research/data and information products. Through a survey and a series of in-depth discussions with each group, we asked:

- Are you aware of various ELFA data, benchmarking and statistics resources?
- Do you use them?
- How important are they to you?
- What kind of delivery mechanism do you prefer in using them?
- Is there additional business information that you'd like ELFA to provide?

Thanks to thoughtful and candid responses from each of these diverse groups of industry leaders, we came away with insights that contributed to the development of the Knowledge Hub, a one-stop online library that provides easy access to a wide range of industry research and information. This information would be inaccessible and cost-prohibitive for you to produce on your own, but you can access it all at www.elfaonline.org/KnowledgeHub.

I encourage you to get the most out of your ELFA membership and visit the Knowledge Hub often for indispensable intelligence for all areas of your business. If you've got a research question or you'd like to weigh in on ELFA's offerings, please contact Bill Choi, ELFA VP of Industry Information, at bchoi@elfaonline.org.

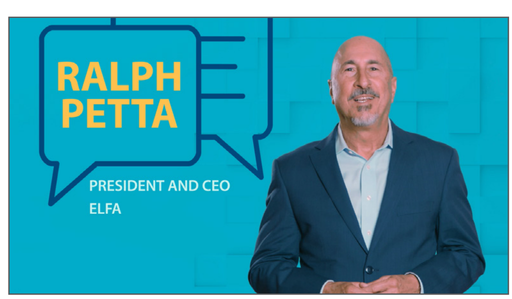
Highlights in this Issue

Wondering what forces are expected to shape equipment finance in the year ahead? Read our cover story, "State of the Industry 2022," and check out ELFA's Top 10 Equipment Acquisition Trends for 2022. Read about the state of asset management in "Equipment Management: Hard Assets Get a Hard Look" and hear more on this topic at the Equipment Management Conference, Feb. 13-15 in Tucson, Arizona. See a full list of upcoming events in the special education supplement in this issue.

We have a lot in store for you in 2022 and we are fortunate to have active volunteers and strong leaders in place, including Board Chair Mike DiCecco, who is profiled in this issue. Don't hesitate to contact us at ELFA headquarters if you have any questions or you'd like to get more involved. ☰

Ralph

RALPH PETTA is the President and CEO of the Equipment Leasing and Finance Association.



Watch Ralph's Q1 message to the membership at www.elfaonline.org/news/Q1video2022

ELFA NEWS

What Are the Top 10 Industry Trends for 2022?

ELFA IS FORECASTING the leading trends driving capital acquisition this year in the Top 10 Equipment Acquisition Trends for 2022. Designed to help businesses with their strategic equipment acquisition plans, you can find the trends press release, infographic and animated video on ELFA's Equipment Finance Advantage website for end-users at www.equipmentfinanceadvantage.org.

Announcing the Mobile App Contest Winners

CONGRATS TO THE WINNERS of the latest ELFA Engage mobile app contests. These winners picked up some fun ELFA swag—and became members of the #ELFAmugclub! Download the app today and join our latest contest at www.elfaonline.org/app.

Jennifer Fanz

Lauren Baingo
Program Manager
DLL

Reid Raykovich, CLFP
Executive Director
CLFP Foundation

New Year….New Ways to Win!

WHETHER YOUR GOAL is to exercise more, save money or eat healthier, we've all been there. So why not share your New Year's resolution in the engage wall of the ELFA Engage app for a chance to win a $25 Amazon Prime gift card and ELFA Swag? One winner will be chosen at random at the end of Q1. See details at www.elfaonline.org/app.

Last Chance to Renew Your Membership for 2022

THERE IS STILL TIME to preserve your membership benefits in 2022. Your 2022 ELFA membership ensures uninterrupted access to indispensable services and benefits, such as federal and state advocacy updates, industry information via ELFA's new Knowledge Hub, ELFA's members-only resources, discounted fees on professional development and more. Key contacts can expedite their dues payment by using the ***Account Tools*** section of the ELFA website (you must be logged in). Please contact ELFA Membership at (202) 238-3400 or membership@elfaonline.org with questions.

Save the Date for 2022 ELFA Events

TAKE ADVANTAGE of a wealth or learning and networking opportunities available to you and your staff as part of your ELFA membership. Many events in 2022 will be held in person. See the 2022 Educational Supplement in this magazine and visit our website at www.elfaonline.org/events.

Arizona Welcomes Equipment Managers

IF YOU ARE IN EQUIPMENT MANAGEMENT, you can't afford to miss the Equipment Management Conference and Exhibition, Feb. 13-15 at the Westin La Paloma Resort & Spa in Tucson, Arizona. This is the premier event for equipment managers, appraisers and remarketers and is attended by nearly 300 people you need to meet. See the top reasons to attend in the feature story in this issue and learn more at www.elfaonline.org/events/2022/EMC.

Join the Investors Conference in the Big Apple

THE ANNUAL INVESTORS CONFERENCE on Equipment Finance is scheduled for March 30 in New York City. This one-day event from IMN and ELFA focuses on educating investors and equipment finance companies about the latest industry trends and developments. The program will include extensive coverage on the outlook for the year ahead, structural and legal challenges, risk management, capital markets and transportation finance. Learn more at www.imn.org/equipment.

Gear Up for Innovation in 2022

ELFA MEMBERS from across the industry met online in November for the latest Innovation Roundtable sponsored by the Technology Innovation Working Group and led by Deb Reuben of TomorrowZone. Learn more about the Working Group in this magazine, and save the date for four Innovation Roundtables in 2022: March 3, May 19, Aug. 4 and Nov. 10.

Don't Miss the Women's Leadership Forum

COME "BLAZE A NEW TRAIL" at the Women's Leadership Forum, April 11-12 at the Palmer House Hilton in Chicago. This event will focus on leadership development for women at all stages of an equipment finance career. The agenda will feature dynamic speakers and offer time for attendee interaction and networking with other industry leaders. You'll leave this event with valuable insights and powerful tools to enhance your career. Registration opens at the end of January at www.elfaonline.org/events/2022/WLF.

Five Roundtables Tackle Best Practices in 2022

BEST PRACTICES ROUNDTABLES are small, one-day meetings designed to facilitate the exchange of information among peers. Attendance is open to ELFA member companies only. Watch for updates on the following events at www.elfaonline.org/events:

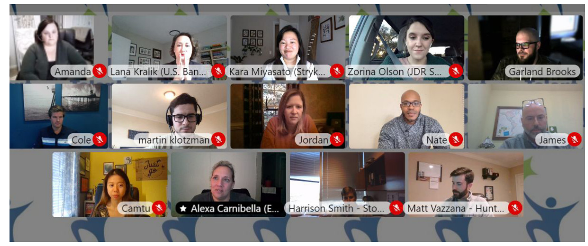
- Bank Roundtable, April 12, Chicago
- Captive and Vendor Finance Roundtable, April 12, Chicago
- Independent Roundtable, April 12, Chicago
- Small Ticket Roundtable, April 12, Chicago
- Tax Best Practices Roundtable, June 22, Chicago

Funding Conference Set for April 12-14

THE ELFA NATIONAL FUNDING CONFERENCE is the most effective forum for connecting funding sources with some of the finest organizations in the equipment finance industry looking to establish relationships to fulfill their funding needs. This popular annual event returns in-person on April 12-14 at the Palmer House Hilton in Chicago. To learn more about the National Funding Conference and to register as a funding source exhibitor or attendee, please visit www.elfaonline.org/events.

Calling All Emerging Talent: 2022 Networking Events

ARE YOU A FUTURE LEADER who's interested in meeting more people in the industry? Please join ELFA at an Emerging Talent Networking Event in 2022: April 12 in Chicago, July 14 in Boulder, Colorado and Sept. 12 in New Orleans. These events, which are sponsored by the Emerging Talent Advisory Council, are a chance to hear from industry leaders and network with your fellow industry colleagues. There is no cost to attend but space is limited and you must register in advance. Watch for updates at www.elfaonline.org/events/.



Emerging Talent Gathers

ELFA'S FIRST-EVER SOCIAL HOUR for current and past members of the Emerging Talent Advisory Council (ETAC) was a success! It was wonderful to see happy faces, both new and familiar. ETAC has a lot of great things planned in 2022, so keep your eyes out! If you're interested in getting involved with ETAC, please email Alexa Carnibella at acarnibella@elfaonline.org.

ELFA Releases Compensation Data for Equipment Finance

WONDERING ABOUT TRENDS in pay in the equipment finance sector? Two new ELFA surveys detail the latest data. Both studies are available at www.elfaonline.org/KnowledgeHub:

- **2021 Equipment Leasing and Finance Compensation Survey** measures compensation rates for more than 90 executive, front-office and support positions and 10 levels of seniority, reported by more than 75 equipment finance companies from across the sector.
- **2021 Small and Medium Enterprise Compensation Survey** reveals data—including salaries, bonuses, benefits and commission—for 19 specialized revenue and support positions at 53 small and medium-sized equipment finance companies.

Are You Following ELFA's LinkedIn Page?

GET THE LATEST ELFA UPDATES, share information and network with other members of the equipment finance community on the association's LinkedIn company page. All members are welcome to connect today.

Survey Respondents Reap Rewards

THE RESEARCH COMMITTEE met recently to plan the 2022 Survey of Equipment Finance Activity (SEFA), the Interactive SEFA Dashboard and the MySEFA personalized data tool. Make sure you participate in the 2022 SEFA to take advantage of special benefits! Every company respondent will receive:

- A complimentary copy of the 300+ page SEFA and Small-Ticket SEFA reports (a $1,495 value).
- A personalized MySEFA interactive tool, which lets you track your company's operational and performance statistics and compare them against your peers.

Questions? Contact Bill Choi at bchoi@elfaonline.org or go to www.elfaonline.org/SEFA.

Membership Minute

IT'S A NEW YEAR filled with possibilities and opportunity. What a great time to get involved by volunteering on an ELFA committee. ELFA is a volunteer-driven organization and each year, hundreds of volunteers from ELFA member companies contribute their time and energy to drive the association's mission. If you would like to learn more about how to get involved and participate on a committee, contact Ed Rosen, Director of Governance, at erosen@elfaonline.org

Nominations Open for Equipment Finance Hall of Fame

THE EQUIPMENT FINANCE HALL OF FAME annually recognizes individuals who have made unique, significant or lasting contributions to the industry and/or the association throughout their careers. The deadline for nominations to the 2022 Class of the Equipment Finance Hall of Fame is April 1, 2022. Learn about the nomination criteria and deadlines and access the online nomination form at www.elfaonline.org/hof. Please contact Ed Rosen at erosen@elfaonline.org if you have any questions.

Maximize Your Reach

GET THE GREATEST IMPACT and return on investment for your marketing dollars! ELFA's 2022 Integrated Marketing Guide highlights the most effective opportunities to reach decision makers in the nearly $1 trillion equipment finance industry. Download the guide from www.elfaonline.org/About/Advertise or contact Steve Wafalosky at stevew@larichadv.com for more information.

5 Minutes with the Independents Chair

JONATHAN ALBIN, COO
Nexseer Capital

WHAT'S HAPPENING in the Independent sector of the equipment finance space? *Equipment Leasing & Finance* magazine caught up with Jonathan Albin, Chair of the Independent Business Council Steering Committee (BCSC), to take the pulse of this sector. Albin, COO at Nexseer Capital., is currently serving his first year as Chair of the committee, which includes non-bank-owned organizations that provide financing through lines of credit, discounting relationships or other funding vehicles.

From your perspective serving on the Independent BCSC, what issues are independent equipment finance companies focused on this year?

Obviously, it's been a challenging couple of years. We've seen a fair amount of disruption personally and professionally. We've tackled challenges that we did not anticipate. First and foremost, I think everyone is hoping that we see an emergence from this pandemic and a return to normal.

Beyond that, I think Independents are looking to grow their businesses in a highly competitive environment. We surveyed our committee members prior to our initial meeting. When we asked what the main topics of focus for the committee are this year, the top 3 responses were 1) Pricing and Competition, 2) Recruiting and 3) Supply Chain issues. I think that paints an interesting picture of the business environment as we start 2022.

Our sector and our committee are diverse, and the member companies vary in size, geography, originations model, asset and industry focus. Even though we have unique approaches to the market, we share common challenges.

Independents have a track record of being nimble and using their expertise to adapt to these challenges and I would fully expect that to continue. I see many Independents with strong access to capital and attractive origination models.

How did you get involved with the BCSC? Would you recommend it to others?

