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Sustainability and Equipment Finance Market Data Insights: 2018 SEFA Results







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You know about data analytics, Al and blockchain. Now start taking action.

By Susan L. Hodges





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PUBLISHING DIRECTOR Ralph Petta MANAGING EDITOR PRODUCTION DIRECTOR Sandra Winkler DIGITAL PRODUCER Shirley Bryant COPY EDITOR Kelly Saxton

Amy Vogt ART DIRECTION BonoTom Studio www.bonotom.com

ADVERTISING Steve Wafalosky stevew@larichadv.com 440-247-1060

Equipment Leasing & Finance Magazine, Vol 34, No 4 (ISSN# 008-058), is published bimonthly (Jan/Feb, Mar/Apr, May/ Jun, Jul/Aug/Sep, Oct, Nov/Dec) by the Equipment Leasing and Finance Association, 1625 Eye St NW, Suite 850, Washington, DC 20006. POSTMASTER: Send address changes to Equipment Leasing & Finance Association, 1625 Eye Street NW, Suite 850, Washington, DC 20006. Periodicals postage paid at Washington, DC, and at additional mailing offices.

Statements of fact and opinion are the responsibility of the authors and do not imply an opinion on the part of the officers or members of ELFA. Send your manuscript outlines or comments to EL&F@elfaonline.org.



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A subscription for members is free and for nonmembers and libraries is \$200/year.

Printing by Sheridan Printing Co, Hanover, NH

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# Data that give you a competitive edge

#### 2018 Survey of Equipment Finance Activity

Discover comprehensive performance metrics for over 100 equipment finance companies in the 300-page SEFA and the Small-Ticket companion report. Members save 50%!





View highlights from a decade of industry benchmark data. Select categories, add filters and drill down into specific information in just a few clicks. Free access for members only.

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By Ralph Petta

# **Sustaining Success**



FROM THE PRESIDENT & CEO

**THERE'S A REASON** nearly 8 out of 10 companies lease or finance their equipment—it makes good business sense. This issue of *EL&F Magazine* celebrates one of the many ways that equipment finance "Equips Business for Success."

Our feature story "Sustainability Rules" highlights how the equipment finance industry not only contributes significantly to the U.S. economy but also helps preserve the

environment by pre-

venting millions of tons of unnecessary waste annually. Whether through refurbishing and reusing equipment or financing clean technology, equipment financing is an effective form of sustainability. Industry leaders weigh in on this hot topic on p. 24.

Another hot topic we examine in this issue is emerging technologies. Equipment finance executives and IT professionals have spent the last several years learning and talking about data analytics, artificial intelligence and blockchain. Are you ready to take action? Read our cover story on page 18, "**6 Technology Steps to Take Now**," for tips from members of our 2018 Operations and Technology Committee.

#### **ELFA Annual Convention**

To stay relevant and thrive in today's fast-changing world, it is critical to tap into new opportunities. The 57th ELFA Annual Convention, Oct. 14–16 in Phoenix, is your opportunity to uncover new ideas, connect with industry leaders and cultivate relationships that will help you and your business grow. You'll enjoy high-quality educational sessions and a great lineup of keynote speakers:

- Technologist Linda Bernardi will share insights on innovation and disruption and how they will impact our industry—from the internet of things to artificial intelligence.
- Economist Mark Zandi will provide an update on our nation's economy and what it means for your business.

Election analyst Larry Sabato will handicap the midterm elections and provide his insight into what we can expect in November.

Turn the page for more about the Annual Convention. We hope to see you there.

#### **Election Season**

It's time to vote for ELFA's officers and directors for 2019. To participate in this important process, please see page 12. We also encourage you to participate in the Business Council Steering Committee elections. See page 15 for details.

Thank you as always for your continued support and participation. Please don't hesitate to contact us at ELFA headquarters if you have any questions or you'd like to get more involved.  $\equiv$ 

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



View your video invitation to the 2018 Annual Convention from ELFA Chairman Dave Schaefer and President and CEO Ralph Petta at www.elfaonline.org/events/2018/AC/video.cfm.



# 57<sup>TH</sup> Annual Convention October 14-16, 2018

JW Marriott Phoenix Desert Ridge Resort & Spa Phoenix, AZ

#### Why Attend?

If you're in the \$1 trillion equipment finance industry, you can't afford to miss the 2018 ELFA Annual Convention. It's the largest and most important annual gathering of industry leaders. You'll enjoy unparalleled networking opportunities, high-quality educational sessions, a great lineup of keynote speakers and a firstrate exhibit.

### Evolve, Emerge, Excel!

There's nowhere else you can connect with so many industry leaders and discover new ideas to help your business Evolve, Emerge and Excel.

- Evolve: To stay relevant and thrive in today's fast-changing world, it is critical to *evolve* your business operations to tap into new opportunities. Whether you have been in business for years or are a start-up, your business is evolving to stay relevant. Learn strategies for success, from leveraging new technology to building a strong and diverse workforce to entering new markets.
- Emerge: You'll have the opportunity to examine and discuss a number of trends facing the industry—such as changing customer demands, the biggest tax code overhaul in a generation, implementation of new lease accounting rules, hiring and retaining the next generation of talent, the digital transformation of the industry and more—and position your business to emerge stronger than ever.
- **Excel:** Business is revving up. The equipment finance industry is forecast to surpass \$1 trillion in 2018, contributing not only to businesses' success but also to U.S. economic growth. Prepare to win business in a competitive marketplace, deliver value to customers and **excel** at achieving your goals.

When you attend the 2018 ELFA Annual Convention, you invest in the success of your business, your staff, your industry and your career.

### www.elfaonline.org/events/2018/AC/

## **Schedule of Events** -

#### Sunday, October 14

8:00 a.m. Golf Tournament and Luncheon

9:00 a.m. Tennis Tournament and Luncheon

#### 8:30 a.m. – Noon

**W** AZ HELPING HANDS **Community Service Project** – Lending a Hand to Arizona Helping Hands (pre-registration required, limited to 60 attendees)

8:00 a.m. – 1:00 p.m. **Jim McGrane Charity Bike Ride** 24-mile route – leaves from the hotel (pre-registration required, limited to 40 attendees)

10:00 a.m. – 8:00 p.m. **Convention Registration** (Attendees & Exhibitors)

1:00 – 3:00 p.m. Pickle Ball Tournament (on property)

2:00 – 5:00 p.m. Exhibitor Setup

2:00 – 4:00 p.m. Z. AZ HELPING HANDS

**Community Service Project** – Arizona Helping Hands: Build a Bed (pre-registration required, limited to 70 attendees)

4:30 – 5:30 p.m. New Member and Leadership Reception

5:00 – 6:00 p.m. Women's Council Reception

6:00 – 8:30 p.m. Welcome Reception (in Exhibit Area)

#### Monday, October 15

7:00 a.m. – 4:30 p.m. Convention Registration

7:00 – 8:15 a.m. Group Breakfast

7:00 a.m. – 4:30 p.m. Exhibits Open

8:30 – 10:00 a.m. General Session President's Report and Keynote Address RALPH PETTA, President and CEO, ELFA

LINDA BERNARDI, Technologist, Innovation Provocateur & Former IBM CIO and Watson Co-Lead

10:00 – 10:30 a.m. Break

10:30 a.m. – 12:00 p.m. Issue Breakout Sessions

#### 11:00 a.m. – 3:00 p.m. Spouse/Companion Event: Desert Botanical Garden Guided Tour and Luncheon

12:15 – 2:00 p.m. Equipment Leasing & Finance Foundation Luncheon MARK ZANDI Chief Economist and Cofounder of Moody's Analytics

2:30 – 4:00 p.m. Issue Breakout Sessions

4:30 – 5:30 p.m. International and Former Directors' Reception

5:30 p.m. Individual Company-Sponsored Receptions and Events

#### **Tuesday, October 16**

7:00 a.m. – 3:00 p.m. Convention Registration

7:00 – 8:15 a.m. Group Breakfast

7:00 a.m. – 4:00 p.m. **Exhibits Open** 

8:30 – 10:30 a.m. **General Session**  *Chairman's Address and Keynote Address* DAVID T. SCHAEFER, CLFP, ELFA Chairman CEO, Mintaka Financial, LLC

**LARRY SABATO,** Election Analyst and Author; University of Virginia Professor of Politics; Founder and Head of the U.Va. Center for Politics

10:30 – 11:00 a.m. **Break** 

11:00 a.m. – 12:30 p.m. Issue Breakout Sessions

11:00 a.m. – 3:00 p.m. Spouse/Companion Event: Wine Bottling Experience with Luncheon and Shopping

12:45 – 2:30 p.m. Business Council Luncheon Meetings

- Captive and Vendor Finance
- Financial Institutions
- Independent Middle Market
- Service Providers
- Small Ticket

2:30 – 4:30 p.m. Break

3:00 – 4:30 p.m. Issue Breakout Sessions

6:30 – 9:30 p.m. Closing Party

# **Keynote Speakers**



#### LINDA BERNARDI

Technologist, Innovation Provocateur & Former IBM CIO and Watson Co-Lead

Linda Bernardi, a former co-lead on the Watson team at IBM, shares her passion for enabling disruption and bringing critical innovation and technologies into companies around the world. A leading technologist, entrepreneur and disruptive thinker, Bernardi is widely regarded for helping transform the IoT and big data analytics

landscape. As the former chief innovation officer at IBM for IoT and Cloud, her focus was integrating Watson's cognitive capabilities into the IoT and new product offerings, enabling IBM's Fortune 100 customers to introduce IoT, AI and cognitive capabilities into their operations and thrive in the hyper-connected world.



