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**COVER STORY** 

# **Emerging Leaders Focus** on the Future

Want to develop your career in equipment finance? Tips for the next-generation workforce

By Susan L. Hodges

On the Cover (L-R):

Ricardo Rios, Commercial Equipment Finance; Rachael Schubarth, BMO Harris Equipment Finance; Nishant Deshpande, BMO Harris Equipment Finance; Patric Berkery, CIT; Lovern Gordon, Boston Financial & Equity; Troy Graziani, Toyota Industries Commercial Finance; Alberto Colon, Commercial Equipment Finance; Humble Wellington, Sumitomo Mitsui Finance & Leasing; and Carlie Yeandle, BMO Harris Equipment Finance. Photographed by John Boehm in Chicago in April 2018.



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# **Recognizing Emerging Talent**



THIS ISSUE OF EQUIPMENT LEASING & FINANCE MAGAZINE celebrates the next generation of equipment finance. Our cover photo captures some of the terrific individuals who attended the Emerging Talent Networking Event in Chicago this spring organized by the Emerging Talent Advisory Council. The Council is a group of up-and-coming employees from member companies whose mission is to encourage professionals to get involved in the association early in their careers and attract the best and brightest to the industry. Learn how ETAC is working to help you build your workforce for a rapidly changing future and get a preview of what they are planning for EMERGENCE2018, a two-day leadership development event that will be held in July in Washington, D.C., on p. 18. Also in this issue:

■ Third-Party
Services: The market

for third-party services is growing. Should you get involved? In "Third-Party Nation" on p. 23, members weigh in on the opportunities and pitfalls surrounding this growing marketplace—and factors to consider if you're thinking about becoming a service provider.

- State of Business: In our "Industry Snapshot" on p. 28, the leaders of four ELFA Business Council Steering Committees share insights into their respective sectors' health and growth prospects. New business and existing portfolios are strong, but wild cards remain, from competitive pressures to unknowns in the new tax law.
- **Gen Z:** Are you prepared for radical customer and employee change between now and 2030? Discover key takeaways from the Equipment Leasing & Finance Foundation's Industry Future Council on p. 32 and discover additional insights from IFC participant Gary Amos on p. 44.

## Evolve, Emerge, Excel!

We hope you'll join us at the 57th ELFA Annual Convention, Oct. 14–16 in Phoenix. There's nowhere else you can connect with so many industry leaders and discover new ideas to help your business Evolve, Emerge and Excel. We recently announced a great lineup of keynote speakers, including technologist **Linda Bernardi**, election analyst **Larry Sabato** and economist **Mark Zandi**. View our promotional video and check out the preliminary agenda at www.elfaonline.org/events/2018/AC.

#### **Distinguished Service Award**

Finally, the Michael J. Fleming Distinguished Service Award honors members who have made a significant contribution to our association and our industry. We encourage you to nominate yourself or a colleague for the award this year—you'll find details at <a href="https://www.elfaonline.org/Awards/DSA/">www.elfaonline.org/Awards/DSA/</a>. The award recipient will be formally recognized at the Annual Convention.

Thank you as always for your support and participation. ≡

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

Have an idea for a session at the ELFA Annual Convention? See p. 43.



See what's in store for you at the 2018 Annual Convention at www.elfaonline.org/events/2018/AC/video.cfm.





# **Principles Workshops Off to a Strong Start**

The first Principles of Leasing and Finance Workshop of 2018 was held at the offices of BMO Harris Equipment Finance Company in Milwaukee April 17–19. Attendees learned about the benefits of leasing, the types of lease and finance transactions and fraud detection and prevention and received an overview of lease accounting. The next workshop will take place in Philadelphia June 5–7. An additional workshop is scheduled to be held in Dallas Sept. 24–26. For more information and to register, go to www.elfaonline.org/POL.

# "Laissez Les Bons Temps Rouler!"

Let the good times roll as the 2018 Credit & Collections Management Conference and Exhibition takes you to New Orleans, June 4–6 at the Omni Royal Orleans hotel! Save the date and don't miss this fantastic conference and the "joie de vivre" of New Orleans. See details at www.elfaonline.org/events/2018/CC/.

# **Everything Tax Pros Need to Know**

The Tax Best Practices Roundtable is a two-day forum offered exclusively to tax practitioners of ELFA member companies. The roundtable focuses on federal and state compliance and planning issues, recent developments and sharing of internal best practices. This year's roundtable will be held at the offices of PwC in Minneapolis June 19–20. For more information and to register, please visit <a href="https://www.elfaonline.org/events/2018/TPR">www.elfaonline.org/events/2018/TPR</a>.