I became involved in the BCSC when another of our team members rolled off. I thought it would be a great opportunity to network with other members, and get exposure to the issues impacting Independents and our industry. My participation in the steering committee has been extremely enjoyable and valuable. I really appreciate the people I've met and the opportunity to be more engaged with ELFA and the industry. I would absolutely recommend participation to anyone looking to build relationships, deepen their involvement with our industry, and meet great people. ☰

About the BCSCs

The BCSCs represent ELFA's five key business segments: Bank, Captive and Vendor Finance, Independent, Service Providers and Small Ticket. Learn more at www.elfaonline.org/BCSCs. Interested in joining? Contact Ed Rosen at erosen@elfaonline.org.

Best Practices Roundtables

Problem Solve • Share Best Practices • Network

April 12, 2022

Independent Best Practices Roundtable
Bank Best Practices Roundtable
Small Ticket Best Practices Roundtable
Captive and Vendor Finance Best Practices Roundtable

Designed to bring senior executives from ELFA member companies together for information sharing and critical thinking about the issues they are facing as leaders of their organizations.

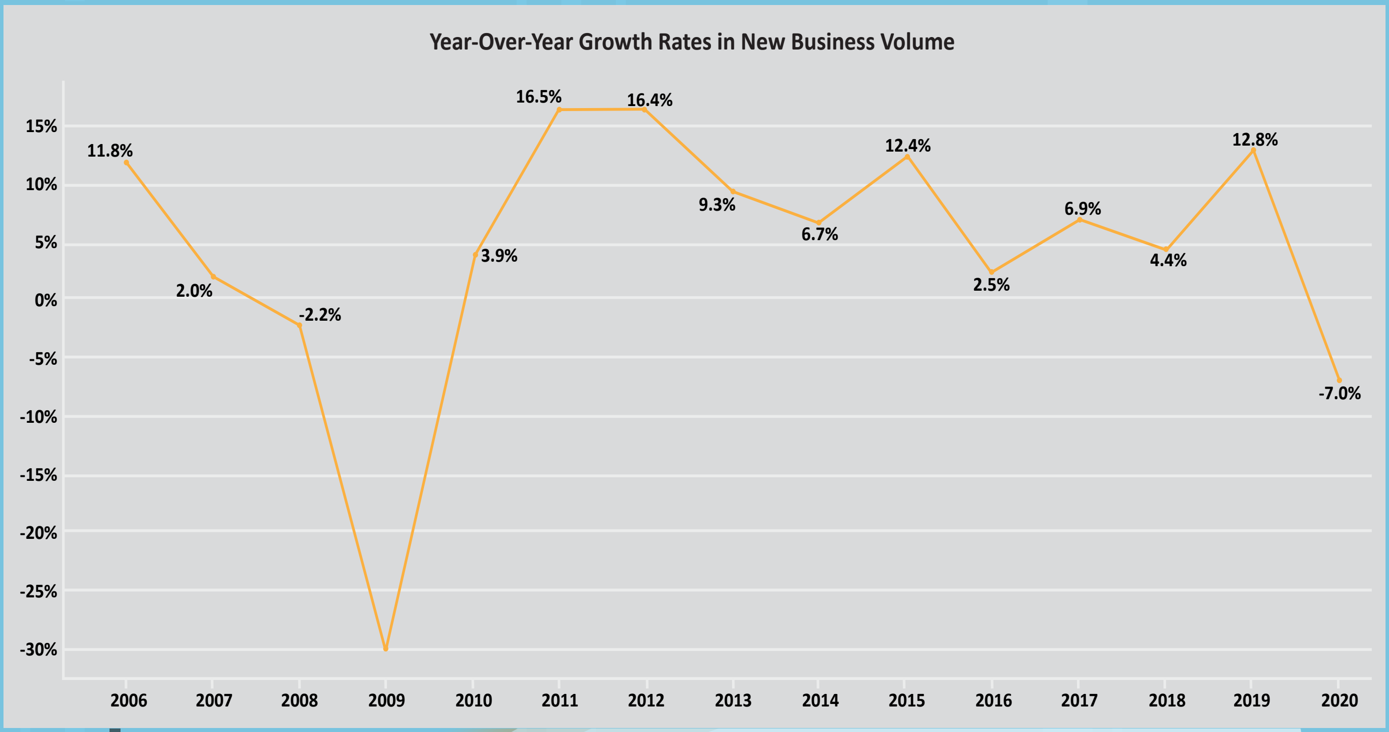
To register, go to: **www.elfaonline.org/Events/Calendar/**

For more information, contact Alexa Carnibella at acarnibella@elfaonline.org

ELFA EQUIPMENT LEASING AND FINANCE ASSOCIATION
Equipping Business for Success

A Closer Look at Equipment Finance Volume

According to the SEFA Interactive Dashboard, in 2020 new business volume in the equipment finance industry declined by 7%. It was the third time since 2006 that year-over-year NBV declined. Stay tuned for the 2021 data, coming later this year. Want to learn more about the Dashboard or see a demo? Please contact Bill Choi at bchoi@elfaonline.org.



Spotlight on Compensation

The SME Compensation Survey and the Equipment Leasing & Finance Compensation Survey have been released and are available at www.elfaonline.org/knowledge-hub/most-popular. Please contact Bill Choi (bchoi@elfaonline.org) if you have questions about either survey or you'd like to participate in future surveys.

DASHBOARD

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

Growth Mindset

3.5% GDP growth is forecasted in 2022, owing to robust consumer demand and a strong labor market in spite of the continued COVID-19 pandemic.

Source: 2022 Economic Outlook and Momentum Monitor https://www.leasefoundation.org/industry-resources/u-s-economic-outlook/

A Return to the Office?

Lenders say that, on average, 73% of their staff worked from home in January 2021, but they expect that number to drop by 40% in January 2022.

Source: Q3 COVID-19 Impact and Recovery Survey https://www.leasefoundation.org/industry-resources/covid-impact-recovery-survey/

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By Jeff Jensen and Desmond Dahlberg

6 factors driving equipment finance in the year ahead

AFTER MUDDLING THROUGH ITS WORST YEAR IN THE POST-WWII ERA, the U.S. economy bounced back in a big way in 2021. As vaccines became widely available and robust federal support continued to flow to businesses and consumers, the economy expanded at a roughly 6.5% annualized rate during the first half of the year—more than double the pace typically associated with a strong economy.

Equipment finance played a significant role in this growth: equipment and software investment expanded by more than 15% (annualized) from January – June, according to the Equipment Leasing & Finance Foundation's Economic Outlook. This was comparable to the rapid growth experienced after the 2008–09 recession and, based on historical precedent, more than half of this investment was likely financed.

Although growth slowed during the second half of the year due to a variety of factors (e.g., a COVID-19 resurgence and supply chain issues constraining economic activity, federal support measures ending, and high inflation curbing consumer confidence), 2021 will likely end up as one of the strongest years of growth in the modern economic era and the fastest post-recession recovery on record.

Here are six predictions and expected trends that we believe will shape the economy and industry in 2022.

1. The economy will experience solid growth in 2022.

After a highly volatile year in 2021 during which growth forecasts were readjusted on a near- weekly basis, the economy is on more even footing this year. Consumers and businesses alike are increasingly adapting to the "new normal" of COVID-era life, and risks stemming from the pandemic are more limited than last year given the widespread availability and effectiveness of vaccines that reduce the likelihood of infection and severe disease. Indeed, as of Dec. 30, more than 73% of U.S. adults are fully vaccinated, including 88% among those over 65. While the emergence of the Omicron variant is evidence that the pandemic is not yet over, Americans have shown that they can adapt, and the economy's increased resiliency to new strains should be positive for equipment and software investment demand. Consumers' willingness to resume normal mobility and consumption patterns

The equipment finance industry is well positioned for a strong year in 2022.

in the face of Omicron and potentially other new variants — and in absence of robust federal support that supercharged the economy for much of last year — will be a key factor to watch in determining economic growth this year.

Though there remain substantial risks, including inflation and significant lingering supply chain issues (especially in the automobile sector), the combination of a much-improved public health outlook, strong hiring demand, rising wages and a substantial amount of accumulated consumer savings still waiting to be spent should produce real GDP growth in the 3–4% range this year.

2. While interest rates are likely to rise, industry conditions should remain strong.

Equipment and software investment was among the first components of the economy to recover after the 2020 recession. Investment boomed as businesses adapted to new operating procedures and changing consumer preferences. This rising investment tide benefited firms of all sizes, with cumulative new business volume up 10% year-to-date as of November. We expect lending conditions to continue to normalize further in 2022, and new business volume momentum may shift toward banks as we suspect it did in 2021 (note that independents were the clear winner in 2020 according to ELFA's 2021 Survey of Equipment Finance Activity). However, strong demand for equipment and software—especially given the tight labor market that encourages some firms to invest in capital—should bolster financing activity in 2022.

Though the equipment finance industry should expand at a healthy rate next year, growth is likely to be uneven across equipment verticals. Verticals such as automobiles, construction machinery and agriculture may continue to face pandemic-related headwinds such as input shortages, high energy prices and volatile demand conditions. Other verticals, including trucks, oil & gas equipment and materials handling equipment, may benefit from sustained demand in 2022, especially if pandemic conditions linger due to Omicron or other new variants. All told, the industry is well positioned for another strong year, even if there are some bumps along the way.

3. Higher inflation is here to stay.

A year ago, we viewed rising inflation as a potential X-factor worth monitoring, though at the time it was mostly contained to a smaller subset of goods like semiconductors and used cars that were particularly exposed to pandemic-related factors. However, within months CPI inflation had accelerated to a multidecade high. Initially, conventional wisdom was that inflationary pressures would be transitory, but annual CPI growth rose progressively higher, peaking at 7.0% in December as supply chains remained snarled and hiring difficulties put upward pressure on labor costs.

Looking ahead, we expect many supply chain issues to be largely resolved over the next 12 months (though some industries, particularly automobile manufacturing, may remain tangled until 2023), and while inflation is likely to remain high by historical standards, we expect it to recede below 6% Y/Y by the end of Q2. At the same time, we do not expect a return to the "steady as she goes" sub-2.5% core inflation rates the economy has enjoyed since 2007; instead, a core rate in the 3-5% range is more likely.

Inflation expectations for both consumers and financial markets are becoming unanchored, and mounting wage pressures will continue to drive costs for business owners. Indeed, labor costs are a key area of concern for businesses large and small: roughly half of corporate CEOs reported labor costs as their top cost pressure in the Business Roundtable's latest CEO Economic Outlook Survey, while the share of small business owners raising compensation is at a 48-year high according to NFIB.

Inflation could impact lease and loan terms and boost the residual value of equipment.

This level of inflation could impact lease and loan terms via lower real payments but could also boost the residual value of equipment. Further, if the Fed quickly winds down its loan-buying program and increases interest rates multiple times in 2022 as we expect they will, lease negotiations could become increasingly complex. For more information on how to navigate these new conditions, see the Equipment Leasing and Finance Foundation's 2017 report titled *On the Rise: How Inflationary Pressures and Rising Interest Rates Could Impact the Equipment Finance Industry*.