#### **DR. LARRY J. SABATO**

Election Analyst and Best-Selling Author, Founder and Director of the U.Va. Center for Politics

Dr. Larry Sabato is a *New York Times* bestselling author, recipient of three Emmy awards, and one of the nation's most respected political analysts. He is the professor of politics at the University of Virginia and the founder and director of the U.Va. Center for Politics. He is the author

of the recent book *TRUMPED: The 2016 Election That Broke All the Rules* and a frequent political commentator on FOX, CNN and MSNBC. Dr. Sabato provides expert knowledge of what is coming down the pike politically, prepares audiences for the changing of the guard in Washington and across the nation, and showcases how politics and the American voting psyche come together to produce our nation's next batch of leaders.

Dr. Sabato heads up Sabato's Crystal Ball, which the Pew Charitable Trust recognized as the #1 leader in the field of political prediction, and The Daily Beast designated as one of the top political sites on the web.



#### **DR. MARK ZANDI**

#### Chief Economist and Cofounder of Moody's Analytics

Dr. Mark M. Zandi is chief economist of Moody's Analytics, where he directs economic research. Moody's Analytics is a leading provider of economic research, data and analytical tools. Dr. Zandi is also a co-founder of Economy.com, which Moody's purchased in 2005. Dr. Zandi's broad research interests encompass

macroeconomics, financial markets and public policy. His recent research has focused on foreclosure mitigation policy and the determinants of mortgage foreclosure and personal bankruptcy; he has analyzed the economic impact of various tax and government spending policies and assessed the appropriate monetary policy response to bubbles in asset markets.



# Do You Have What It Takes to Be the Boss?

#### Find out with the new Fundamentals of Equipment Leasing and Finance online course

**ELFA HAS LAUNCHED** a brand-new version of its flagship training course, Fundamentals of Equipment Leasing and Finance. The completely overhauled program engages users through an interactive, online interface that provides "virtual" hands-on experience and training in the fundamentals of equipment finance. The course—the only one of its kind for the \$1 trillion equipment finance industry—is designed for those who are new to the equipment finance industry or those looking for a refresher on the industry fundamentals.

There's nothing quite like hands-

on experience to learn new skills, and the new Fundamentals of Equipment Leasing and Finance course gives learners the opportunity to run their own fictional equipment finance company. Users have a chance to "be the boss" and learn what's involved in the day-to-day operations of an equipment finance company, navigating through customer interactions, identifying the departments and individuals that should be involved in each step, and earning badges and upgrades as they go. From closing the sale to fielding customer requests and reviewing endof-lease options, the learner will receive guided feedback to reinforce learning.

> Micro Lessons: The course is divided in to seven "micro lessons." These lessons, which are 10 to 12 minutes each, allow learners to review the vital information that everyone new to the equipment finance industry should know. After each microlesson—which can be taken in any order learners earn a badge that can be shared on social media. Topics include:

- LESSON 1– Introduction to Equipment Leasing and Finance
- LESSON 2- Origination Phase of the
  - Transaction Lifecycle
- LESSON 3 Administration and Termination Phases

- LESSON 4- Leasing Law
- LESSON 5 Lease Accounting and Federal Tax
- **LESSON 6** Types of Finance
- LESSON 7 Creating Successful Solutions

Access the Course: The new Fundamentals of Equipment Leasing and Finance online course is available to both ELFA members and nonmembers. The course is available for individual purchase as well as bulk purchase by companies that wish to train more than one employee at a time. For more information, visit *www. elfaonline.org/events/fundamentals.* 





### **Data Deep Dive**

**THE 2018 SURVEY OF EQUIPMENT FINANCE ACTIVITY** was the focus of the Research Committee's meeting at ELFA headquarters in May. Learn more about the new 300-page report—and the Interactive SEFA Dashboard—on page 30.

## ELFA Board Meeting Kicks Off Leadership Week

**THE ELFA BOARD OF DIRECTORS** met May 15 in Washington, D.C., under the leadership of Chairman Dave Schaefer. The meeting kicked off a busy week of association-related activities, which included the annual Capitol Connections grassroots program and meetings of the association's Business Council Steering Committees. During the Board meeting, ELFA leaders deliberated over a number of high-priority items focusing on the strategic direction of the association and the ultimate goal of ensuring that ELFA programs, products and services are responsive and continue to deliver value to members. The Board will meet next in October at the site of the ELFA Annual Convention in Phoenix. Its Executive Committee conducted its summer meeting July 30-31.

## Join Emerging Talent in Philly

#### **CALLING ALL FUTURE LEADERS!**

Mix and mingle with some of the industry's best at the Emerging Talent Networking Event in Philadelphia on Sept. 17. There is no cost to attend, but space is limited, so register today at *www.elfaonline.org/events*. Questions? Contact Alexa Carnibella at acarnibella@elfaonline.org.





# Membership Minute

If your company is an ELFA member, you may create a member profile from the ELFA website at *www.elfaonline.org* and gain access to valuable, members-only resources. To learn more about ELFA's members-only resources, contact Julie Benson, VP of Membership Marketing, at jbenson@elfaonline.org.





# Communicators Explore the Digital Landscape

**AT THE COMMUNICATIONS COMMITTEE** meeting in May at ELFA headquarters, chaired by Colleen Daly of Key Equipment Finance, participants discussed industry promotion, including ways to maximize the reach and effectiveness of the association's Equipment Finance Advantage end-user website, as well as opportunities and trends in digital communications and marketing.



## Lawyers Recognized

**APPROXIMATELY 300 ATTORNEYS** gathered at the ELFA Legal Forum, May 6–8 at the Omni Shoreham Hotel in Washington, D.C. Sessions focused on a wide range of hot topics, including tax reform, e-leasing, litigations and advanced provisions, state licensing, bundled services, California lenders licensing and securitization. The agenda also featured an ELFA Women's Council reception. Stewart G. Abramson, Senior Managing Counsel at Wells Fargo Equipment Finance, and Dominic A. Liberatore, Deputy General Counsel at DLL, received the Edward A. Groobert Award for Legal Excellence. Pictured (L-R): ELFA President and CEO Ralph Petta, Abramson, Liberatore and ELFA Chairman David Schaefer. See photos from the event at *www.elfaonline.org/ events/event-photos.* 

# Spotlight on Credit and Collections

#### A RECORD-SETTING ATTENDANCE

of more than 160 senior credit and collections execs convened in New Orleans, June 4–6 for the Credit and Collections Management Conference & Exhibition. The theme of the conference was "NextGen Risk Management: The Future Is Now." Attendees got up-to-speed on the latest industry strategies, trends and forecasts in credit and collections and enjoyed multiple opportunities to network and discuss industry best practices. Hot topics included regulatory issues currently impacting the industry from both a bank and non-



bank perspective, risk management practices that make good business sense and a review of credit and collections benchmarking data. Beth Ann Bovino, Chief U.S. Economist at S&P Global, presented the 2018 Economic Outlook. The agenda also featured an ELFA Women's Council reception. Five companies exhibited, showcasing a variety of business solutions. See photos from the event at *www.elfaonline.org/events/event-photos.* 

## Operations & Technology Conference: Register Today

**THE FUTURE IS HERE:** Do you have the tools necessary? The Operations & Technology Conference and Exhibition, Sept. 17–19 at the Loews Philadelphia Hotel in Philadephia, provides the most upto-the-minute information on technology, software and operation issues that impact equipment finance executives and your clients. This conference will give you the tools to succeed amid shifting markets and ever-changing customer desires. For more information and to register, go to *www.elfaonline.org/events/2018/OT/.* 



## Accountants Conference Promises Packed Agenda

**GET READY** for a packed agenda at the Lease and Finance Accountants Conference, Sept.17–19 at the Loews Philadelphia Hotel in Philadelphia. This event provides the latest information on accounting issues that impact equipment lessors and your clients. Representatives from the FASB and the IASB will be on hand to discuss the new lease accounting standard and other important developments in accounting standards. For more information and to register, go to *www.elfaonline.org/events/2018/LAC/.* 

### Takeaways from the Credit Manager Survey

WHAT IS the state of credit and collections in the equipment finance industry? The 8th Annual Credit Manager Survey, presented at the 2018 Credit and Collections Management Conference, provides insights. Highlights include:

- Portfolio quality remains good and confidence is high.
- We are in good times but those with 10+ years of experience are nervous at this stage of the economic cycle.
- 40% of the survey respondents expect growth volume will exceed 10% in 2018.
- Increases in requests from clients to modify credit or documentation

requirements include: financing of a higher percentage of intangibles; longer financing terms; waiver of guarantees; waiver in change of control; waiver of cross defaults and softer notice and return provisions.

- Fraud remains a concern.
- Is the perfect storm brewing?
   Respondents noted rising interest rates; higher leverage; loosening of credit structures, terms and conditions; uncertain collateral recovery rates; unfavorable tax impact and pricing competition.

See the full results at www.elfaonline.org/ industry-topics/risk-management.

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# 



Martha Ahlers Chairman-Elect

Martha Ahlers is President of United Leasing & Finance. She has over 20 years of commercial leasing and finance experience and started with United Leasing & Finance in 1996. Prior to her promotion to President. she served as Vice President & Chief Operating Officer. Ahlers holds a bachelor's degree in economics from the University of Illinois. She has been involved in numerous civic and community organizations including the Ronald McDonald House Charities of the Ohio Valley Board of Directors, Evansville Executive Forum and the Tri-State MS Association Board of Directors. Ahlers served as ELFA's LeasePAC Chairman (2015-2016) and currently serves as the Board Liaison to the Equipment Leasing & Finance Foundation (2017-2018) and as Vice Chairman of the 2018 ELFA Board of Directors.