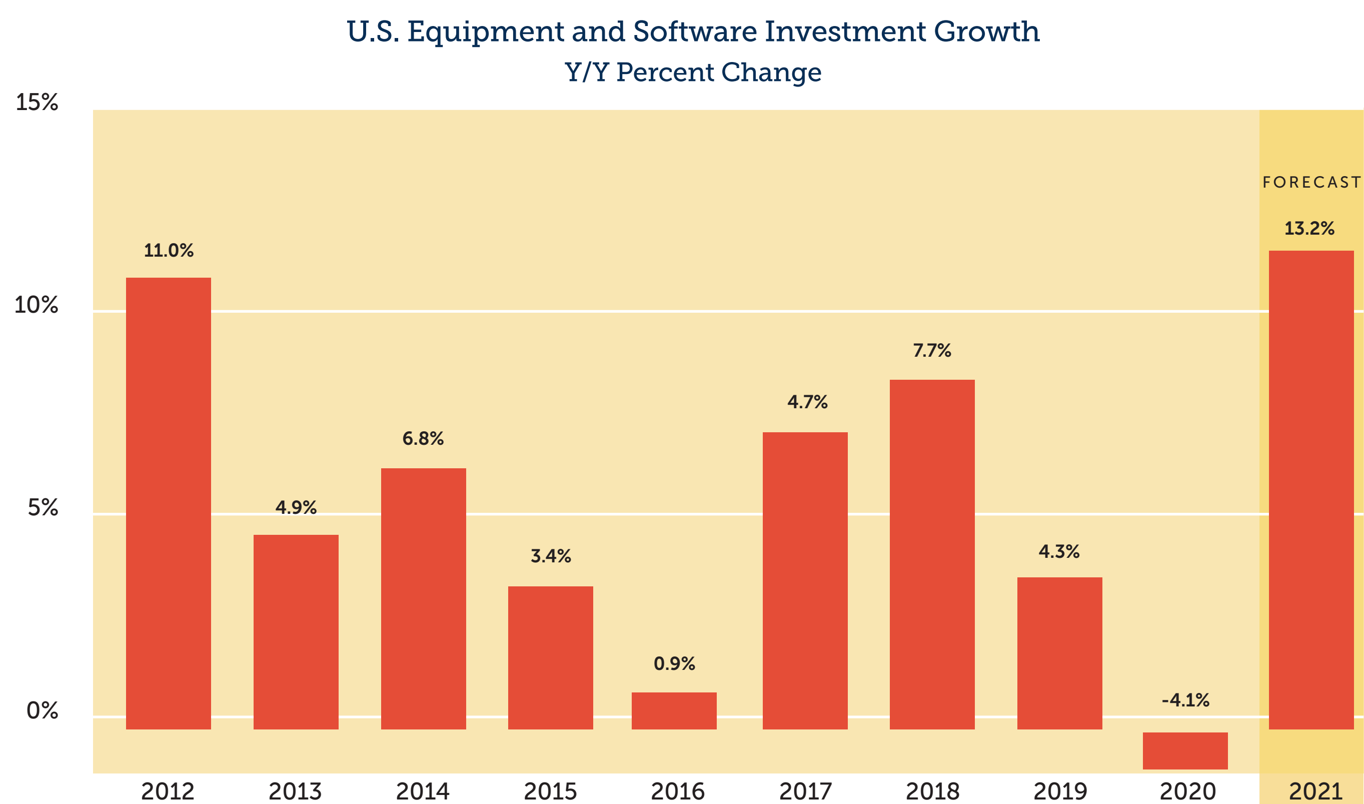
4. President Biden's "Build Back Better" initiative will eventually pass in some form, providing a modest economic boost.

In November, Congress passed and the President signed the Infrastructure Investment and Jobs Act into law. If no additional infrastructure legislation is enacted this Congress, this law provides for significant new investment and corresponding economic impetus over the next decade. Additionally, while there are policy hurdles to be jumped and political curves in the road to be navigated still, we anticipate that Congressional Democrats will ultimately pass a slimmer version of the President's Build Back Better plan sometime in 2022, which would likely include significant funding for climate change mitigation efforts and health care. Along with the new infrastructure spending package, the new investment should boost several equipment verticals in the latter half of the year and 2023.

5. Onshoring and reindustrialization will be key themes as the world emerges from the pandemic.

Supply chains, the sometimes overlooked and rarely discussed linchpin of the global economy, have been upended during the pandemic. Some of the blame can be placed on the massive shift in spending from services to goods during the pandemic, which has led to component shortages and strained transportation networks. However, another important factor is the nature of modern global supply chains: massive, interconnected, international webs of inputs and outputs that were, up until the pandemic, optimized for just-in-time operations. This system is highly efficient and cost-effective during normal economic times, but as the pandemic has demonstrated, the complexity and interconnectedness has its drawbacks.

Going forward, we expect that the dual threats of ongoing pandemic-related disruptions and an

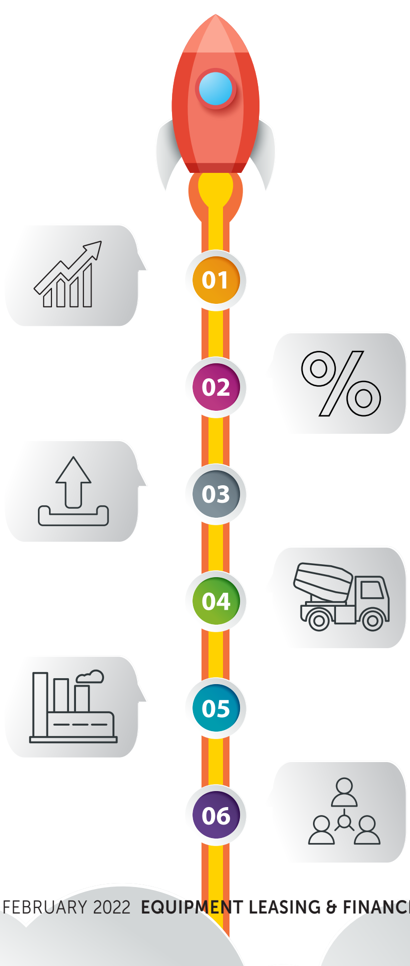


Source: Equipment Leasing & Finance U.S. Economic Outlook, Equipment Leasing & Finance Foundation increasingly antagonistic Chinese Communist Party will combine to accelerate the trend of "reshoring" critical components of supply chains. This trend is expected to be important for both common consumer goods (e.g., apparel) and goods with national security applications (e.g., semiconductors) and, over time, should lead to increased capex in North America.

6. COVID's impact on labor markets will force firms to fundamentally change their hiring practices.

While the job market recovery has been remarkably fast compared to prior recessions, the economy is still 3.6 million workers short of its pre-recession level, and there are 3 million fewer people in the labor force as of December. All the major factors that slowed the labor market recovery in 2021 — including accumulated savings, concerns about the virus, family care needs and an accelerating pace of retirements — are likely to persist this year. For many employers, this will mean higher wages and more generous benefit packages. It may also lead to significant changes in how, where and whom they hire.

Equipment finance firms will need to attract younger workers to offset the pace of retirements.



Like many industries, the financial sector experienced record-high job openings last year as employers struggled to attract new talent. Equipment finance firms will not be immune to these labor market frictions, and they will need to attract younger workers to offset the faster pace of retirements precipitated by the pandemic and fueled by aging Baby Boomers. Firms will need to consider broadening their recruiting channels and consider potential hires who may not have traditional equipment finance experience, but who have the hard and soft skills necessary to succeed as the industry evolves. Similarly, many firms may find that they have to offer new incentives, such as hybrid or remote work, to attract and retain talent. The Foundation's Industry Future Council explored these labor force developments and other inter-related trends in its 2021 report *Looking Ahead to the Post-Pandemic Economy: A Strategic Assessment of the Equipment Finance Industry*. ☰

JEFF JENSEN is Vice President and **DESMOND DAHLBERG** is Economist at Keybridge Research.

PEOPLE POWER

Together with our member companies, ELFA is advancing initiatives to support equity, diversity and inclusion in everything we do. Learn more about these efforts and access resources for your organization at www.elfaonline.org/people-power/.

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DIVERSITY & INCLUSION

Diversity, Equity & Inclusion

Information and tools for fostering equity, diversity and inclusion across the equipment finance industry

ELFA Women4Inclusion

Women's Leadership

Leadership development resources curated by the ELFA Women's Council

ELFA GENERATION next
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Emerging Talent

Resources to get the most out of your ELFA membership, grow your career and help members attract the best and brightest to the industry

CELEBRATING 60 YEARS 1961-2021 ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

Equipment Management:

Equipment managers say shortages, surging prices and new uses are changing how they view certain assets.

REMEMBER ALL THOSE COAL RAIL CARS you heard were sitting dormant around the country? How about those off-lease delivery trucks with a healthy number of miles? Well, a lot of coal cars are now being converted to grain cars, and others have become steel scrap that sells for top dollar. And used trucks in decent condition? ELFA sources say they're selling for about 30% more now than just six months ago.

Laura Grill, Vice President, Asset Management at Truist Equipment Finance Corporation, paints the big picture: "Because of ongoing supply-chain issues, orders for new equipment are so backlogged that some now extend into 2023. We are continuing to see market pricing dislocation and inflation. The availability of used equipment is low across virtually all markets. For example, used inventory for aircraft is at an all-time low, with 3.5% availability of aircraft in the secondary market. Currently, aircraft ask and sale prices are up 25% to 35% from a year ago."

These trends are changing the way customers are dealing with their equipment, notes Grill. "Our customers' end-of-term disposition decisions have shifted, and we're seeing more month-to-month and firm term renewals as well as re-financings. With the liquidity in the market, we are also seeing more purchases than returns."

Another big challenge? Manufacturers in the transportation industry are waiting for micro-chips, says Tom Monroe, Senior Vice President of Asset Management at ATEL Capital Group and Chair of ELFA's Equipment Management Committee. "Because of the shortage, delays in delivery of new equipment are forcing many lessees to hold onto their fleet equipment longer."

With so many aspects of the business changing, don't miss the Equipment Management Conference, Feb. 13-15 in Tucson. Details at www.elfaonline.org/events/2022/EMC/

New Environment, New Behaviors

Equipment managers interviewed for this story say shortages caused by supply-chain disruptions are their top concern and main issue. They further say that for some equipment types, new uses are evolving and prompting reviews of values as well as prices.

But not all of this is due to scarcity. Environmental concerns and technology also play a role. "A lot of companies are trying to lower their carbon footprint," says Grill. "One transportation company decided to discontinue its LTL (Less Than Load) trucking business because of their new footprint goals and the continuing driver shortage. Other over-the-road transportation

Hard Assets Get a Hard Look

By Susan Hodges

companies are starting to use marine because of its lower emissions. An increasing number of tugboats have been converted to use Liquified Natural Gas, and others are being considered for battery-powered cells. These are some of the factors changing the way equipment managers look at and value assets."

Accordingly, a session at the upcoming Equipment Management Conference & Exhibition will address this issue and how it's playing out at equipment finance companies and with customers. The February 13-15 conference, to be held in Tucson, will also feature an off-site equipment tour and sessions on transportation, rail aircraft and planning a career in asset management, among others. Says Monroe, "Since last year's conference was virtual, this year's gathering will be a great opportunity for equipment managers to reacquaint themselves with what's going in the market and to renew relationships. Many of us are really looking forward to it."

Phil Houser, Director of Asset Management at CIT, which just merged with First Citizens Bank, will speak at the conference on material handling, and says he is seeing greater use of multi-purpose equipment. "The cost to make changes to highly engineered and customized equipment would be high," he says. "But with increased use of assets built for multiple purposes, everybody wins: manufacturer, financer and user."

Houser sees other trends that he calls "a pivoting" in customer equipment-acquisition strategies. "We find that customers and dealers are building their own used-equipment fleets," he says. "We're also seeing them pick up multiple units, new when available, or used if necessary, to meet current demand and to plan for future needs."

In addition, he says some customers want to negotiate higher annual hourly usage at the front end of their lease agreements. "They want to build it in at the onset to account for increased productivity and output. Often, they lease two units with the plan of putting lighter usage on each," he says.

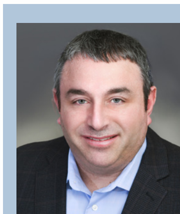
"Delays in delivery of new equipment are forcing many lessees to hold onto their fleet equipment longer."

Tom Monroe, ATEL Capital Group

Andrew Pace, COO at Asset Compliant Solutions, a commercial asset management company specializing in collections and repossessions, says the frenzy in used equipment is making clients eager to get their collateral back as soon as possible so they can sell it at current prices. "We have clients with older assets that have been missing in their portfolio," he says. "Perhaps a year ago these items wouldn't have been worth pursuing. But now that values have increased so much now, they're asking us to find them. They know that as long as the integrity of equipment hasn't been compromised, they'll be able to get some money back after costs and try to recoup these assets."

Amid all the activity, Doug Simon voices a concern. "Technology is moving so fast now, and some of the challenges we've had with the pandemic, such as labor issues and supply chain, have highlighted situations and events that will accelerate some technologies even further," says the Administrative Vice President and Head of Equipment Management for M&T Bank Corporation. "To keep up with values, I think equipment managers need to be in front of all new technologies, from hybrid and electric vehicles to battery-testing programs in marine and rail, as well as advancements in robotics. I don't see anything big happening in terms of investment in 2022, but we need to be paying attention."

Grill agrees. "Nothing else about my job has changed except how we look at assets and value equipment," she says. "We don't want to over-value or under-value anything, so right now, for example, we're taking a deeper dive into lower-emissions and greener technologies."



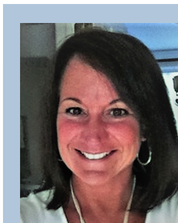
"To keep up with values, equipment managers need to be in front of all new technologies, from hybrid and electric vehicles to... advancements in robotics."