Michael DiCecco Vice Chairman

Michael DiCecco is Executive Managing Director of Huntington Bank's asset finance businesses, which include equipment finance, public capital, lender finance and technology finance. DiCecco, along with a group of colleagues, established Huntington's equipment finance capabilities in 2001 after starting his career at Star Bank (a.k.a. US Bank) in 1988. Over the past 30 years DiCecco has earned increasing responsibilities in equipment finance and commercial banking, including leading Huntington's commercial bank for Northeast Ohio from 2005-2008. Active in the industry and community, DiCecco has served on ELFA's Membership Committee and Financial Institutions Business Council, and from 2014–2017 served on the ELFA Board of Directors and Executive Committee, DiCecco holds a Bachelor of Science with a concentration in business from the College of Mount St. Joseph and is a member of the Leadership Cleveland class of 2008.



#### Conrad Eimers Director

Connie Eimers is President and COO of Vision Financial Group, Inc. (VFG). His career in equipment finance is marked by significant business generation, enhanced repeatand-return customer relationships and healthy vendor relationships. His expertise spans just about every avenue of the industry to include executive and managerial experience in credit, operations and sales. Prior to joining VFG, Eimers was employed at TCF Equipment Finance. He has also served the finance industry while working for GE Capital, Bank of America Vendor Finance, ORIX Financial Services and Philip Morris Capital. He is a graduate of the University of Illinois (undergrad) and DePaul University (M.B.A.). Eimers is a former Chair of ELFA's Independent Middle Market Business Council Steering Committee.



Willis Kleinjan Director

Willis Kleinjan is Chief Executive Officer and Founder of Northland Capital Financial Services, LLC. With a determined vision and a foundation of faith, he formed Northland Capital in 1996 and provides strategic oversight to the company's operations. Holding a B.A. in economics from Northwestern College of Iowa, his influence has a deep impact on the industry and community. With over 30 years of equipment leasing experience and a member of the ELFA since 1998, he was an active participant of the Small Ticket Business Council and is currently serving as a member of the Independent Middle Market Business Council Steering Committee. He also serves as a board member of the Christian Business Men's Connection, Avon Community Church and YMCA, with a special interest in working with the St. Teresa Orphans Foundation of Tanzania.

## 2019 Officers





Jud Snyder Chairman



Dave Schaefer Immediate Past Chairman



Martha Ahlers Chairman-Elect



Larry Smilie Vice Chairman

The ELFA Nominating Committee has named the following individuals to stand for election by the ELFA membership. If elected, all nominees will begin their term of service after the ELFA Annual Convention, Oct. 14–16 in Phoenix. Each regular ELFA member company may cast one vote for each nominee. On Aug. 10 voting materials and instructions will be emailed to each member company's key contact, who may then vote via confidential electronic ballot on the ELFA website. The voting will conclude Oct. 3 at 5 p.m. ET.



#### Daniel Krajewski Director

Daniel Krajewski is the President and CEO of Sertant Capital, LLC, an independent equipment finance company located in Irvine, CA, where he leads all aspects of the business and execution of its strategic growth plan. Krajewski has over 30 years of experience in the financial services and equipment finance industry and has held leadership roles in large organizations as well as mid-level privately-held commercial finance companies. Prior to joining Sertant, Krajewski held positions with GE Capital, CIT Commercial Finance, Direct Capital, Banc of California and several other equipment finance companies. He has been a long-time member of ELFA and other associations such as NAELB and NEFA. Krajewski has served on several ELFA committees, including Chair of the Captive and Vendor Finance Business Council Steering Committee (BCSC) and most recently as a member of the Independent Middle Market BCSC.



David Normandin, CLFP Director

David Normandin is the Managing Director of Hanmi Bank Commercial Equipment Leasing Division and the senior executive of its national specialty finance division. He joined the bank in 2016 through an acquisition of the specialty finance division he founded and led for Banc of California. Normandin is a seasoned finance and leasing executive with over 20 years of experience. He is a Past President and board member of the CLFP Foundation. He currently is serving his second year as the Chair of ELFA's Small Ticket Business Council Steering Committee. He has served on the Board of Directors and as Treasurer of the National Equipment Finance Association. He holds a Certified Leasing and Finance Professional designation, Six Sigma Green Belt and a B.S. in business administration from San Diego State University.



Deborah Reuben, CLFP Director

Deborah Reuben is President of Reuben Creative, a strategic technology and process consultancy. Her 23 years of experience innovating in this industry includes past positions with Wells Fargo, TCF and Linedata/HCL. Reuben is the author of The Certified Lease and Finance Professionals' Handbook, 6th Edition. Delivering forward-thinking insights and fresh ideas, she is a frequent speaker and workshop facilitator at industry events and contributes to multiple industry studies and publications. Reuben is Immediate Past Chair of the ELFA **Operations & Technology Committee** and chaired the Operations & Technology Excellence Award Subcommittee. She is a member of the ELFA Women's Council and was instrumental in planning the inaugural ELFA Women's Leadership Forum.



#### Dave Walton Director

Dave Walton is President and CEO of Caterpillar Financial Services Corporation (Cat Financial), the financial arm of Caterpillar Inc. He has more than 30 years of industry experience, spending most of his career at Cat Financial, where he helped the company grow its global footprint to more than 40 locations around the world. Walton held various credit, portfolio management and sales roles before moving into senior leadership positions that would take him throughout the United States and Europe. In 2005 he was named Vice President with administrative responsibilities for Asia Pacific and later led the company's North America sales and operations efforts. He was named President and CEO in 2017. Walton holds a bachelor's degree in accounting from Indiana University and an M.B.A. from Keller Graduate School in Chicago. He serves on the board of the United Way of Metropolitan Nashville.



Kris Snow Vice Chairman



Michael DiCecco Vice Chairman



Rob Boyer Treasurer



Ralph Petta President and CEO



Paul Stilp Secretary



Attendees engaged with each other through interactive exercises.

# Emergence2018 Draws Next-Generation Talent to D.C.

**EMERGENCE2018**, a brand-new event for the next-generation of equipment finance professionals, debuted in Washington, D.C., July 18-19. More than 70 attendees participated in this two-day leadership development event, which was presented by the Emerging Talent Advisory Council to help the industry's emerging leaders consider steps they can take to develop their careers and add greater value to the industry. In support of the theme "Think. Act. Empower Like a Leader" the conference included sessions on career mapping, networking, communications, the fate of the equipment finance industry and more.



A panel discussion on executive coaching





In conjunction with Emergence2018, an Emerging Talent Regional Networking Event was held on ELFA's rooftop deck overlooking the White House and the Washington Monument.

# 5 Minutes with the Small-Ticket Chair

**WHAT'S HAPPENING** in the small ticket sector of the equipment finance space? *EL&F Magazine* recently talked to David Normandin, Chair of the Small Ticket Business Council Steering Committee (BCSC), to take the pulse of this sector. Normandin, Managing Director, Commercial Finance Group, Hanmi Bank, is currently serving his second year as Chair of the committee, which represents companies primarily involved in transactions of less than \$250,000, either individually or through lines.

#### From your perspective serving on the Small Ticket BCSC, what issues are equipment finance companies in the small ticket sector focused on this year?

From the growth of fintech disrupters to the "share of wallet" struggles at the largest banks, technology development is top-of-mind for executives who understand it is an essential ingredient to succeed in the highly competitive small ticket equipment leasing and finance space today. Our customers want a customer-centric experience that meets them where they are and flexible solutions tailored to their needs and desired outcomes.

The small ticket equipment leasing and finance sector has leveraged technology to increase efficiency and consistency in credit underwriting while providing predictable portfolio performance for a long time. Today technology is being used to take applications on mobile devices, auto decision credits, document via electronic signatures and provide a consumer mobile app-like experience that customers have come to expect in their personal lives.

As the costs of technology development continue to come into the reach of smaller and more nimble organizations, the opportunity for larger disruption in this space increases. This, combined with strong access to capital, results in growing competition and tight margins. Companies that leverage technology and create an innovative culture focused on exceeding their customers' expectations have an opportunity to increase their share of wallet against large incumbents that are slow to adapt.

# What do you like best about serving on a BCSC?

I appreciate the opportunity to interact with some of the brightest minds in our industry. ELFA has created a fantastic forum for diverse leaders to come together, share best practices and learn from each other while adding value to our industry. Additionally, the business relationships that form out of conversations with this group have

had a positive impact on my business. Last, the shared professional experiences have developed into great friendships with people I respect and admire.  $\equiv$ 



DAVE NORMANDIN, Chair of the Small Ticket Business Council Steering Committee

#### Vote in the BCSC Elections

We encourage your participation in the BCSC elections. Nominations for the five 2019 BCSCs (Captive and Vendor Finance, Financial Institutions, Independent Middle Market, Service Providers and Small Ticket) were accepted through July 27. Voting will take place Sept. 7–25. Find details at www.elfaonline.org/BCSCElections or contact Ed Rosen at erosen@elfaonline.org or 202.238.3428.



# ELFA INDUSTRY D



#### Growth in New Business Volume

Businesses increased their spending on capital equipment in 2017 for the eighth consecutive year, according to the 2018 Survey of Equipment Finance Activity.

**Monthly Leasing and Finance Index Products** 

#### May MLFI Year-Over-Year



# \$125,000

That's the average salary for an IT Manager, according to the ELFA Small and Medium Compensation Survey. Watch for new compensation data, coming this Fall.

# ASHBOARD EQUIPMENT LEASING & FINANCE FOUNDATION Your Eye on the Future

Construction sector equipment sales were solid in 2017 and further improvements are projected for 2018, according to the Equipment Leasing & Finance Foundation's 2018-2019 Vertical Market Series: Construction report at *http://bit.ly/ELFFConstruction*.

> 76% of distributors forecast their sales of new equipment will increase.

78% of distributors say their sales of used equipment will increase.

Higher interest rates and building inflationary pressures are likely over the next one to three years—following nearly a decade of modest economic expansion, low interest rates and low inflation. Learn how to prepare and potential impacts to customer demand, portfolio performance, spreads and the propensity to finance in On the Rise: How Inflationary Pressures and Rising Interest Rates Could Impact the Equipment Finance Industry at *http://bit.ly/ELFFInflation.* 





# Technology Steps to Take Now

You know about data analytics, AI and blockchain. Now start taking action.

By Susan L. Hodges

OUR COMPANY MAY ALREADY USE DATA ANALYTICS to assist with compliance reporting. But are you doing everything possible with the data you have to learn more about your customers, enhance efficiencies and grow profits? Andrew Cotter suspects not. "I think most equipment finance companies have a data-rich environment that they don't use," says Cotter, Chair of ELFA's Operations & Technology Committee and Executive Vice President of Somerset Capital Group, Ltd., in Milford, Connecticut. "Many small to mid-size companies use data analytics to do reporting, but when it comes to doing the true, in-depth analytics that provide insights and help you make better decisions going forward, I think most companies are lagging."

Josh Bridge, Senior Manager with Capgemini America, Inc., in Gig Harbor, Washington, believes the industry is somewhat further along with smart contracts. "We publish the Business Technology Performance Index survey with ELFA each year, and a focus of our 2017-2018 report is around smart contracts," says Bridge. "We asked companies about their level of adoption, and over one-third of respondents said they saw their companies adopting smart contracts in the next two years."

When it comes to blockchain, however, Deb Reuben says circumstances are much different. "I think it's probably the least understood of the newer technologies," says Reuben, President of Reuben Creative, LLC, in Minnetonka, Minnesota. "Blockchain has been around since 2009 as the technology that made Bitcoin possible, and it's still evolving. Here we are nine years later and the business world is still saying, 'Hey! What about that blockchain thing?'"

Equipment finance executives and IT professionals have spent the last several years learning and talking about data analytics, artificial intelligence and blockchain. Yet, little has been done in the industry to use these technologies in ways that can make a real difference. But take heart: ELFA's 2018 Operations & Technology Conference convenes Sept. 17-19 in Philadelphia. The Conference is your chance to learn the latest on technologies you've heard so much about and ask questions to help you begin applying them in your company. In the spirit of the Conference, here are six steps your company can take now to move closer to using these powerful tools.



#### 1. Determine Your Best Benefit from Data Analytics

John Hurt, Director, Digital Business Advisory Practice for The Alta Group in Pasadena, Maryland, says equipment finance

companies are sitting on a goldmine of data that can do much to enhance equipment valuations for end-ofterm remarketing. "A lot of this data is in contracts," says Hurt, who'll lead a panel discussion on data analytics at the Conference. "Traditionally operations, finance and asset management staff are required to look at the contracts and see details about how equipment is being used."

Better still, Hurt says machine-learning platforms such as Salesforce.com's "Einstein" or IBM's "Watson" can be employed to do the looking by reading electronic documents and gathering this information. "Just a few years ago, equipment finance companies began to image their documents and that was a big step forward," he says. "Now there are tools that can find and help process the unstructured data in those documents."

Tools also exist to test regressions in structured data and find relationships missed previously. Says Hurt, "There are a lot of exciting things going on in data analysis, and it's all predicated on the fact that you can now store all of your data in the Cloud for minimal expense. This means that, other than compliance, there's no longer a compelling reason to ever delete a piece of data—certainly not for cost reasons." Perhaps not, but companies still must be able to dig through their data and coalesce it into something they can use. "New tools can help automate some of this, but it takes resources and an understanding of how to leverage your data," says Hurt. "You also have to know which aspect of your business is most impacted by this data and start there."

To begin, Hurt suggests sitting back and thinking about where your company gets wrapped around the axle. "If you do small-ticket flow, you may want to develop analytics around credit and risk because these are such high-touch and high-volume resource activities," he says. "If you're a bank, you might start with credit or sales. If you're a captive, you'd likely start with assets. Then ask what's possible. Next, start looking at technology partners."



#### 2. Implement Smart Contracts

Smart contracts are electronic documents that use embedded coding to execute the contract automatically when predefined conditions, such as

payment, are met—or not met. "Smart contracts can be enabled by blockchain, but do they have to be?" asks Bridge rhetorically. "Blockchain has the most value between parties who don't know each other, and in our industry, many companies have established relationships," he says. "So there's not as much need to secure a transaction, but to document it and automatically execute."

Smart contracts record the terms of a transaction and connect with selected bank accounts. When certain triggers are activated, such as the movement of funds from one account to the other, the contract evaluates the data against pre-defined conditions and sends data to appropriate parties for compliance and reporting. The contract then self-executes and sends data to the appropriate parties.

"Relying on physical documents can cause delays, errors and increased exposure to fraud," says Mike Donnary, Senior Director at Capgemini America, Inc. "And financial intermediaries, although they provide interoperability and lower risk, increase overhead and add to compliance issues." Smart contracts, by comparison, reduce risk, save money and greatly enhance efficiency. "With smart contracts, an asset can be shipped immediately upon receipt of payment," says Bridge. "The speed and efficiency with which the customer receives the equipment can benefit both parties." To move forward with smart contracts, Bridge and Donnary suggest contacting one or more experts in the space.



#### 3. Look for Opportunities to Apply AI

The use of "chatbots" to replace customer call centers and help desks is growing, and it's not hard to see why. Chatbots

are computer programs that use artificial intelligence to simulate human conversation, and they're becoming increasingly sophisticated. Cotter tells this story: "I know of a technology company that uses one to follow up with customers. The company changes the name of the chatbot from time to time to reflect normal personnel turnover, and they've actually received flowers addressed to the chatbot because customers were so appreciative of the help it gave."

The lines between human help and AI are starting to blur because many people can't tell the difference between them. But Cotter says it's critical that AI be programmed to contact a person when it can't answer a question. "You can use machine-learning to train AI," he says. "More and more, chatbots will be used to service customers without call centers, and the conversation will then bleed into execution."

A different use of AI can be found in applications that revolve around automated invoicing, payments and cash-application solutions. "Some of these applications learn from the bills you send to your customers and feeds from your banks to match payments with invoices," says Cotter. "They start learning immediately and take correlative data to build higher probabilities. They can not only match payments but make smarter decisions on applying your cash."

Josh Bridge cites another industry application for AI. "When I began in leasing, I worked in a credit department spreading financials for \$20,000 deals," he recalls. "This involved hands-on sifting through credit reports and payment histories and manually writing up deals for approval. The evolution from touching each deal was the implementation of an automated score card. Those score-card projects were a big undertaking to start with, but they also took a lot of time and effort to refine and adjust going forward. Today, machine-learning is the next evolutionary step. We could Learn more at the ELFA Operations & Technology Conference, Sept. 17-19 in Philadelphia. Don't miss the special session showcasing the 2018 Operations & Technology Excellence Award winner,



CWB National Leasing. This year's winner is recognized for developing and implementing a custom-built core system that streamlines all aspects of the financing process from beginning to end. See conference details at www.elfaonline.org/events/2018/OT.

be evaluating those same trends and collecting that same data automatically while making corrections and refinements in a fraction of the time."



#### 4. Increase Your Vigilance

Mike McKie, Vice President, IT Program Management for LEAF Commercial Capital, Inc., in Philadelphia, says that unfortunately, hackers, fraudsters

and cyber-criminals continue to be as innovative as new technology. McKie will speak at the Conference about cyber-security.

A recent hacking trend called "social engineering" uses social media to glean and imitate relationships between companies, vendors and employees. "Criminals try to see who you are associated with on Linkedln, Facebook or even Twitter," he says. "Then they pose as individuals you'd normally trust to get you to do something that lets them into your system. With just one click, you can allow them to take over your computer and cause real damage to your applications, network and ultimately your business."

McKie says there's no single tool to install that will prevent suspicious electronic correspondence and help you sleep at night. "So it's imperative that we get people to stop, think and react in the right way to every email they are sent," he says. "Ask yourself if the person you know would want you to do whatever is being asked. Hover over links to see where they come from. Inspect email addresses to see if you recognize them. Inspect language for grammatical errors, and if you're unsure about any of these things, simply pick up the phone. Most people understand the environment we live in and will appreciate any extra steps you take to protect them."

The problem doesn't stop with colleagues and vendors. McKie says interactions with existing customers require the same amount of due diligence. "Every employee needs to know their customers to the degree that they can decipher when someone is posing as one of their customers," he says. Good habits include knowing customers' preferred methods of communicating, the area codes and exchanges they usually call from, and the IP addresses and email addresses they use. Says McKie, "We hope that IT departments can set up rules to stop spam emails from coming in, but as an industry, we need to respond with increased vigilance."



#### 5. Think About Where to Use Blockchain

Although the technology is hard to understand, Reuben says the conversation about blockchain is shifting from technology enthusiasts to business people,

including those in equipment finance. "We're trying to wrap our heads around where it could add value in our businesses and where innovation is possible in our industry," she says.

Blockchain is a shared electronic ledger, each copy of which contains the same validated information and cannot be undone. No specific product yet exists to usher blockchain into equipment finance, but Reuben says it's time to start thinking now about what new business models are possible when real, synchronized data exists across the value chain. "We haven't asked that before because everyone has maintained their own ledger," she says. "But what if, for certain aspects of the business, they didn't have to? Blockchain doesn't solve everything and doesn't replace the need for other types of databases, but it could augment them. Understanding this allows us to think about how business flows and imagine more efficient alternatives."