Doug Simon, M&T Bank Corporation

"Everything's Hot"

Meanwhile, optimism about hot markets runs high. "I think the entire equipment market will get busier in 2022 because of the new projects that will start in the wake of the infrastructure bill," says Grill. Specifically, she looks for rising demand in earthmovers, dredges and cranes, and other construction machinery. She also expects brisk business in over-the-road transportation, off-source supply vessels and aircraft.

Along with these markets, Pace anticipates opportunity in the cannabis market. "As more states legalize cannabis, the demand for centrifuges, evaporators,



"I think the entire equipment market will get busier in 2022 because of the new projects that will start in the wake of the infrastructure bill."

Laura Grill, Truist Equipment Finance Corporation

filtration skids and other equipment used in the industry should pick up," he says. As of late 2021, 36 states had legalized medicinal use of cannabis and 18 had given the nod to recreational use. Pace also expects opportunities in other emerging markets like renewable energy this year.

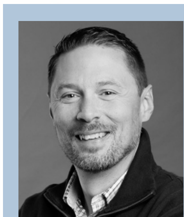
In the rail market, Simon looks for more car deliveries. "The last couple of years have been slow, so there is pent-up demand, plus the need to replace aging fleets," he says. He also looks for greater opportunities in business aircraft. "It has potential—lasting driving factors—one being that some people now choose to fly private instead of commercial," he says. "Although aircraft manufacturers are feeling same supply chain issues as other industries, I think orders this year will backlog." Simon also expects backlogs in construction equipment and trucks and trailers to continue.

Over at ATEL Capital, rail earns another hot-market vote. "We had a lot of rail cars off-lease that we put back on in 2021," Monroe says. "Covered hopper cars and box cars have especially been in high demand, due to the improving economy, and a lot of these types of cars had been scrapped earlier in the year."

Also hot is scrap metal, with steel from old rail cars bringing all-time high prices in 2021. "This is because many steel mills were shut down during the pandemic," Monroe explains. "With supply of steel low, there's now a huge demand for scrap steel, and many rail lessors have taken advantage."

Monroe is additionally tracking the growing use of lithium-ion batteries in manufacturing equipment. "We're seeing some deals with forklifts powered by lithium-ion instead of lead-acid batteries," he observes, adding, "The lithium-ion battery is a new technology for the material-handling industry, and it presents a challenge for asset managers to determine the future value at end of lease."

In a similar vein, Houser expects growth this year in material-handling, robotics and automation, pointing to demand for automated guided vehicles at distribution and e-commerce fulfillment centers. "The warehousing industry also is making more use of cloud-computing, data storage and the Internet of Things (IOT)," he added. "As companies build smarter supply chains, IOT will help greatly and security will become increasingly important as more objects are connected to the Internet." Houser also thinks the drone market will expand in 2022 as the devices are used to examine pipelines, help perform inspections and make deliveries to remote areas.



"As more states legalize cannabis, the demand for centrifuges, evaporators, filtration skids and other equipment used in the industry should pick up."

Andrew Pace, Asset Compliant Solutions

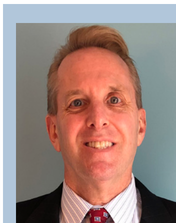
Vulnerable Residuals

Clearly the volatile upward pressure on equipment prices has been a boon for remarketing and selling off-lease equipment, and values generally remain strong. But as Simon observes, "It's not such an advantage when financing new equipment that's selling at the top of the market, because it puts pressure on residuals. We try to be consistent and measure the swings, whether they be up or down."

Indeed, the urge to raise residuals is strong because equipment costs are high. "But managers need to base residuals on a normalized market instead of on what we're seeing," Grill suggests. "We need to base them on historical data and not be overly aggressive during peak times."

At CIT, Houser says the methodology for calculating three- to five-year residuals has not changed because the bank believes inflated values are temporary. "As we establish future long-term residuals, we think they'll be more in line, not inflated," he says.

But he admits that CIT has brought creativity and flexibility to bear on the current environment. "We've had to adapt, pivot and be very nimble to meet the needs of our portfolio, our customers and our vendor customers on acquisitions," he elaborates. "But we've managed through the pressure and have benefited from it by offering customized solutions. We're in a



"As companies build smarter supply chains, the Internet of Things will help greatly and security will become increasingly important as more objects are connected to the Internet."

Phil Houser, CIT

relationship industry, and that's been no more evident than in the last year and a half. We've really raised the bar—and we've done it without a playbook."

At non-bank equipment finance companies, where the cost of funds is higher, pressure on residuals can be more intense. At ATEL Capital, however, Monroe says their residual methodology has not changed, either. "If the secondary market stays strong four to five years out, everyone will be happy," he says.

Regulation F

With equipment management activity so dynamic and at times frenzied, asset managers may feel fortunate they have few regulatory changes to deal with now. But Pace says one pertaining to collections is important: Regulation F. "Regulation F, through the Consumer Financial Protection Bureau, requires debt collectors to provide certain disclosures to the consumer," he says. "And because we do some consumer collections for clients with mixed portfolios, we abide by these laws and maintain high level of compliance. Regulation F somewhat revises the way debt collectors can communicate with consumers, so it requires many companies to make a few changes in their communications with customers." The new rule became effective Nov. 30, 2021.

And remember: ELFA's Equipment Management Conference & Exhibition is "effective" Feb. 13-15, 2022. With so many aspects of the business changing, you won't want to miss it. ☰

SUSAN HODGES writes about equipment finance from her office in Albuquerque, New Mexico.


WWW.

Pathway to Servitization

By Diane Johnson

Amid changing customer expectations and disruptions from the pandemic, equipment finance companies are considering new service models.

THE EQUIPMENT FINANCE INDUSTRY'S long-standing reputation for flexibility, responsiveness and innovation continues with servitization, models of financing that shift from assets to services. The topic was the focus of a popular breakout session at the 60th ELFA Annual Convention that included an overview of servitization, critical operational considerations and execution opportunities and challenges.

What is Servitization?

Cam Krueger, Managing Director, Specialty Finance, Accenture, opened the session saying, "We believe that we're moving beyond the traditional one-asset, one-contract, one-term, one-borrower kind of traditional lease and loan financing, and moving into something a little more complex," a key takeaway from a report he recently co-authored, "Servitization: Making the shift from assets to services."[1]

Of the origins of servitization, Krueger commented, "We've been at this for quite a while if you think back to connected copiers, which were one of the first examples of servitization. You'd plug the copier into a telephone line that would dial out and report when it was low on paper or toner."

There are, in general, four distinct parts of what a servitization model could be, all of which present difference opportunities and challenges.

- **All-In Finance:** The main distinction of all-in finance is the customer leases an asset and it is bundled with a service.
- **Outcome Finance:** In which the customer pays for specific outcomes, such as price per mile, price per page or price per gigabyte for a limited number of assets for a fixed term. For the finance company it is fixed and variable cash flows with a minimum customer commitment, which requires usage tracking that adds complexity into the model. The consumer gets the flexibility to increase or decrease as needed.
- **Managed Services:** The customer pays for a service based on the use of multiple assets under a service level agreement for a fixed term. For a finance company the implications are fixed and variable cash flows for a fixed term.
- **Subscription/Utility:** The customer subscribes to a service either as a commitment for a duration of time for a number of users, a specific term or other requirement, and the customer can cancel with a limited notice period.

Getting Started

Setting up a servitization model is a very complex undertaking. Diane Croessmann, Director, The Alta Group, has compiled a 300-line checklist for servitization model implementation. She explained, "The 300-line-item checklist is the result of observing mistakes that have been made due to inadequate execution planning. I consider it a 'best practice' checklist because it provides guidance for newcomers to servitization to avoid similar issues."

Krueger shared three steps for execution, the first of which is to develop a blueprint. The blueprint should have an "as-is" assessment of your capabilities, and define what the "to-be" is. During this process, redefine what your business processes and capabilities will need to be to make it work. Prioritize them to look for quick wins, and reduce complexity since it is one of the major issues of the servitization models due to the number of parties involved. "You need to simplify before you can get complex," Krueger said. "You'll never get to version 2.0 if you don't get version 1.0 implemented."

Next, design a detailed implementation plan that will address the critical elements. It should be a short, focused list of core elements that impact your customers and your business, such as risk and credit management, syndication strategy, sales and dealer alignment, and legal considerations.

There is a sustainability element that can be applied to servitization by moving the implementation to the cloud. This is an added benefit since the shift to the cloud is one of the major sustainability and environmental responsibility issues that is facing the financial services industry.

The last part is to execute against it by creating a solid version 1.0 that works. Consider technologies like robotics to automate repetitive processes, and artificial intelligence and analytics to deploy the system. Continue to redesign and consider the strategic imperative of the project. Finally, a good maintenance and governance component should be included.

"Connected copiers…were one of the first examples of servitization. You'd plug the copier into a telephone line that would dial out and report when it was low on paper or toner."

Cam Krueger, Accenture

Critical Operational Readiness Activities

Panelists presented critical operational readiness activities for guidance in moving from conceptualizing the offering all the way through to execution. Croessmann said, "My personal observation is that oftentimes service providers or OEMs who have services organizations try to move a little too quickly because they are eager to launch these programs. They skip over critical activities which sets them up for either a lot of redo later on or potentially even failure in the program."

Joseph Pulicano, Managing Director, Specialty Finance, Accenture, said, "Moving to as-a-service is developing new capabilities and increasing the level of maturity in those capabilities in everything from credit and pricing to asset management. It is really a journey where basically the players are moving from Products to Services sales by developing new capabilities that they did not have when they started."

At a minimum, a thorough understanding of traditional leasing is required in order to think about addressing a services type of process or program. The following are key areas of consideration:

Market analysis: Performing critical assessments for product offering development. Activities include identifying what the addressable market is from a financial standpoint, whether you will focus on enterprise accounts, general markets or specific verticals, or all of the above. This is an iterative process that starts broadly and narrows.

Value proposition: Aligning market needs to essential product development. You will need to solicit feedback from end users, sales resources and channel partners to ensure that they are comfortable with the concept. That feedback can be turned into a preliminary offering. This is where developing communications starts: with end users to demonstrate the economic value, with channel partners to overcome any objections they might have to potential interference in their business, with sales resources to motivate them to learn something new, and internally with executives and the rest of the organization to understand the strategic value.

Alliances: Developing successful organizational and other go-to-market strategies. There can be a lot of parties to these contracts. There may be subcontracted services and go-to-market relationships, so focal points are needed to interact between the organizations. Define the roles and responsibilities especially as they relate to services, because in the event of a

Why servitization works for the customer:

- Flexibility
- Convenience
- One-stop shopping
- Variability
- Multi-channel engagement
- Seamless end-of-lease operations

Why servitization works for equipment financiers:

- Financial benefits
- Business benefits
- Economic & social benefits

> **"I would strongly encourage others who are trying to do this not to try to be everything to everybody. Figure out where you can provide value."**
>
> *Brian Bjella, GreatAmerica Financial Services Corporation*

default the failure to do so can be a critical alliance risk. Finally, objectives must be aligned between all alliance partners, especially if there is a go-to-market capability.

Legal issues: Weaving end user, funder and service provider requirements into key documents. All of the relationships being combined to present the end user with a contract have requirements and potential for risk. These intricate relationships must be well managed to avoid inadvertently subordinating one party's risk to another, in the template you create, as well as in any changes that are made.

Funding: Monetizing payment solutions with traditional and non-traditional contract flexibilities. Whether funding internally or with a third party, ensure that funder has the capacity to handle the nuances of services contracts such as usage billing. These contracts are services contracts, not leases, which are owned by the services provider, not the funder. This is a shift in roles and responsibilities, which may find the service provider in a delicate position in terms of its ability to monetize the transaction or impact the sale revenue.

Managing risk: Mitigating data security, performance, credit, residual, usage and flexibility risk. Thorough risk evaluation for managed services transactions ensures critical risk areas stay within defined tolerance levels for all parties to the contract. Service contract risks extend beyond traditional leases and include the following:

- **Credit** – Requires a scalable and comprehensive internal, or if monetized, a third-party underwriting process.
- **Residual** – Secondary market opportunities need to balance with balance sheet implications of retaining residual ownership.
- **Performance** – Ensuring performance continuity from service providers is a key preventative to the risk of early contract termination.
- **Usage** – Risks to recovery of asset values due to usage flexibility or cancellation requires strong secondary use programs.
- **Data Security** – With IoT connectivity, security and privacy risks increase. Any access or use of data requires regulatory compliance.
- **Accounting** – Service provider sale revenue recognition and off-balance sheet treatment requires paying attention to recourse risk.