Last year, the Ops & Tech Conference featured an introductory session on blockchain with an expert from IBM. "We're bringing him back this year as part of a pre-conference workshop I'm leading on Sept. 17," says Reuben. "In this workshop we intend to go beyond the blockchain 101 discussion of what it is and talk about the practical possibilities for equipment finance." She envisions the equipment finance industry acting as a unit to form an industry-level consortium working group that studies blockchain and identifies where and how new business interaction models on blockchain could benefit all participants. "There are already use-cases where I believe it could add value," she says. "Moving forward as an industry would require coming together to have a new conversation, not only to understand where the challenges are, but to imagine the platform of the future and eventually get to proof of concept. I sense from various events I attend that we're ready to take action and participate in something like this."

The ELFA Board of Directors recently established an Innovation Technology Work Group to monitor, analyze and understand the impact of new technologies on the industry and member businesses. Stay tuned for more information about this important new initiative.



#### 6. Look and Learn Outside Equipment Finance

If you're limiting your learning about operations and technologies to the equipment finance industry, Cotter says you're

missing the mark. "Create a budget for research and development and bring someone in to help you experiment," he suggests. "Look at vendors and attend gatherings outside the industry, then bring your questions to our Conference. We want to dig into operational issues so we can talk about how technology can be applied in our industry."

Cotter thinks equipment finance companies should also examine the General Data Protection Regulation (GDPR) adopted by the European Union. "These regulations were adopted two years ago but are only now going into effect, and companies are scrambling," he says. "It makes me wonder how well prepared we are with our systems and processes for changes under the new accounting standards." To that end, the Ops & Tech Conference will hold a session on the Financial Accounting Standards Board's Topic 842. "It's so relevant for our industry to work collaboratively on this," Cotter says. "We have to be sure customers truly understand the impact."=

**SUSAN HODGES** writes about equipment finance and other business topics from her office in Wilmette, Ill.

# BE BOSS

ELFA's *NEW* Fundamentals of Equipment Leasing and Finance Online Course!

Welcome to the new (and improved!) Fundamentals of Equipment Leasing and Finance course—the only course of its kind for the equipment finance industry!

This course is divided in to 7 micro-lessons (8-10 minutes each), allowing learners to review the vital information every person new to the industry should know. Badges are earned for completing each micro lesson.

- Lesson 1 Introduction to Equipment Leasing and Finance
- Lesson 2 Origination Phase of the Transaction Lifecycle
- Lesson 3 Administration and Termination Phases
- Lesson 4 Leasing Law

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- Lesson 5 Lease Accounting and Federal Tax
- Lesson 6 Types of Finance
- Lesson 7 Creating Successful Solutions



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Take what you've learned and "be the boss" at Strategic Equipment Leasing and Finance, Inc. (S.E.L.F) – navigating through customer interactions, identifying the departments and individuals that should be involved in each step, and earning badges and upgrades as they go! From closing the sale to fielding customer requests and reviewing end-of-lease options, the learner will experience it all and will receive guided feedback to reinforce learning.

# Who Should Take the Course?

This course is designed for those who are new to the equipment finance industry, or as a refresher for those with more experience.

#### Pricing

Individual: ELFA Members - \$500/license Non-Members - \$775/license

#### Bulk:

Bulk pricing is available for purchases of 11 or more licenses.

#### **Questions?**

Contact Alexa Carnibella at *acarnibella@elfaonline.org* for more information.

# www.elfaonline.org/events/fundamentals

EQUIPMENT LEASING AND FINANCE ASSOCIATION



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**IF YOU COULD WORK FOR AN INDUSTRY** that not only contributes significantly to the U.S. economy but also helps preserve the environment by preventing millions of tons of unnecessary waste annually, wouldn't you want to do that? Oh, wait—you already do.

As part of the equipment finance industry, you and your company—or companies that you serve—provide financing to thousands of businesses that lease or purchase used equipment. From earthmovers to MRI machines, equipment finance companies take offlease equipment, inspect it, repair or refurbish it if necessary, inspect it again and offer it a second and sometimes a third time for financing. As Vince Kolber, Chairman of Chicago-based Residco, aptly puts it, "Sustainability is a new term for what we've been doing for decades." And it's one more way that equipment financing is equipping business for success.



#### SUSTAINABILITY RULES



#### **Expanding Our View**

How many of us think of our industry as playing a vital role in curbing the expansion of landfills or in using natural resources more wisely? Equipment finance does both, and it has since the industry's beginning. The railroad rolling stock and commercial aircraft financed by Residco serve as excellent examples.

Residco has specialized in financing both types of equipment since 1982, and it's no exaggeration to say that many railcars built that year are still working the tracks. That's partly because the federal government and the Association of American Railroads both now list the regulatory useful life of railcars at 50 years. It's also because companies like Residco help railroads and investors buy, lease, manage and sell railcars. "Locomotives can be used for even longer periods of time than railcars," says Kolber. "We've sold locomotives that were 60 years old. But eventually, the need for new technology—to provide greater fuel efficiency, for example—takes over."

A similar life cycle is possible for commercial aircraft. Before computer models could simulate the stress of expansion and contraction that occurs each time an aircraft takes off and lands (a take-off and landing = 1 cycle), Kolber says manufacturers physically tested airframes, wings and other components for well more than 100,000 cycles. "But on average, a commercial aircraft will cycle just 3,000 times per year," he "Locomotives can be used for even longer periods of time than railcars. We've sold locomotives that were 60 years old. But eventually, the need for new technology—to provide greater fuel efficiency, for example—takes over."

–Vince Kolber, Residco

says. "It's unusual to find a 20-year-old aircraft that has cycled 60,000 times, so at 20 years, many aircraft are just half-way through their physical life potential. We can honestly say that the prospect of sustainability in both rail and aircraft equipment is outstanding."

#### Creating Opportunities for Others

Bruce Trachtenberg, Senior Vice President, Global Asset Management and Remarketing for DLL in Wayne, Pennsylvania, observes that financing plays a key role not only in sustainability, but in the use of equipment across multiple market levels. "We have statistics that tell us that when customers purchase equipment, they hold it until its end of life," he says. "But when they finance equipment, the length of time they use it before replacing it is significantly shorter. These customers have a decision point at the end of the original lease term, and by working with the manufacturer and the finance company, there's potential to put them in new technology at a lower cost. This creates the opportunity to take the original equipment back, refurbish it and put it back into the market for another customer who can't afford or doesn't need new equipment. The refurbishing process will extend its overall life. So we're not just supporting an extended equipment life cycle; we're expanding the use of the equipment to a broader customer base."

Kimberly Esposito, Managing Director, Asset Management Services for The Alta Group in Clearwater, Florida, provides an example. "If a wheel loader is used in general construction service, then it is recommended that the drive or power train be rebuilt, depending on the manufacturer, at 10,000 to 15,000 hours," she says. "Rebuilds can also be performed on separate systems, such as the drive train, and including hydraulics, frame, attachments and so on, or the entire machine. A complete manufacturer-rebuild can significantly extend machine life, and the rebuilt components are generally given a fresh manufacturer warranty. Rebuilds performed by the original manufacturer or OEM dealer are preferable to third-party rebuilds because of the sophisticated electronic or computerized controls on all modern machines."

#### Saving Energy

Raj Thadani, Chief Operating Officer of Ross International, a Clifton, New Jersey-based provider of remarketing and supply-chain logistics services to the office imaging and medical industries, believes reuse is the highest form of recycling. "You're not expending any additional energy to change the equipment's form," he says.

Along with logistics, warehousing and inventory management, Ross International offers clients refurbishing and parts-reclamation services. "We have thousands of photocopiers in stock right now," says Thadani. "We may sell a photocopier as is, or we may refurbish it if we're contracted to do that." Machines to be refurbished receive a thorough inspection that determines the amount of usage, any malfunctions and the copy cycle of the print drum. "There's an assessment process we go through to determine the parts to be replaced," he says. "Then the machine is cleaned and refreshed, and dust is removed from the optics. Then key parts are changed and the whole cop-



ier is cleaned, and for the most part, the copier would be ready for redeployment."

Remanufacturing is another form of reuse, albeit one that is more extensive and requires additional energy and resources. "Remanufacturing occurs when a machine is stripped down and rebuilt with many parts replaced, like the full restoration of a classic car," says Thadani. High-volume copiers are sometimes candidates for this process. "All asset types are assessed and sent where they are needed," Thadani says. "At our company, less than 5% of off-lease copiers go to conventional recycling where they are de-manufactured for plastics and metals."

#### **Selling More Equipment**

Trachtenberg discusses the synergy present in highly functional aftermarkets, using DLL's business model. "There's an integral link between equipment finance companies and manufacturers' ability to establish a secondary market," he says. "For manufacturers to set up refurbishing operations with the kind of investment that is required, they need to be comfortable knowing they'll get used equipment back on a regular basis. If they aren't sure that there is a vehicle to get the equipment back, why would they invest? By partnering with companies like DLL and setting up programs to get that equipment returned, manufacturers can feel more comfortable building a secondary channel and refurbishment operations." Equipment that is refurbished by a manufacturer comes with certification. "It's like a certified, previously owned automobile," Trachtenberg says. "It's not just a dealer taking it back and cleaning it up."

Trachtenberg cites three criteria that, when present, make equipment most suitable for refurbishment. These are modularity, broad usage and long useful life. "When modules can be taken out and replaced with new ones to provide improved functionality, that's an important efficiency," he said. "When an older piece of imaging equipment can be used in an ER that needs a basic work-

#### "We have thousands of photocopiers in stock right now. We may sell a photocopier as is, or we may refurbish it if we're contracted to do that."

—Raj Thadani, Ross International "Large companies will install a fuel cell as a clean, reliable and cost-effective way to produce a portion of their own electricity and heat."

> —Chris Pagano, Hitachi Capital America Corp.

horse to perform scans as quickly as possible, that's broad usage. And when a backhoe needs simple parts traded out but the overall structure of the equipment remains good, that's long useful life."

#### **Financing Clean Technology**

Chris Pagano, Vice President and General Manager of Structured Finance at Hitachi Capital America Corp. in Norwalk, Connecticut, says the equipment finance industry also promotes sustainability in yet another way: through the financing of clean technology. "Clean technology includes the financing of renewable energy projects as well as energy-efficient equipment, such as lighting, heating and cooling systems, and batteries," says Pagano.

Hitachi Capital America Corp. entered the clean technology market by financing LED lighting projects. "These projects are relatively easy to implement, and the cost savings are significant," Pagano says. "In many cases, the savings can pay back the financing."

Subsequent clean-tech markets for the company include fuel cells, battery storage and combined heat and power systems for commercial buildings. "Large companies will install a fuel cell as a clean, reliable and cost-effective way to produce a portion of their own electricity and heat," says Pagano. "Commercial and industrial companies may also install their own lithium-ion battery on the premises to store energy for use during peak periods, relieving pressure on the electrical grid while reducing energy costs." Both fuel cells and lithium-ion batteries can be as large as a shipping container or a standard truck trailer, and multiple units may be installed for a large project.

Why the uptick in these markets now? "Corporate sustainability strategies are creating demand and the technology has improved, leading to reduced energy



and maintenance costs," says Pagano. "We're seeing more and more companies that have defined, visible sustainability targets around improving efficiency and decreasing their impact on the environment. It's all about becoming responsible corporate citizens."

It's also about saving money. Numerous federal, state and local incentives are driving adoption of clean technology. Companies can use tax credits, utility rebates and grants to offset the cost of implementing clean technology while gaining control over their energy usage and costs. "Large users of power are the most interested in doing something, as well as companies with old, inefficient technology," Pagano says. "Manufacturers are early adopters."

Clean-technology financing is a key focus of Hitachi Capital America's structured-finance department. Pagano says the company takes a project-financing approach to structuring clean technology transactions, "which allows us to provide customized, flexible financing solutions, including loans, leases and the assignment of power purchase and energy savings agreements." The business is not conducive to standard equipment lease agreements typically offered by traditional funding sources because each transaction is different, and a more structured solution is needed to mitigate risk. "All the vendors involved in installing, operating and maintaining the asset must be underwritten and monitored, along with the key performance metrics of the project," says Pagano. "Clean technology projects are financed over long terms—10 years for

lighting and battery storage projects is typical, and up to 25 years for other technologies is not unusual—so it's very important to know who you're working with."

Despite complexities, Pagano says the clean-technology market is still developing. He cites office buildings as another budding segment. "There's so much opportunity to update old equipment that's not energy-efficient," he says. "Various programs from utility companies and states exist to encourage these updates, so we're already doing some transactions in this area."

The market potential in office buildings, he says, is huge. "All buildings have heating and cooling technology that at some point will need to be updated," Pagano points out. "It can be easy to put these projects off, but they make a lot of sense, and technology advancements have come a long way. We're seeing companies move forward with adoption of clean-energy strategies, and although this has been happening for quite a while, the trend is really picking up now."

#### Exploiting Obsolescence

At the root of the equipment finance industry's role in sustainability are economic useful life and technological obsolescence. As Esposito notes, economic useful life is "the amount of time an asset can be used cost effectively for its original purpose." Today, however, advancing technology can shorten equipment's economic useful life very quickly when a new model contains fresh and innovative functionalities. Thus, the role of equipment financing becomes even more important. Esposito's example:

"Food-processing equipment has been around a long time, and I've appraised a lot of it," she says. "But what I'm seeing now is increasing automation. Sensors on an assembly line are calibrated to meet certain criteria so that if a package gets ripped or is the wrong temperature and no longer meets those criteria, the operator is alerted immediately so he or she can stop the line. The whole process is incredible and as a result, we get our cornflakes cheaper—and we won't get sick." Meanwhile, older food-processing equipment rendered obsolescent but still containing normal useful life can be sold in less developed nations where it may be used until it can be used no more.

"Sustainability needs to be driven by economics," concludes Thadani. "And fortunately, thanks to equipment leasing, it works that way."  $\equiv$ 

**SUSAN HODGES** writes about equipment finance and other business topics from her office in Wilmette, Ill.

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#### **MARKET DATA INSIGHTS** 2018 Survey of Equipment Finance Activity helps companies make data-driven decisions

#### IF SLOW BUT STEADY GROWTH OF THE U.S. ECONOMY AND THE EQUIPMENT FINANCE INDUSTRY

seemed fortuitous in 2016, both upward trends gained traction in 2017 as a new President took office and business and consumer confidence translated into increased spending. Real GDP grew 2.3% in 2017 and, according to ELFA's 2018 Survey of Equipment Finance Activity (SEFA), new business volume grew at three times that rate, rising 6.9%. According to the 2018 Small-Ticket Survey of Equipment Finance Activity, new business volume in the small-ticket space grew by 3.6%.

The SEFA report covers key statistical, financial and operations information for the \$1 trillion equipment finance industry, based on a survey of 114 ELFA member companies. The 300-page report, which is produced by PricewaterhouseCoopers, offers comprehensive performance metrics—including volume size, organization type, market segment and business model—as well as productivity measures—including residual experience, balance sheet data, financial ratios, profitability data and more. Key findings for 2017 as reported in the 2018 SEFA include:

New business volume: Captives and independents saw a 10% increase in new business volume while banks saw a 5% increase. By market segment, new business volume grew 9.7% in the middle ticket segment, 4.3% in small ticket and 2.8% in large ticket.



#### Get the Answers You Need

Drill Down into the Full Report— This 300-page report offers comprehensive performance metrics for 114 equipment finance companies.

**Get an Overview with the Interactive Dashboard**—This online platform provides highlights from a decade of industry benchmark data.

Access both tools at www.elfaonline.org/SEFA.



- From an asset perspective, the top-five most-financed equipment types were IT and related technology services, transportation, construction, agricultural and office machines. The top five end-user industries representing the largest share of new business volume were services, agriculture, wholesale/retail, industrial and manufacturing and transportation.
- Delinquencies increased slightly, with 2.0% of receivables over 31 days past due compared to 1.8% the previous year. While delinquencies are still very low, they have been on the rise since 2013 when they totaled 1.2%.
- Charge-offs also increased slightly but remained at 0.33% of average receivables; any level lower than 1% is considered very low.
- Credit approvals decreased slightly while the percentage of approved applications being booked and funded increased.
- **Employment** levels grew moderately by 3.4%.

#### Download Your Copy

Participation in the SEFA is a benefit of membership in ELFA. Member-respondents receive a complimentary

copy of the Survey Report, as well as confidential Individual Company Data Reports. Others may purchase the SEFA; members save 46%. Learn more at *www.elfaonline.org/SEFA*. =

#### Leverage the Survey of Equipment Finance Activity

Here are some tips—provided by ELFA members—for how your business can use the 2018 Survey of Equipment Finance Activity to get ahead. Download our new infographic (pictured at right) with pointers at *www.elfaonline. org/SEFA* and share it with your colleagues.

See how your company stacks up against the competition.

Compare your portfolio performance—yield spread, ROE, delinquencies, chargeoffs and more—to what other equipment finance companies are experiencing.

- Validate strategic business moves. Whether you are introducing a new product or looking to make the case for or against entering a particular product line, the SEFA data can help justify your next steps.
- Explore new verticals. Get a sense of the size of various markets, number of competitors and growth rate.
- Determine how to best allocate your staffing resources in a particular geographic region.
   See how other companies are placing staff.
- Compare operational expenses. Discover how your

#### **Top 6 Ways to Use the** Survey of Equipment Finance Activity How can your business get the most out of the Survey of Equipment Finance Activity? Use these tips for leveraging both the online interactive dashboard and the full 300-page report: See how your company stacks up against the competition. Compare your portfolio performance—yield spread, ROE, delinquencies, charge-offs and more—to what other equipment finance companies are experiencing. Validate strategic business moves. Whether you are introducing a new product or looking to make the case for or against entering a particular product line, the SEFA data can help justify your next steps. Explore new verticals. Get a sense of the size of various markets, number of competitors and growth rate. Compare operational expenses. Discover how your costs-such as sales, credit, booking and other expenses-compare to others in the industry. Analyze headcount reports. Gauge where to invest your human resources: sales, information systems, compliance, marketing and mor Validate assumptions and conclusions. Review the data you need-such as productivity measures, residual experience, balance sheet data, financial ratios, profitability data and more-to get the real picture. www.elfaonline.org/SEFA

costs—such as sales, credit, booking and other expenses compare to others in the industry.

- Analyze headcount reports. Gauge where to invest your human resources: sales, information systems, compliance, marketing and more.
- Add credibility to your business plan. Shore it up with statistics from the SEFA.
- Validate assumptions and conclusions. Review the data

you need—such as productivity measures, residual experience, balance sheet data, financial ratios, profitability data and more—to get the real picture.

- Educate your partners about the equipment finance sector. Share highlights from the SEFA, the definitive source of industry information.
- Get more data! Become a SEFA respondent and receive an Individual Company Data Sheet comparing your data to other respondents.