Accounting: Optimizing revenue and balance sheet strategies. Service contracts are often incorrectly positioned as "off balance sheet" for end users. Under most conditions, a contract with "embedded lease" content is not "off balance sheet."

Croessmann cautioned, "These things can sometimes be so complicated that it doesn't take a lot to have a potentially flawed accounting classification."

Pricing: Incorporating predictive behaviors into pricing for performance and usage flexibilities. Thorough configuration and pricing evaluation and performance management for as-a-service solutions ensure deal profitability meets expectations throughout the contract. As-a-service contract pricing extends far beyond traditional leases. Pricing covers multiple dimensions linked to the various components and the structure of the deal, and needs to include financial performance management.

Asset management: Identifying opportunities to improve asset tracking and usage optimization. An asset management platform is required to track each asset individually as well as customer consumption, and link it to the customer portal and the contract, billing and tax management systems.

"These deals usually include tens, if not hundreds, and sometimes thousands of assets," Pulicano noted. "These assets are very often distributed and you really need to understand the assets that are involved in the deal. You also need to have the capability to track all these assets, and more importantly, to track all the events related to these assets. For example, the replacement of an asset that has technical issues, or removing an asset from the contract needs to be tracked and shared with the asset accounting system. To that extent, the AAS provider needs a pretty solid asset tracking platform closely integrated with the accounting system."

Steps for creating a servitization solution:

1. Create a diagnostic blueprint
2. Develop a detailed design and implementation plan
3. Execute your plan and extend it with continuous design and additional as-a-service initiatives.

"When you think about customers and how [the way] they are consuming capital is changing, whether we want to move to these models or not, they're going to force us there."

James Cress, Stryker Flex Financial

Administrative: Identifying requirements for new tools and processes to support usage models. The administrative management of AAS contracts comes with an increased complexity due to the increased number of parties involved in the deal, the variable nature of the contract, and the more complex revenue recognition/accounting rules.

Successfully coordinating all these functions is quite an undertaking. As Pulicano noted, "All the departments will need to work together in order to not only design the solution, but also validate and ensure that it can be delivered and that the whole thing will work from an accounting, tax and operational perspective. So, there is a need to involve multiple experts in designing the deal."

Real World Implementations

Despite the tremendous complexity of servitization models, equipment finance companies are working successfully in this space. Stryker Flex Financial uses servitization options, particularly in the healthcare space. "Our goal is to meet the customer where they are, and create solutions and programs that help them meet not just their clinical goals, but also their financial goals," said Stryker Flex Financial VP and GM James Cress. "As a result, our customers are demanding more flexible solutions, more risk sharing, and more outcome-based results. This leads us to solutions that combine the breadth and depth of Stryker products and services in a way that drives hospital outcomes."

"Oftentimes service providers or OEMs… skip over critical activities, which sets them up for either a lot of redo later on or potentially even failure in the program."

Diane Croessmann, The Alta Group

GreatAmerica Financial Service Corporation has roughly 130,000 contracts that they are administering per month that have a bundled component. Most of them are office equipment, MFP imaging and printers, and all have a minimum payment and a set term.

Brian Bjella, SVP and GM, GreatAmerica Financial Services Corporation, said of the company's servitization strategy, "We're working hard to pick our lanes—two or three lanes that can encompass 80 or 90 percent of the opportunities that we want, build our processes and technologies around those, and perhaps steer other opportunities in that direction as well."

He added, "We're not going to out-bank a bank as an independent, so being astute in our ability to manage these types of programs and processes are where we see the future going for our organization. I would strongly encourage others who are trying to do this not to try to be everything to everybody. Figure out where you can provide value."

Customers Driving Change

Expectations of equipment finance end users are continuously evolving. They are demanding flexibility in agreements, more risk sharing with their partners, and more outcome-based models. Given this and the disruption from the pandemic, the demand for change and more balanced agreements is becoming more urgent and more frequent. Equipment finance companies that want to be competitive and responsive to their customers need to consider if servitization models are an option for future growth.

As Cress commented, "When you think about customers and how [the way] they are consuming capital is changing, whether we want to move to these models or not, they're going to force us there." ☰

DIANE JOHNSON is a Senior Consultant at Four Leaf Public Relations LLC and has been working with the equipment finance sector since 2002.

[1]*Source:* https://www.accenture.com/us-en/insights/banking/auto-equipment-finance-servitization

2022 ELFA Calendar of Conferences, Workshops and e-Learning Opportunities

FEBRUARY

February 13-15, 2022
Equipment Management Conference & Exhibition
Westin La Paloma Resort & Spa
Tucson, AZ

MARCH

March 3, 2022
Innovation Roundtable
Virtual

March 13-15, 2022
Executive Roundtable
Omni Amelia Island Resort
Amelia Island, FL

March 30, 2022
21st Annual IMN/ELFA Investors Conference
New York, NY

APRIL

April 11-12, 2022
Women's Leadership Forum
Palmer House Hilton
Chicago, IL

April 12-14, 2022
33rd Annual National Funding Conference
Palmer House Hilton
Chicago, IL

April 12, 2022
Bank Best Practices Roundtable
Captive & Vendor Finance Best Practices Roundtable
Independent Best Practices Roundtable
Small Ticket Best Practices Roundtable
Palmer House Hilton
Chicago, IL

April 12, 2022
Emerging Talent Networking Event
Palmer House Hilton
Chicago, IL

April 27-29, 2022
Principles of Equipment Leasing and Finance Workshop
ELFA Headquarters
Washington, DC

MAY

May 1-3, 2022
Legal Forum
Omni Shoreham Hotel
Washington, DC

May 19, 2022
Innovation Roundtable
Virtual

May 25, 2022
Capitol Connections
Hyatt Regency Washington on Capitol Hill
Washington, DC

JUNE

June 6-8, 2022
Credit and Collections Management Conference & Exhibition
Hilton Palacio Del Rio
San Antonio, TX

June 22, 2022
Tax Best Practices Roundtable
Akerman Offices
Chicago, IL

JULY

July 14, 2022
Emergence2022
Key Equipment Finance
Boulder, CO

July 14, 2022
Emerging Talent Networking Event
Boulder, CO

AUGUST

August 4, 2022
Innovation Roundtable
Virtual

SEPTEMBER

September 12-14, 2022
Operations & Technology Conference & Exhibition
Sheraton New Orleans
New Orleans, LA

September 12-14, 2022
Lease and Finance Accountants Conference
Sheraton New Orleans
New Orleans, LA

September 12, 2022
Emerging Talent Networking Event
Sheraton New Orleans
New Orleans, LA

September 21-23, 2022
Principles of Equipment Leasing and Finance Workshop
ELFA Headquarters
Washington, DC

OCTOBER

October 9-11, 2022
61st ELFA Annual Convention
JW Marco Island Beach Resort
Marco Island, FL

NOVEMBER

November 3, 2022
Equality Forum
Washington, DC

November 10, 2022
Innovation Roundtable
Virtual

ELFA ACADEMY

The ELFA Academy provides high-quality, interactive training and resources for you and your staff. For a complete listing of the online self-study courses and web seminars available through the ELFA Academy, go to: www.elfaonline.org/Events/eLearning/.

PRINCIPLES OF EQUIPMENT LEASING AND FINANCE WORKSHOP

ELFA instructors have been introducing equipment finance company employees to the basics of the business for three decades. For workshop details, visit www.elfaonline.org/events/. If the 2022 dates and locations do not fit your schedule and you have 10 or more employees you would like to send to the workshop, ELFA can bring the workshop to you. Please contact Alexa Carnibella for further details and pricing, 202-238-3416 or acarnibella@elfaonline.org.

For the latest information and updates go to: www.elfaonline.org/events

ELFA Launches Knowledge Hub

By Bill Choi

New tool maximizes member access to industry research and information

AS THE KEY SOURCE OF BUSINESS INTELLIGENCE THAT IS CRITICAL TO ITS MEMBER COMPANIES, ELFA has launched the Knowledge Hub, a one-stop online library that provides easy access to a wide range of industry research and information. The development of the Knowledge Hub was based in part from input provided by ELFA Business Council Steering Committees about the association data, benchmarking and statistical resources that they use and their preferred delivery channel.

The Knowledge Hub comprises ELFA's most popular industry information, which will be highlighted throughout the year, including:

- Business Technology Performance Index
- Credit Manager and Collection Managers Surveys
- Economic Impact State Fact Sheets
- Equipment Leasing & Finance Compensation Survey and Small & Medium Enterprise Compensation Survey
- Industry Information Help Desk
- Industry Topics dynamic web pages
- Monthly Leasing and Finance Index
- State Tax Manual and State Law Compendium
- Survey of Equipment Finance Activity (SEFA) and SEFA Interactive Dashboard
- What's Hot/What's Not Equipment Market Forecast

ELFA members provide the foundation of the association's survey-based research, and their feedback enables benchmarking and predictive, actionable decision-making for businesses in a variety of areas.

"Access to ELFA research and data is one of the primary benefits of being an ELFA member," said ELFA President and CEO Ralph Petta. "With so much information and varying needs among members, the Knowledge Hub makes it easier than ever to learn about and find the resources in one centralized location. I encourage members to visit the Knowledge Hub often for indispensable intelligence for all areas of your business. The Knowledge Hub is, in effect, your company's own research department."

To access the Knowledge Hub, visit www.elfaonline.org/KnowledgeHub. ☰

BILL CHOI is ELFA VP of Research & Industry Services. Contact Bill at bchoi@elfaonline.org.

The Cornerstone of an Equipment Leasing and Finance Career

2022 Principles of Equipment Leasing and Finance Workshops

DATES AND LOCATIONS:

April 27-29

September 21-23

Both workshops will be held at ELFA Headquarters in Washington, DC.

"This course provides an essential starting point for individuals new to the equipment leasing industry. I walked away with a better overall understanding of the entire life cycle of the product and the industry terminology."
Workshop Attendee

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

EQUIPMENT LEASING AND FINANCE ASSOCIATION
Equipping Business for Success

Driving Innovation in Equipment Finance

ELFA's Technology Innovation Working Group Looks Ahead to 2022

By Deborah Reuben

TECHNOLOGY AND INNOVATION ARE MOVING SWIFTLY. One way you can prepare for the future is to tap into ELFA's Technology Innovation Working Group. The mission and vision of this group are to inspire new thinking about technology & innovation among equipment finance industry leaders. We achieve this by creating opportunities for ELFA members to collaboratively discuss technology and innovation advances and their implications specific to the equipment finance industry.

The working group meets monthly to discuss the latest technology and innovation trends and their meaning for the industry. Members include senior leaders from a cross-section of the ELFA membership from banks, independent and captive lessors, fintech companies and service providers.

Key Achievements

The Technology Innovation Working Group pursued several initiatives in 2021. Group members influenced and contributed to various webinars, conference sessions, posts, articles and research, including the Equipment Leasing & Finance Foundation's Industry Future Council. In addition to contributing technology and innovation content, the working group led four industry-level discussions on technology, innovation and future topics. These events were designed to bring cutting-edge, hyper-relevant technology innovation discussions to a broader audience throughout the year.

1. **March's inaugural Innovation Roundtable** kicked off with a welcome message by ELFA President and CEO Ralph Petta. Panelists Mike Baez, Denis Stypulkoski, Eldon Richards, Moto Tohda and Andrew Cotter shared forward-thinking insights and fresh ideas about a wide range of technology and innovation trends already impacting equipment finance. Facilitated breakout discussions centered on the themes of intelligent automation, connected ecosystems, composable architectures and the future of work.
2. **The August Innovation Roundtable** panel kicked off with a lively welcome message by 2021 ELFA Board Chair Kris Snow. Garland Brooks, Jillian Munson, Rafe Rosato and Tawnya Stone engaged in a fascinating discussion about shifting into a post-pandemic world. Small group breakouts covered disruptive point of sale innovations, evolving technology adoption pain points and solutions, and reimagining business processes and models.
3. **October's ELFA Annual Convention breakout session**, "Real AI in Equipment Finance," featured panelists Beckham Thomas, Moto Tohda, Rafe Rosato and Shankar Subramanian, and myself as moderator. The engaging discussion featured two service providers and two working group members sharing the latest intelligent automation approaches, discoveries and use cases currently employed across the equipment finance ecosystem.
4. **November's Innovation Roundtable**, "Innovation is Not Only About Technology," kicked off with a welcome by ELFA Board Chair Mike DiCecco. The panel featured Tina Cartwright, John Cooper, Steven Siler and Denis Stypulkoski. Discussions explored design thinking adoption in equipment finance and new ways companies are innovating all aspects of their businesses.

Save the date for these 2022 virtual events organized by the ELFA Technology Innovation Working Group and Deb Reuben of TomorrowZone. Watch for details and register at www.elfaonline.org/events.

• March 3 • May 19 • Aug. 4 • Nov. 10

2022 Outlook

The group foresees the following hot topics for 2022:

- The connection between employee experience innovation and enabling delivery of excellent customer experience.
- Opportunities and new possibilities at the intersection of stakeholder (customer, vendor, employee) experiences.
- The complexities of mixed-mode working environments (remote, in-person, hybrid).

We will be talking about these topics and much more this year and invite you to join us for the quarterly Innovation Roundtables on March 3, May 19, Aug. 4 and Nov. 10. ☰

DEBORAH REUBEN, CLFP is CEO & Founder of TomorrowZone and Chair of the ELFA Technology Innovation Working Group.

Group Members

ELFA's Technology Innovation Working Group includes the following members:

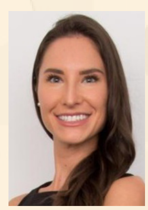
- Deborah Reuben, CLFP, CEO & Founder, TomorrowZone (Committee Chair)
- Michael Baez, VP, Professional Services and Customer Strategy, Leasepath
- Garland Brooks, Senior Advisor, Business Enablement & Sales Optimization, Dell Financial Services
- Tina Cartwright, CLFP, SVP Information Technology and Operations, Equipment Finance, U.S. Bank Equipment Finance
- John Cooper, Director, NAFTA Financial Services Business Solutions, CNH Industrial Capital LLC
- Andrew Cotter, EVP, Chief Information Officer, Somerset Capital Group, Ltd.
- David Giamvu, Head of Digital Transformation, Siemens Financial Services, Inc.
- Jillian Munson, Product Manager, QuickFi by Innovation Finance USA LLC
- Tyson Norman, Director of Technical Infrastructure and Chief Information Security Officer, Caterpillar Financial Services Corporation
- Robert Preville, CEO, KWIPPED, Inc.
- Eldon Richards, CTO, Solifi
- Rafael Rosato, Director, DLL
- James Sherlock, Chief Information Officer, Marlin Capital Solutions
- Steven Siler, Chief Technology Officer, Stonebriar Commercial Finance
- Tawnya Stone, CLFP, Vice President, Strategic Technology, GreatAmerica Financial Services
- Denis Stypulkoski, Founder and Principal, Reimagine Advisors
- Beckham Thomas, CEO, DCR Technologies
- Motofumi Tohda, Vice President / Information Systems, Tokyo Century (USA) Inc.

What Distinguishes a Digital Leader in 2022?

Here's what members of the Technology Innovation Working Group are saying about the year ahead.

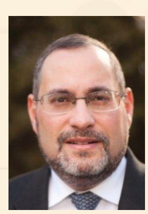
"Digital expectations are up, accelerated by COVID. Digital laggards figured out how to work virtually; but they digitized physical aspects of their business under traditional models. Digital leaders are now asking: 'How do I focus on client experience and employee experience, and rethink our entire business model, wing-to-wing, to become digital-first in how we operate?' The entire notion of B2B or B2C is gone; replaced with digital P2P (person to person) experiences. Next-generation clients and employees will gravitate towards the digital leaders."

Denis Stypulkoski, Reimagine Advisors



"2022 will be all about changing our collective mindset regarding what's possible. The past two years have confirmed that a digital business model is essential to survive in our rapidly developing (and sometimes uncertain) working world. But we shouldn't stop there; our goal, as an industry, shouldn't be to simply 'survive.' Our goal should be to exceed expectations wherever we can. And because expectations are constantly evolving, we must adopt a mindset of always being prepared for and open to change. This mindset is the cornerstone of innovation—and it will result in our industry's exponential advancement."

Jillian Munson, QuickFi by Innovation Finance USA LLC



"More than ever, forward-thinking equipment finance organizations cannot take their 'eye off the ball' when it comes to understanding the experience of the customer, of the vendor and of the employee. Digital leaders bring a mindset of thinking in terms of experience. They not only take into consideration these individual experiences, but also focus on the intersection between them."

Mike Baez, Leasepath

By Susan L. Hodges

Counting on DiCecco

ELFA's New Board Chair looks forward to a year of advancing the Association's agenda on all fronts.

WHEN MIKE DICECCO COMMITS TO DOING SOMETHING, the rest of us can breathe easy. That's because he enjoys getting things done and tends to come out on top of whatever he attempts—even if the plan changes along the way. That's good news for ELFA members, whom DiCecco will serve in 2022 as Chair of the Board of Directors. The story of his entrance into the equipment finance industry tells much about who this human dynamo is:

"About 30 years ago, I signed up for a two-year training program at a bank to become a commercial loan officer," he recalls. "Then after the first year, I was tapped to join the equipment finance group. This was because my mentor in the training program was part of this group. Interestingly enough, my mentor and several colleagues were part of the group who started Huntington Equipment Finance in 2001. It has been one of my great privileges to work alongside these incredible colleagues for the majority of my career."

DiCecco has held many positions throughout his career, in credit, sales, sales leadership and business-line leadership. He also served as the commercial bank leader in Huntington's Northeast Ohio region and led the commercial bank's specialized lending businesses. Then in 2011, he was named Executive Managing Director of Huntington Asset Finance, which now includes seven businesses and has more than $20 billion in assets under management.

ELFA's Value, Well-Articulated

Long before this, however, DiCecco had begun his involvement with ELFA. In fact, he has volunteered and been an advocate for the Association for two decades now. "Being part of ELFA, leveraging all of its valuable tools, building a network of peers and mentors and making lifelong friends has been life-changing," he says. "It's added a richness to my career I never would have expected. Every year I've been involved, I've made new friends, expanded my network and grown from the contacts I've made—and so has Huntington Asset Finance."

DiCecco first became active by joining ELFA's Bank Business Council Steering Committee, where he served for three years. In 2015, he was elected to the Board of Directors. He served until 2017 before rejoining the Board in 2018 as a Vice Chair. While on the board, he served as Board Liaison to ELFA's Emerging Talent Advisory Council, contributing to the Council's "Emergence" leadership development conference, regional emerging talent networking events and leadership articles and podcasts. "ELFA has prepared me and the leaders I have the honor of working with every day to make our colleagues and customers' lives better," he reflects. "This Association truly is like a family."

It's a family he has a lot of plans for. Asked about areas he will focus on as Chair, DiCecco first mentions the strengths of ELFA. "Our Association has been so resilient over the years," he observes. "From the financial crisis of 2008 to the COVID-impacted world of the last couple of years, we have adapted, overcome and thrived with every challenge. I'm looking forward to a year of attending our conferences in person if we're able, learning along with my peers about new ways to serve our industry and customers through digitization, and leveraging all the tools ELFA provides the industry—including the advocacy work being done on both the federal and state levels to create better outcomes for our members."

Specifically, he plans to continue the Association's advancement efforts in Diversity, Equity and Inclusion. As part of this, he expects to foster growth of the ELFA Women's Council, Emerging Talent Advisory Council and Equality Committee. DiCecco will also work to provide member companies with better access to data and analytics through ELFA's newly created Knowledge Hub.

"You know, many in our industry have continued to invest in their digital customer experience, and ELFA will work to offer more information and education in this area," he says. "In addition, a lot of our operating models and historical metrics have been interrupted during COVID-19, and it's times like these that I look to ELFA and its research, such as the Monthly Leasing and Finance Index, the Survey of Equipment Finance Activity and the What's Hot, What's Not: Equipment Market Forecast to help me drive our business forward," DiCecco says.

To that end, DiCecco shot a video for the Knowledge Hub at the ELFA Annual Convention this past October. "I think it was very insightful for the ELFA staff to name the Knowledge Hub as a 2022 project," he says. "We'll be identifying data trends based on the new environment we're working in, and we'll be connecting all of it in many ways as appropriate for our members."

Introducing the new ELFA Knowledge Hub at www.elfaonline.org/KnowledgeHub

Taken together, these plans constitute a tall order for any dynamic leader. But staying busy is a large part of who DiCecco is. In his community, he serves on the Cuyahoga County Regional Advisory Board for the Boys & Girls Club of Northeast Ohio. He's also an active fundraiser for cancer research, participating in "Pelotonia," an annual bike ride to support research at The Ohio State Comprehensive Cancer Center.

Yet, he somehow finds time to relax with Amy, his wife of more than 30 years, at the couple's vacation home in Hilton Head, South Carolina. "It's where we go and say, 'Ahhhhhhh,'" he confides with a chuckle. "It's our favorite place, and we go there as often as we can." Hilton Head is also a destination for the DiCeccos' three grown children and will likely be visited by their first grandchild, who's on the way. Meanwhile, he and Amy reside in Cleveland, where they've lived for the last 20 years. But if you're looking for him this year, you should probably call ELFA. Because as DiCecco says, "It's a one-year position, and I intend to make the most of it."

SUSAN HODGES writes about equipment finance from her office in Albuquerque, New Mexico.

DiCecco facilitated a Q&A session with keynote speaker and U.S. Air Force retired Colonel DeDe Halfhill at the 60th ELFA Annual Convention.

LEASING LAW

By Theresa A. Driscoll, Esq.

Key Considerations When Valuing Equipment in Bankruptcy

The Purpose of the Valuation and the Debtor's Proposed Use Drives Analysis

A LESSEE'S BANKRUPTCY FILING can create uncertainty and risk for even the most experienced equipment lessor with secured party rights under equipment finance agreements. Apart from repayment risk, a lessor's contractual and state law remedies are indefinitely stayed while the value of the lessor's collateral hangs in the balance. The Bankruptcy Code provides secured creditors with a variety of remedies, but the ability to successfully exercise such remedies will necessarily turn on the value of the secured creditor's interest in the collateral. Valuation of collateral in a chapter 11 case is critical to understanding and assessing a lessor's litigation strategy while minimizing risk and, as discussed below, is far from an exact science. Expert valuation opinions and methodologies may vary and a bankruptcy court's selection of an appropriate valuation methodology may turn on witness credibility among other factors. Notwithstanding such vagaries, courts uniformly agree that the purpose of the valuation and the debtor's proposed use or disposition of the collateral will guide the court's inquiry.

Valuation of a Secured Creditor's Interest Generally

The valuation of secured claims in bankruptcy is governed by § 506(a) of the Bankruptcy Code, which provides that value "shall be determined in light of the *purpose* of the valuation and of the *proposed disposition or use of such property*, and in conjunction with any hearing on such disposition or use or on a plan affecting such creditor's interest." The legislative history of Bankruptcy Code section 506 reveals an intent to adequately protect the value of a secured creditor's lien rights by stating that "secured creditors should not be deprived of the benefit of their bargain" and the "purpose [of section 506]… is to insure that the secured creditor receives in value essentially what he bargained for." The legislative history of section 506 further reveals that the issue of valuation is a matter that should be "left to case-by-case interpretation and development [and] it is expected that the courts will apply the concept in light of facts of each case and general equitable principles. It is not intended that the courts will develop a hard and fast rule that will apply in every case."

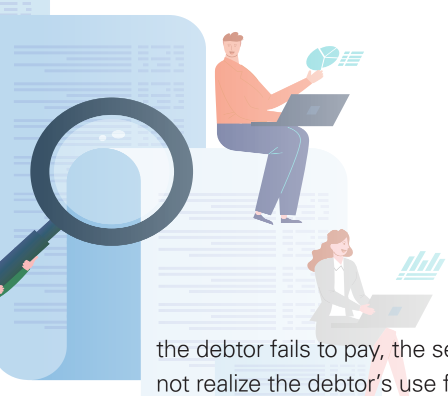
"Valuation in bankruptcy may be more of an art than exact science, but understanding the ground rules is key to maximizing the value of a lessor's secured claim."