# **Prepare for Unpaid Repairs**

**HOW CAN** a repair or storage provider claim a lien that trumps your first priority security or ownership interest? It can happen. Here is how to respond to those claims.

You receive a letter to begin your workday at ABC Equipment Finance Company. The letter states that certain equipment with a named owner will be sold in just a few days to pay an unpaid repair bill. Quickly you determine that the owner is one of your customers, and, yes, the specified equipment is financed by your company. Your research on the state statute referenced in the letter shows the statute may allow the repair company to sell the equipment, free and clear of your security interest, with the sale proceeds paid first to cover that unpaid repair bill.

What to do when a repair company claims a lien on equipment Later that day you call the repair company. The repair company tells you that the bill must be paid in the next few days or the equipment will be sold. Further, the repair company will not provide any details on what repairs were done. Your next call is to the customer. When called, the customer will also not provide any information on the repairs. Additionally, the customer is past due, with a crumbling financial situation. The customer is not troubled when told that you can add the repair expenses you pay to the account balance. You suspect the customer may be considering bankruptcy and may be colluding with the repair company.

The following day you pay the repair costs. A month later the customer goes bankrupt. Two months later your bankruptcy attorney tells you she suspects (but cannot prove) the repair company grossly inflated the repair bill and shared some of the bill payment with the customer. You ask what you did wrong. Here is what you find out.

#### The Applicable Law

Every state has special statutes that allow providers of equipment repairs or storage to claim a lien on the repaired or stored equipment. Some of those states allow that lien to be a first priority lien, superior to the rights of the equipment owner and the rights of any security interest holder, including otherwise super priority purchase money security interests.

Under Uniform Commercial Code (UCC) section 9–333, as enacted in all states, a "possessory lien"

on goods has priority over a security interest in those goods unless the state statute provides otherwise. A "possessory lien" must be—

- for the payment for services or materials furnished with respect to those goods by a person in the ordinary course of business;
- created by a statute or "rule of law," which can be state court cases; and
- **3.** that person has retained possession of those goods.

UCC language around good faith and fair dealing provides support for courts that decline to enforce repair liens for excessive (or possibly fraudulent) repair costs.

#### Repair Companies and First Priority Liens

A repair company's repair/storage lien priority is not automatic. A repair company must, first, with some limited exceptions noted below, have kept possession of the equipment from the completion of its services through the equipment sale date. If it lets your customer have the equipment, it generally loses its super priority first lien.

Second, a repair company must fully comply with all the requirements of the applicable state statute or case law. If a particular statute requires a notice with specific content to be provided to the owner and secured parties at a specified time, a repair company must fully comply with all of those statutory requirements. State law may also provide for specific notices with detailed content and delivery requirements. Finally, state law may require specific public notices by posting and/or publication.

Typically, the equipment owner must have requested the repairs. Many state repair lien laws require that the services provided enhance or improve the goods. However, generally, that enhanced value does not need to be material. The enhanced value also need not equal or exceed the unpaid repair charge. Alternatively, state law may require that the work performed was intended to enhance or preserve the value of the goods. Claims that the sale by the repair provider would be an unconstitutional "taking" of the owner's interest or the purchase money lender's security interest have not been successful.

In addition to the enhanced value that the repair brings, the reasonableness of the repair bill also can be at issue. While some courts have held that the repair or storage charges must be reasonable, that is not the rule in all states. Depending on state law, you may be able to limit the repair or storage provider's first lien super priority to the reasonable charge amount.

Gaps in the repair lien provider's possession may or may not destroy the first lien super priority. Some courts have allowed numerous exceptions to the continuous possession requirement. These exceptions include the unauthorized recovery of the equipment by the owner; surrender of possession for what turns out to be a bad check or breached written promise to pay; and release of the equipment to allow the owner to earn money to pay for the repairs, to collect an insurance claim or to comply with a later vacated court order. Any gaps or surrender of possession must be evaluated under the applicable state law to determine if the repair company waived the first lien super priority or if it maintained what some courts have called "constructive possession."

#### Your Position in Equipment Sales

An equipment lender potentially has two options when facing the sale of equipment to satisfy unpaid repairs. One option is to pay the repair company for the customer's outstanding bill. Some states allow for another option: Post a bond that covers the outstanding repair cost in order to stop the equipment sale. Because not all states allow for the bond-posting option, equipment lenders should prepare to pay the unpaid repair bill in order to obtain possession. Lenders under that scenario would then file suit to recover for the paid repair amount.

#### **Knowing Your Options**

The unpaid repair company scenario that began this article might land on your desk. Understanding the applicable law can help you when that repair scenario arrives. Appreciation for how courts construe repair lien statutes can help you, too: While some courts recognize lender paths to defeat repair company lien priority in equipment, courts generally apply repair lien statutes with a preference towards the repair company. Knowing your options can help you to prepare for the unpaid equipment repair. ≡



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# **Finding the Hidden Lease**

**ACCOUNTING FOR EMBEDDED LEASES** is one of the most complex aspects of implementing ASC 842 and IFRS 16, as highlighted in the 2017 KPMG Accounting Change Survey. The leading concern among survey respondents is the challenge of identifying embedded leases (49%), with 78% of private companies reporting unanticipated difficulties in this assessment process. In addition to the practical implementation issues, embedded leases also have created a firestorm of analytical and structuring activity as lessors and lessees alike attempt to retain as many off-balance-sheet options as possible under the new rules.

An embedded lease represents the right to use property, plant and equipment (PP&E) in what many consider to be service contracts, pay-for-use and similar arrangements, all of which are becoming increasingly more popular in the market. In the past, any embedded leases and related services in the arrangement were usually both offbalance-sheet. Under the new leasing standards, though, lessees must recognize an asset and liability for any right to use equipment embedded in the arrangement. Although companies were required to perform embedded lease accounting under the current leasing standard, ASC 840, the new standard brings an increased focus to accurately report operating leases on the balance sheet.

An embedded lease, a term not defined in either ASC 842 or IFRS 16, represents a component of an arrangement that depends on the use of implicitly or explicitly identified assets and in which the cus-

tomer controls the use of the assets. While the two conditions in ASC 842 appear similar to the requirements for identifying a lease under ASC 840, the second condition is now more closely aligned with how control is defined and applied in other topics such as revenue recognition. The concept of evaluating whether the customer has the right to direct the use of the identified asset is new to ASC 842 and is illustrated in Figure 1.

For most contracts, assessing whether a lease exists will not involve significant judgment. However, more complex scenarios may arise in arrangements in which both the customer and the supplier have decision-making rights about the use of an asset. Arrangements in which the customer makes most or all the decisions about how and for what purpose the asset will be used, but the supplier retains the decision-making rights over operations and/or maintenance of the asset, present challenges. Examples include cloud storage services and third-party logistics.

#### Figure 1. Embedded Lease Process



contract with a logistics firm for warehouse storage and transportation of goods to the customer's warehouses and retail outlets in which the storage service is provided with dedicated space in the provider's warehouse.

example of a potential embedded lease is a

The most difficult part of adopting the leasing standard is determining the full universe of what constitutes a lease. Where should a company look for potential embedded leases? Procurement systems can be a good resource for obtaining the population of purchase orders and vendor agreements such as outsourcing or service contracts that might contain embedded leases, even if they do not include the term "lease." Companies that track their technology equipment in an IT asset management system can find valuable information about where assets, such as printers, servers, desktops, mobility devices and networking equipment, are located and who is responsible for them. Companies can also ask their IT outsourcing providers to supply a list of dedicated assets being used on their behalf to support their IT functions.

How an arrangement is structured can impact whether it contains an embedded lease. For example, contracts that specify assets may be accounted for as embedded leases, while those in which the supplier can substitute the assets may be accounted for as services, provided that the supplier's substitution right is substantive. Similarly, different provisions may impact whether the customer controls the use of the asset. Many companies have outlined rules of the road for early engagement in structuring and pricing stages, especially if they are both a lessor and a lessee.

These companies have defined a two-part process to ensure proper financial statement recognition: work with procurement and sales teams during structuring to avoid embedded leases, and, if unable to avoid, educate these teams so they understand the data requirements needed to account for embedded leases properly. For example, procurement and sales functions are required to bring forward all procurement agreements and customer structures in which the contract has underlying assets that the supplier cannot practically substitute and the supplier does not control the assets. The process is based on questionnaires that help flag arrangements that are more likely to have embedded leases. If a bundled price cannot be avoided, pricing cases need to reflect the lease component, or the customer may request pricing information from the supplier.

What constitutes a lease was one of the thornier topics addressed in developing the new leasing standards and continues to be so as companies implement ASC 842 and IFRS 16. As highlighted above, one of the key implications of the on-balancesheet treatment of all leases is an increased focus on the completeness of the lease population and contracts considered for lease identification analysis. If an arrangement is or contains a lease, customers may request more information from suppliers to streamline balance sheet recognition and disclosure. Last, there will be renewed focus on internal controls related to these efforts and processes. Whether a lessor or a lessee, companies must bring the appropriate resources to bear on this issue and do so on a timely basis.  $\equiv$ 

NOTE: This article is provided for informational purposes only. Readers are strongly advised to consult with their own financial, tax and legal advisors in connection with the subject matter of this article.

**SHAWN HALLADAY** is the Managing Principal with Alta Group. **DORINA MAEREAN, MPA**, is the Senior Accounting Manager for IBM Global Financing.