Valuation Standards Will Differ Based on the Purpose of the Valuation and Proposed Use of Collateral

Because there are different reasons a lessor may seek a bankruptcy court's valuation of its collateral, the appropriate valuation standard to be applied by the court will turn on the purpose of the valuation and the debtor's proposed use of the collateral. For example, the lessor may seek a valuation for purposes of determining that it is not adequately protected and, therefore, entitled to relief from the automatic stay. Alternatively, a lessor may seek to have its collateral valued for purposes of determining the amount of its secured claim in connection with confirmation of a debtor's chapter 11 plan. Generally speaking, the proper valuation standard will be based on either a hypothetical sale of the collateral by the secured creditor or a hypothetical purchase of the collateral by the debtor.

i. ***Valuation for Purposes of Adequate Protection***

Adequate protection is designed to compensate a secured creditor if a debtor fails to pay. Where



the debtor fails to pay, the secured creditor will not realize the debtor's use from its collateral, but instead will realize the foreclosure sale value. Any valuation inquiry undertaken to determine the extent to which a secured creditor is entitled to adequate protection should be based on a hypothetical sale (where the reasonable costs of sale are deducted). This standard protects the secured creditor against nonpayment and ensures that the secured creditor will receive the same value it would have received if it had exercised enforcement remedies against the collateral.

ii. Valuation in Connection with Chapter 11 Plan

Where the purpose of the valuation is to determine the amount of a lessor's secured claim in connection with a chapter 11 plan, the proper valuation standard will turn on the debtor's proposed use or disposition of the collateral. If the plan contemplates the continued use of the lessor's collateral over the lessor's objection (also referred to as a "cramdown plan"), the appropriate valuation standard would be a replacement value standard premised on a hypothetical purchase by the debtor. The U.S. Supreme Court has held that in a cramdown, the value of collateral should be based on "replacement-value" because that standard accurately gauges the debtor's use of the property and recognizes that in such scenario "the creditor obtains at once neither the property nor its value and is exposed to double risks: The debtor may again default and the property may deteriorate from extended use."

The Supreme Court has defined "replacement value" as "the price a willing buyer in the debtor's trade, business, or situation would pay a willing seller to obtain property of like age and condition." The Supreme Court further held that "the value of the property retained . . . is the cost the debtor would incur to obtain a like asset for the same proposed use." Bankruptcy courts have routinely rejected valuations premised on a use other than the debtor's proposed use under its plan. Often a debtor will rely upon the lowest possible valuation so the stream of payments required to be paid to the secured creditor under any plan will be lower. With this in mind, lessors should carefully evaluate appraisal evidence to confirm that the value conclusion properly reflects what it would *cost the debtor to replace the collateral with like collateral in similar age and condition*. It may be the case that the equipment collateral has a greater value in the debtor's hands—and used in the debtor's business operations—than it would be if liquidated piecemeal. In such case, lessors should aggressively challenge any debtor valuation premised on a disposition of the collateral (i.e., sale) or conversion of the collateral to a use other than the debtor's proposed continued use.

Key Takeaways and Considerations

When seeking a value determination as a secured creditor in chapter 11, secured creditors should carefully consider the reason for the valuation (whether it be for adequate protection or to determine the amount of the secured claim for a chapter 11 plan) and should guide expert appraisers as to the proper valuation standards. When faced with a chapter 11 plan proposing to value a lessor's secured claim based on an objectionably low value, lessors should obtain a copy of the debtor's appraisal and other valuation evidence and analyze with scrutiny. To the extent a debtor's valuation is premised on a use or disposition other than what is proposed by its plan, a lessor should swiftly obtain an independent valuation premised on continued use to comply with the replacement value standard and use such evidence to challenge the debtor's proposed plan. In the end, valuation in bankruptcy may be more of an art than an exact science, but understanding the ground rules is key to maximizing the value of a lessor's secured claim. ☰

THERESA A. DRISCOLL, ESQ. is a Partner at Moritt Hock & Hamroff LLP.

By Joe Sebik

Tax Rules Associated with Financing of Electric Vehicles

AS THE BIDEN ADMINISTRATION MOVES FORWARD with its mission of reducing the carbon footprint of the United States, it is rapidly becoming apparent that more "Green Energy" financing opportunities are emerging. This article will discuss the growing popularity and potential opportunity in the financing of electric vehicles.

Arguably the largest public focus of tax incentives currently appears to be on electric-powered vehicles ("EVs") and plug-in hybrid vehicles ("PHEVs"). Many vehicle manufacturers are advertising their new soon-to-be-delivered EVs.

For corporate fleets, specialized fleet management companies typically managed the leases of automobiles or light truck fleets used by corporate customers handling the full lifecycle of the vehicles. Generally, these companies were able to utilize the accelerated tax depreciation created in acquiring and owning these fleets.

With the growing popularity and availability of electric vehicles and the substantial tax credits available, some fleet management companies appear to have reached a point where they cannot efficiently absorb the tax benefits being generated when acquiring large fleets of these electric vehicles; their business is principally fleet management, not tax benefit utilization. For example, assuming a typical fleet EV costs $50,000 and is eligible for a $7,500 tax credit, acquiring 10,000 vehicles will create a $75 million tax credit! Herein lies an emerging opportunity for traditional leasing companies to invest.

Current Tax Rules

Under Internal Revenue Code ("IRC") Section 30, subtitled, "*Credit for Qualified Electric Vehicles*," tax credits are available for "*qualified*" EVs and PHEVs. Under IRC Sec 50(b), an EV or PHEV is a *qualified vehicle* if (i) it meets the IRC technical requirements (i.e., battery capacity), (ii) is new, (iii) is used in the U.S. and (iv) is *not* used by a government unit or a tax-exempt organization. Exceptions with respect to the usage exist if leased for less than six months. The credits vary based on the capacity of the battery used in the vehicle; the manufacturer certifies the extent of the credit available. The initial tax basis of the vehicle is reduced by the full amount of the tax credit. The tax credits are currently available for only the first 200,000 new EVs delivered by a specific manufacturer. During the year that the manufacturer is expected to deliver the 200,000th car, the credit is phased down. The maximum credit is $7,500 depending on the EV specifications.

A list of the credits by vehicle is available at https://www.fueleconomy.gov/feg/taxevb.shtml.

As of the writing of this article, such tax credits are *no longer available* for some of the more popular manufacturers, including Tesla and General Motors as they have already delivered 200,000 EVs. Currently the maximum tax credits are still available for other popular mid-sized vehicles, such as the Ford Mustang Mach-E, certain Audis, Volvos and Jaguars.

The Sec 30D tax credit is subject to a proportionate recapture in the first three full years after the vehicle is placed in service, only if the vehicles cease to be a "qualified vehicle" under IRC Sec 50(b). A vehicle loses its qualified status if (i) it is converted to non-EV power or (ii) is subsequently used outside the U.S. or by a governmental unit or tax-exempt entity and only if the original owner knows or has reason to know that the vehicle will be used as such.

Accordingly, a leasing company may acquire these vehicles, claim the credit and be subject to no tax credit recapture when the autos are traded-back or disposed of within the first three years of usage.

Herein lies an emerging opportunity for traditional leasing companies to invest.

Current Tax Proposals

The Biden Administration's *Build Back Better* proposal currently under discussion in Congress includes numerous incentives to further promote EVs. The following are some of the proposed tax incentives:

1. Enable the credit to be *refunded in cash* as opposed to being a credit against taxes due.
2. Increase maximum EV credit to $12,500 depending on the parameters below:
   a. Increase the base credit from $2,500 to $4,000.
   b. Provide an additional credit of up to $3,500 based on battery capacity, which increases by 2027.
   c. Provide an additional credit of $4,500 if the vehicle specified was assembled in a U.S. unionized facility.
   d. Provide an additional credit of $500 for batteries manufactured in the U.S.
3. Eliminate the EV credit limitations of 200,000 deliveries by manufacturer.
4. Provide for easier transfer of credit between parties such as users, lessees and lessors.
5. Provide a credit of up to $2,500 for previously owned EVs.
6. Provide a credit for qualified commercial vehicles equal to 30% of the initial tax basis of the vehicle.
7. Extend the availability of the credits to Dec. 31, 2031.

While obviously there will be a lot of "horse trading" in Congress (ironic terminology when discussing EVs), it is evident that there will be steps toward creating additional forms of tax incentives to further the adoption of EVs. As such, it is suggested that lessors familiarize themselves with this market segment, analyze whether they have the capacity to utilize the tax benefits (tax credits and depreciation) and evaluate it as a potential leasing or financing opportunity with the added benefit of supporting a cleaner environment. ☰

JOE SEBIK is a CPA in New York State and has been active in the equipment finance industry since 1979. He is a member of ELFA's Financial Accounting Committee and Alternative Energy Subcommittee and Chairs the Federal Income Tax Committee. He works as a Director of Tax Reporting for Siemens Financing Services. (Oh, and he owns a Tesla Model 3!)

Disclaimer: The views expressed here are that of the author and not of the organizations or entity that the author works with or for. The author is not providing tax, accounting, legal or business advice herein. Any discussion of U.S. tax matters is not intended or written to be used by any taxpayer for the purpose of avoiding U.S. tax-related penalties. Each taxpayer should seek advice from their own independent tax, accounting or business adviser.

By Andy Fishburn

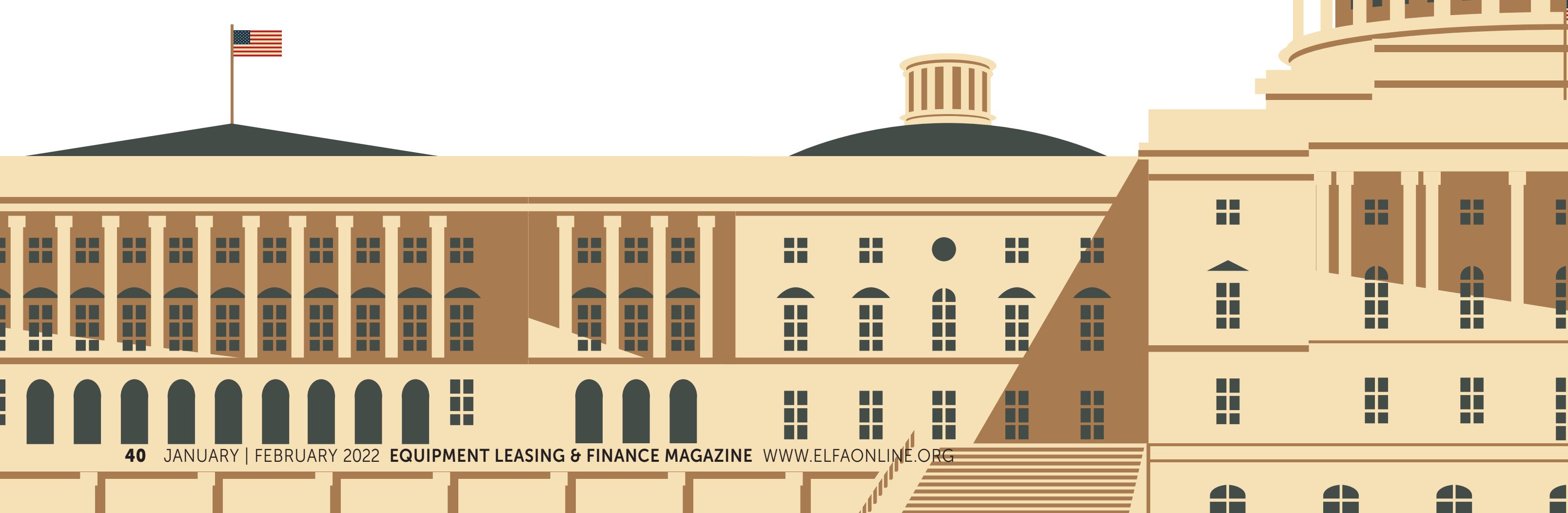
Infrastructure Rollout: The Waiting and Watching Game Begins

IN NOVEMBER, the President signed into law the Infrastructure Investment and Jobs Act, which became just the 58th bill signed into law during this Congress. By contrast, the 116th Congress passed their 58th bill into law in September, two months faster. While we all know that not every law is as significant as the Infrastructure Investment and Jobs Act, the 117th Congress is definitely moving slower than its predecessor and there is little to no indication of a pending acceleration.

However, none of that takes away from the potential significance of the Infrastructure Investment and Jobs Act for the equipment finance industry. The bill delineates how $1 trillion will be spent and more than half of that is new spending.

So now the process of getting that money into the proverbial pipeline begins. So for the equipment finance companies that want to help facilitate these projects, the waiting and watching game begins. The amount of funding in this bill is perhaps exceed by the breadth of where the funding is going. The bill includes funding to do some or all the following:

- $110 billion in new federal spending for roads and bridges
- $66 billion for freight and passenger rail funding
- $65 billion to expand nationwide and rural access to reliable broadband
- Grid Modernization—$65 billion overall investment
- $50 billion to pay for drought mitigation in the West, coastal resilience measures and ecosystem restoration
- Airport Renewal—$25 billion for upgrades, repairs and projects
- Port Upgrades—$17 billion in port infrastructure upgrades and investment
- $39 billion for state and local transit programs
- $32 billion to upgrade America's drinking water systems
- $21 billion to clean up superfund and brownfield sites, reclaim abandoned mine land and cap orphaned gas wells
- Targeted Spending—$16 billion for providing significant benefits to surrounding communities
- Carbon Capture—$7.5 billion for projects that capture CO_2
- $7.5 billion in grants for new alternative fuel stations
- $9 billion to strengthen existing nuclear power
- $9.5 billion to establish programs to demonstrate



the production, processing, delivery, storage and end use of hydrogen

- Critical Minerals and Supply Chains—$8 billion to expand efforts to mine, process, reclaim and recycle critical minerals for modern technologies, batteries and climate solutions.
- $12 billion to tackle stormwater runoff and impacts on water systems by prioritizing stormwater management and pollutant elimination
- PFAS Cleanup—$10 billion to help water utilities remove emerging contaminants including "forever chemicals" from drinking water and wastewater.

Now the process begins on how to put that funding to work. Much of this funding will be put into action through traditional government mechanisms such as the Department of Transportation's traditional formulas that allocate funding based on population, gas-tax revenue and other factors. However, much of this funding will be based on new grant programs at the Department of Transportation and the Environmental Protection Agency that will allocate funding based on a competitive grant process.

The new infrastructure bill could offer significant opportunities for equipment finance companies.

What this means is that the grant process will drive where the funding goes, and that will be less predictable because it is a new process. While we've gotten somewhat used to enormous sums of money being shoveled out the door by the federal government in recent years in response to the pandemic and the financial crisis, this seems to be a slight return to normalcy of having a bureaucratic (in the neutral sense of the word) process in place to determine where money goes. Regardless, there's a lot of money entering the funding pipeline in the coming years, and opportunities abound for equipment finance companies to take advantage of that. ☰

For more information, contact **ANDY FISHBURN**, ELFA Vice President of Federal Government Relations, at afishburn@elfaonline.org.

By Diane Johnson

What You Need to Know About Enhanced Financial Disclosure Requirements

New requirements expected to take effect in CA and NY

CHANGES in commercial disclosure requirements in California and New York are expected to take effect in 2022 that will have a significant impact on the commercial equipment leasing and finance sector. The new regulations apply to all equipment financing transactions, except true leases, of less than $500,000 in California and less than $2.5 million in New York. New disclosure requirements have also been introduced in Connecticut, Missouri, New Jersey and North Carolina. ELFA has been fighting to exclude the equipment leasing and finance industry from these onerous disclosure laws since they were first introduced. To help educate members about what they need to know about this important topic, ELFA has compiled a number of critical informational resources.

In-Depth Webinar and Takeaways

ELFA's State Advocacy team, led by VP of State Government Relations Scott Riehl, have been lobbying vigorously on behalf of members and the industry; the true lease exemptions are among the results of their extensive advocacy efforts.

Riehl and ELFA members Moorari Shah, Chair of ELFA's State Legislative & Regulatory Subcommittee and Partner, Sheppard Mullin; Jeffrey P. Taft, Partner, Mayer Brown; and Bonnie Michael, Shareholder, Baker Donelson presented an ELFA Wednesday Webinar on Dec. 15, 2021, titled **"ELFA State Advocacy New Year's Resolutions: Prepare for Commercial Financing Disclosure Laws in New York and California."** Over 550 people registered for the session, which provided in-depth details of the scope of the new regulations. Members are encouraged to visit ELFA's State Advocacy webpage on Lender License and Enhanced Financial Disclosure at https://www.elfaonline.org/advocacy/state-issues/lenders-license to access the webinar recording and slide deck.

Given that regulations are not yet finalized in California and New York, ELFA will conduct a follow-up webinar after they are finalized to provide updates and information on the requirements that will become effective. Look for future announcements for the webinar date. All will be welcome to attend this free event.

"These types of disclosure requirements were originally intended for consumer finance transactions, but are now being applied to commercial finance transactions, a move that will likely result in more confusion than clarity," said Riehl. "Banks are generally exempt from the new requirements, but for equipment finance companies, it will mean upgrading systems to accommodate providing disclosures for potentially thousands or hundreds of thousands of transactions."

> **"These types of disclosure requirements were originally intended for consumer finance transactions, but are now being applied to commercial finance transactions."**
>
> Scott Reihl, ELFA
> VP of State Government Relations

Deep Dive into Advocacy

In addition to the Dec. 15 webinar resources, the ELFA Lender License and Enhanced Financial Disclosure webpage also contains an overview of finance licensing, the State Advocacy team's legislative testimony and regulatory comments, requests for guidance, and regulatory response. ELFA has filed more than six separate, detailed comment letters with the regulatory body in California, and four sets of comments with the New York Department of Financial Services.

"These challenges are increasingly showing up in the states," Riehl said. "ELFA has and will continue to lead the way to protect the interests of its members and the equipment leasing and finance industry." ☰

DIANE JOHNSON is a Senior Consultant at Four Leaf Public Relations LLC and has been working with the equipment finance sector since 2002. For more information, please contact ELFA Vice President of State Government Relations **SCOTT RIEHL** at sriehl@elfaonline.org.

View a recording of the ELFA Wednesday Webinar on commercial financing disclosure laws featuring Scott Riehl, Moorari Shah, Jeffrey Taft and Bonnie Michael at https://www.elfaonline.org/advocacy/state-issues/lenders-license and stay tuned for a follow-up webinar later this year.

By Charlie Visconage

Foundation Welcomes 2022 Board of Trustees, Including First Woman Board Chair

Learn more about Nancy Pistorio, President of Madison Capital

THE EQUIPMENT LEASING & FINANCE FOUNDATION BOARD OF TRUSTEES met in December in Washington, DC, to elect 2022 officers, approve the 2022 budget and set programming plans for the coming year.

Guided by strong leadership, expertise and dedication to the industry, the Foundation is thrilled to announce its 2022 Board, including the first woman Chair.

Kelli Nienaber will continue to serve as Executive Director.

**New Trustees*

Meet Nancy Pistorio Foundation Chair

I got a chance to meet with Nancy Pistorio over Zoom to learn a little more about her deep connections to the Foundation and vision going forward. Below is a condensed version of our conversation.

CV: How did you originally become involved in the Foundation?

NP: I was approached by the Nominating Committee for the Foundation 4-5 years ago and asked about my level of interest in serving. I may have been on the Nominating Committee's radar, so to speak, as I had previously served on a couple of ELFA's Business Council Steering Committees and participated on the Industry Future Council.

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

CV: How has your participation changed over the years?

NP: In a nutshell, as I became more engaged with my participation on the Board of Trustees, I became more passionate about the Foundation's mission and more vested in its continued success. I originally joined the Board as a Trustee in 2017, serving on the Finance Committee. Shortly into my tenure I was asked to take on the role of Treasurer, a position about which I was hesitant at first but ended up enjoying quite a bit. I discovered I could make a real impact in that role by looking at a few things with a different lens. After a year and a half or so as Treasurer, I was approached about filling an unexpected vacancy in the Vice Chair role. I gave it careful consideration in terms of commitment and impact, ultimately accepting the role. Stepping into my predecessor's shoes as Chair of this very talented Board will be both a challenge and an honor.

CV: How does the Foundation provide value to you and others in our industry?

NP: The research reports we publish throughout the year on numerous topics can be very helpful in strategic planning for equipment finance firms. They can help to quantify target markets, identify trends and even avoid potential pitfalls in future operations.

CV: Why is it important to support the Foundation financially to ensure it continues to provide this value?

NP: We are the equipment finance industry's preeminent source for meaningful forward-thinking research. Financially supporting the Foundation ensures we will be able to continue to engage high-quality content providers to deliver valuable data and projections for the future.

CV: How important is it to you to inspire the next generation of equipment finance leaders?

NP: I very much enjoy giving back to an industry that has been wonderful to be a part of for so many years. Creating industry awareness among the next-generation workforce by volunteering to deliver guest lectures at our country's colleges and universities is one way to do that. I've spoken at some local Maryland institutions: Towson University, Morgan State College, Salisbury University and the University of Maryland, College Park. The Foundation's guest lecture and scholarship programs are helping today's students envision and build career paths to our industry.

The Guest Lecture Program

The Foundation's Guest Lecture Program helps industry leaders increase awareness of equipment leasing and finance and attracts new talent to the industry. The Foundation offers a ready-made template for presentations at your local college or university. Visit the Guest Lecture Program page for more information: https://www.leasefoundation.org/academic-programs/guest-lecture-program-2/.

CV: You're our first female Chair, how does that feel?

NP: It is an honor to lead this Foundation, and especially so as its first woman Chair. Over the last several years, there has been some significant progress toward diversity and inclusion in our industry. In this role, I am pleased to be part of that continued progress. For many people who may have felt they did not have a seat at that table, seeing people who look like them in leadership roles allows them to pursue their own visions for success. I'm also pleased to report that 7 of our 18 trustees are now also women.

CV: What's your vision for the Foundation's direction in 2022 and beyond?

NP: When we look at our strategic plan, adopted in May of 2020 and directed by our previous Chair, Scott Thacker, I believe we have achieved or are on the way to achieving most of our goals. For me, it's about expanding our goals—growing our base of donors even further, achieving greater size and scope to provide more research, and creating additional academic outreach opportunities like the upgrading of our scholarship program from 3 to 5 annually. There's still a lot of room to grow in terms of perception of the Foundation; under my Chairmanship, I intend to connect those in our industry who are not fully aware of us with the Foundation's fantastic resources. This will help the Foundation be sustainable well into the future. We owe much to Scott and our previous chairs, who have kept the Foundation in such a strong place over the years. I see many opportunities for even greater awareness and output of the Foundation, and I am excited for our future. ☰

CHARLIE VISCONAGE is Director of Marketing, Communications and Development for the Equipment Leasing & Finance Foundation.

 By Quentin Cote

Thoughts on Purpose, Partnership and Profits

AFTER RETURNING TO OUR IN-PERSON ELFA ANNUAL CONVENTION THIS OCTOBER, I was marveling at the friendships I have forged across many varied companies. Our industry is composed of lenders large and small, focused on every market niche, with service providers that deliver levels of skills, technology and scale that can't economically be replicated by a single lender. It is precisely this diversity that enables our industry to weather the amazing challenges we've seen in our lifetimes. From the global financial crisis to the global pandemic, the equipment finance industry soldiers on, providing the capital essential to enable businesses to invest in the equipment that powers our economy. My company believes *the world is a better place when small business succeeds*. This mantra guides our decision-making every day. I am proud to see how our industry shares that purpose, helping small businesses thrive in their communities.

When looking at our industry's rich tapestry of lenders and service providers, I can't help but compare it to other financing industries, including residential mortgage finance, consumer credit cards and auto finance. According to a 2020 Nilson Report, the top five credit card companies represented a 60% market share by outstanding balances. These industries have seen decades of relentless consolidation, where the economies of scale have driven smaller providers to sell out to the behemoths who can provide homogenized services at the lowest cost. What about our industry is different?

Part of the continued diversity in our industry stems from the broad variety of markets we serve, from railcars to point of sale machines, from restaurants to law firms. Understanding these varied markets requires specialized knowledge of both sales channels and market dynamics that makes it difficult to homogenize.

In the past, we have relied on deep expertise, whether in market and equipment, underwriting or vendor relationships, to overcome major differences in origination, funding and servicing costs. Today, more data and improving analytics are turning what was once an art of underwriting into a science. Lenders are building pricing models to generate superior risk-adjusted yields. Banks taking deposits and independents employing securitizations create lower funding costs. Borrowers are demanding online access to their account information and want to interact with lenders on their own terms. Providing efficient, effective servicing and portfolio management requires deep focus and investments in technology, process and talent development. These trends will expose those differences even more.

What will it take to survive and profit given these increasing demands? The key is to really understand what you do best. Find creative ways to minimize any disadvantages you may have based on your size or market position by leveraging our industry's support network. When you invest time and resources into something that is not a source of advantage, you are leaving money on the table. From funding sources to providers of technology, data, analytics and servicing, our industry has built a thriving network of suppliers and partners that help you gain many of the benefits of scale. By elevating your strategy, you can compete and prosper. Together we can serve small businesses and vendors by celebrating our industry's purpose and focusing on our strengths, while using partnerships to deliver world-class financing solutions. ☰

Amid increasing demands, the key is to understand what you do best.

QUENTIN COTE, CLFP, is Executive Vice President at Orion First Financial, LLC.