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ELFA

EQUIPMENT LEASING AND FINANCE ASSOCIATION Equipping Business for Success **FEDERAL INSIGHT** 

By Chelsea Neil

# **Uniting the Industry's Voice**

#### Capitol Connections Showcases the Visibility of the Industry within the Policy Debate

**CAPITOL CONNECTIONS**, May 16–17 in Washington, D.C., saw 135 ELFA members visit more than 160 House and Senate offices. Participants reported a high awareness of the equipment finance industry when visiting congressional offices, showing that our voice is heard and recognized. A group of ELFA attendees also met with Treasury Assistant Secretary for Tax Policy, David Kautter, and his staff to discuss ELFA's pending request for guidance regarding the expansion of bonus depreciation to include used equipment.

In addition to advocating for the equipment finance industry with policymakers, attendees heard from a few keynote speakers. During the opening luncheon, Molly Ball of TIME gave attendees an update on the current political landscape in Washington. Following Ball's remarks, Kara Miyasato of Stryker Flex Financial and Jeff Elliott of Huntington Equipment Finance participated in a role-playing exer-



#### Advocacy Award

ELFA Chairman Dave Schaefer presents the 2018 David H. Fenig Distinguished Service in Advocacy Award to Conrad Eimers, President of Vision Financial Group. The award recognizes individuals who have made extraordinary contributions to the association's federal and state advocacy programs. cise to give attendees some perspective into different scenarios they might encounter as they visit congressional offices. Senator Tom Carper (D-DE) addressed the LeasePAC reception. Congressman Josh Gottheimer (D-NJ) and Congressman Tom Reed (R-NY), co-chairs of the Congressional Problem Solvers Caucus, spoke during the group breakfast. And a special thanks goes out to Thompson Coburn, who sponsored this year's Capitol Connections program by providing cellphone cardholders.

#### Next Steps

ELFA members are encouraged to maintain a dialogue with your legislators to build on the successful contacts made during Capitol Connections. In just a few weeks, members of Congress will return to their districts for the August recess, which is a perfect time to schedule an in-district meeting. Meeting during this time is a mutually beneficial opportunity to establish local connections beyond a meeting in Washington. Ideally, ELFA members will be used as a resource by these members of Congress so that our voices are heard on a continuing basis.

Please visit *www.elfaonline.org/advo cacy* for issue briefs and additional information on ELFA's advocacy and grassroots programming. ≡

**CHELSEA NEIL** is ELFA Manager of Federal Government Relations.



#### LeasePAC Event

LeasePAC Chairman James Cress and ELFA President & **CEO Ralph Petta** present the Highest Grossing LeasePAC Company Campaign award to Michelle Speranza of LEAF **Commercial Capital** Inc. The LeasePAC committee recognized several individuals and companies for their leadership at the LeasePAC reception.



ELFA members Mark Duncan, Mike Elmasry and Noiel Fontaine met with Congressman Jim Himes (D-CT), second from left.



Sen. Ben Cardin (D-MD) stopped by the LeasePAC reception to visit with ELFA members from Maryland, including Nancy Pistorio and Edward Gross.



Molly Ball of TIME spoke at the opening luncheon about the current political landscape.



Congressman Tom Reed (R-NY) and Congressman Josh Gottheimer (D-NJ) addressed ELFA members during the group breakfast.



Senator Mike Rounds (R-SD), second from right, sat down with ELFA members Michael Campbell, Brian Eschmann, David Normandin, Kristin Smith and Ernest Tsorvas.

Below, Todd Clegg, Jason Seitz, and Jeff Budizen met with Congresswoman Gwen Moore (D-WI), second from left.



ELFA members Conrad Eimers, James Cress, Marjorie Krumholz and Brett Davis pictured on the Speaker's Balcony in the U.S. Capitol during Capitol Connections.



Congressman Peter Roskam (R-IL) second from right, spent time with ELFA members Shari Lipski, Nathan Petrie and Vincent Kolber.



Congresswoman Jackie Walorski (R-IN) met with ELFA members Nathan Cox, Thomas Dwyer and Richard Lewis.





Congresswoman Judy Chu (D-CA) met with ELFA members Scott Thacker, David Coons and Don Hansen.



Sen. Tom Carper (D-DE) met with ELFA members Emily Latham-Bolt, Melanie Reker, Shannon Stangl and George Monastra during the LeasePAC reception.

By Scott Riehl

# Success on the Bayou

#### Louisiana Averts Fiscal Cliff and Reinstates ELFA Fought-for "Sale for Resale" Exemption

**EFFECTIVE JULY 1, 2018**, the 2% Louisiana state upfront sales/use tax is no more. Enrolled HB 10 reinstated the full resale exemption for leased equipment (as well as 100 or so other exemptions) and also changed the state tax rate to 4.45%, plus applicable local taxes.

Louisiana, facing a \$650 million budget shortfall and a June 30 fiscal cliff, averted a state shutdown in their third Special Session after achieving the elusive 70 votes on June 23, passing HB 10 and forwarding it to the Senate. The Senate debated HB 10, passed it and sent it to Gov. John Bel Edwards, who signed it on June 27.

With this as a backdrop, ELFA spent the past two years on the ground working with leadership to address the 2016 removal of the Sale for Resale tax exemp-

tion that made Louisiana the only state in the country with a double sales tax on leased equipment. It was estimated that every year this double tax existed it cost our industry more than \$110 million.

ELFA is very appreciative of House Ways and Means Committee member Rep. Julie Stokes, who has championed our cause and is running to be Louisiana's next Secretary of State. Rep. Stokes is pictured at right during the Ways and Means Committee debate with ELFA Vice President of State Government Relations Scott Riehl.

#### ELFA Works Hard to Protect Member Interests in California

California Assembly Bill 3207 was amended protecting ELFA member interests and passed the Assembly on May 31 by



ELFA's Scott Riehl working with Louisiana State Rep. Julie Stokes

a vote of 48-26. The bill was heard by the Senate Banking and Finance Committee on June 27 and referred to the Senate Appropriations Committee, where it is expected to be heard in August. ELFA will remain vigilant to protect our exemption and expand it if possible.

This is more legislation seeking to expand the definition of a broker under the California Financing Law. ELFA's state team and volunteers are actively working with the sponsor to best protect the interests of our industry. ELFA's Legislative and Regulatory Subcommittee, with Moorari Shah of Buckley Sandler stepping up as a team leader available on short notice, provided critically needed technical expertise to achieve what we have thus far. ELFA's efforts to favorably shape this legislation continue as of this writing.

#### California Legislation Requiring Interest Rate Disclosure Headed for August Assembly Floor Vote

On June 25, the California Assembly Banking and Finance Committee passed California Senate Bill 1235 in a vote of 9-0 and sent it to the full Assembly for a floor vote expected in August, following their July recess. ELFA worked for months to educate the sponsor and seek relief and received a very narrow exemption that in no way alleviates all our concerns.

Exempting language achieved by ELFA is:

22801 (c) This division shall not apply to either of the following:

- **1**. A commercial financing transaction secured by real property.
- 2. A commercial financing transaction governed by Uniform Commercial Code—Leases (Division 10 (commencing with Section 10101) of the Commercial Code) or that otherwise arises from the leasing or rental of personal property.

ELFA will take any opportunity available to amend this bill further.  $\equiv$ 



For more information, please contact ELFA Vice President of State Government Relations **SCOTT RIEHL** at sriehl@ elfaonline.org.

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# Are You Prepared to Make a Lasting Impact?

**THE EQUIPMENT LEASING & FINANCE FOUNDATION** propels the equipment finance sector—and its people—forward with its industry-specific knowledge, intelligence and programs. Through free studies, internships and Guest Lecture opportunities, we help people navigate the changes coming up and make better business and personal career decisions. As we look ahead to Fall, there are several ways the Foundation prepares you to make a lasting impact on the equipment finance industry.



#### Go to the Head of the Class

In recent months the Foundation has been working with students, faculty and university career- development professionals to elevate industry awareness of the Guest Lecture Program. Now is the time to share your experience by giving a lecture at your local university! The Foundation will provide you with a ready-made presentation developed by industry experts to introduce students to the equipment finance industry. The presentation is customizable, allowing you to share your personal experience. Depending on your audience, the presentation includes additional slides that go in depth on particular subjects (e.g., lease accounting). For information about presenting as part of the Foundation's Guest Lecture Program, visit www. leasefoundation.org/academic-programs/ guest-lecture-program/.

#### **Recruit the Best**

Another opportunity to connect with the next generation workforce is via the Foundation's digital Internship Center. This one-stop online resource provides a platform for students and equipment

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Manual Instant Manual Instant - Manual Instant	

finance organizations to find each other and make connections. Through the now award-winning Foundation website (2018 Gold AVA Digital Award), ELFA member companies can easily post internships and review student résumés. Post your company's internship opportunities at *www. leasefoundation.org/academic-programs/ internship-resources/.* 

#### Join the Conversation

The best way to stay up-to-date on the latest industry research and other exciting Foundation announcements is to follow us on your favorite social media platforms:

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ANNELIESE DeDIEMAR is the Equipment Leasing & Finance Foundation's Director of Marketing & Communications.

# And a second sec

Giving

#### Join Industry Leaders and Be Recognized at Convention

The Foundation is honored to host its Annual Luncheon during the 57th ELFA Annual Convention. This is a fantastic forum to honor the many generous volunteers and contributors who invest in the industry through their gifts of time, expertise and financial support. We are pleased to announce that as part of this year's program, the Foundation keynote speaker is Mark Zandi, Moody's Analytics Chief Economist. You can also look forward to the Foundation's VIP Donor Lounge to rest and recharge, along with additional special amenities to be announced. To ensure you receive donor benefits during the 2018 convention, make your pledge by August 15. Donations can be made online by visiting www. leasefoundation.org/giving/online/. Contribute online via these simple steps:

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