# **Membership Minute**

Share your news! Members may submit press releases to the ELFA website, which are also included in *QuickBrief*, ELFA's weekly newsletter distributed to approximately 13,000 equipment finance professionals. Press releases may be submitted online at *www.elfaonline.org/news/add*. Please contact Amy Vogt, VP of Communications and Marketing, at avogt@elfaonline.org with questions.

# **Ops & Tech Conference in the Works**

The Operations & Technology Committee met at ELFA headquarters in April, under the leadership of Chair Andrew Cotter of Somerset Capital Group, to plan the 2018 Operations & Technology Conference, to be held Sept. 17–19 in Philadelphia. This hard-working group took a moment to pose for a fun photo showcasing some of their tech tools and devices.



# We Bring the Training to You

Join a growing number of ELFA member companies and bring ELFA training to your offices! Hosting a workshop at your own facility gives you the flexibility and convenience to address the specific learning needs of your employees, establish collective knowledge and a shared skill set and achieve even your most challenging business goals. Both the Principles of Equipment Leasing and Finance course and the Beyond the Basics course can be delivered on-site and tailored to your organization's needs. To schedule in-house training, please contact Alexa Carnibella at acarnibella@elfaonline.org.





# **ELFA and Foundation Welcome New Staffers**



Sarah Cormier has joined ELFA as Membership Coordinator. In this position she will assist the ELFA membership department with programs, projects and activities dedicated to member recruitment and retention. Sarah has held administrative and market-

ing positions at a variety of organizations including the Optical Society of America and Phillips Publishing. She has a B.A. in political science from Villanova University and an M.S. in computer systems management from the University of Maryland University College. She resides in Washington, D.C., with her husband and four children.



Stephanie Fisher has joined the Equipment Leasing & Finance Foundation as Program Manager. In this position she will oversee committee meetings; manage volunteer engagement for special projects, including academic programs and research grants; and

assist with the fundraising campaign and donor recognition programs. She has a background in program management and volunteer engagement through her experiences at the Council for the Advancement and Support of Education and the American Veterinary Medical Association. She has a B.A. in public communication and political science from American University.



Chelsea Neil has joined ELFA as Manager of Federal Government Relations. In this role she will engage members in grassroots activities at the federal level, including managing ELFA's political action committee, LeasePAC, and the Capitol Connections pro-

gram, as well as providing support on various legislative and regulatory matters. Most recently she was the Program Manager at the Equipment Leasing & Finance Foundation, managing the academic programming and outreach for the Foundation. She has a B.S. in political science from Appalachian State University and is pursuing a master's in public administration from Virginia Tech.



Emily Winkler has joined ELFA as Meeting Systems Coordinator. In this position she will manage the business development conference management system, association management software, speaker management system, mobile application and confer-

ence websites. She will also assist with preconference logistic functions. She has a background in technical writing and editing through her experience as a contractor at the U.S. Customs and Border Protection, Air and Marine Operations unit in the Requirements and Acquisitions departments. She has a B.A. in English literature from Christopher Newport University.

# **Technology Award Nominations** Due in June

Operational creativity, customer centricity and innovative efficient business processes these are the differences between highly successful organizations and those that simply survive. The Operations & Technology Operations & Technology Exce Excellence Award recognizes equipment finance companies that demonstrate these characteristics in developing and implementing innovative uses of technology or creative business processes. Nominations are due June 4. Learn more at www. elfaonline.org/about/awards/ote/.

# **Annual Report Highlights ELFA's Value Proposition**



The theme of the 2017 ELFA Annual Report, "Building the Next Generation Business," celebrates how equipment finance companies are positioning for success in the face of new policy, new people and new technology.

Learn about the ELFA value proposition, the association's accomplishments of 2017 and what's ahead for 2018 in the report at www.elfaonline.org/About.



# **Executives Prepare for the Future**

The Executive Roundtable brought top equipment finance executives to Miami in mid-March to discuss the latest industry trends, to strategize about the future and to create lasting business relationships. At the event, thought leaders shared their insights into the economy, using data to create value and talent development and inclusion strategies for a rapidly changing workforce. Featured speakers included futurist Vivek Wadhwa; Seth Mattison, expert on workforce trends and generational dynamics; and economist Rob Wescott. Ph.D.

# Conference Draws Industry Professionals and Institutional Investors

The Investors' Conference on Equipment Finance in New York City in March, hosted by ELFA and IMN, drew some 275 equipment finance professionals, institutional investors and service providers who support the industry. The packed agenda included a review of legislative and regulatory developments, the capital markets and the new lease accounting rules. A session on technology examined blockchain implementation, electronic documents and marketplace lending. Gus Faucher, Chief Economist for PNC Financial Services Group, delved into the state of the economy in his presentation "The Current U.S. Expansion Is Eight Years Old. Can It Set a Record?"



# 30th National Funding Conference

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# Thank you to our 2018 Funding Exhibitors!

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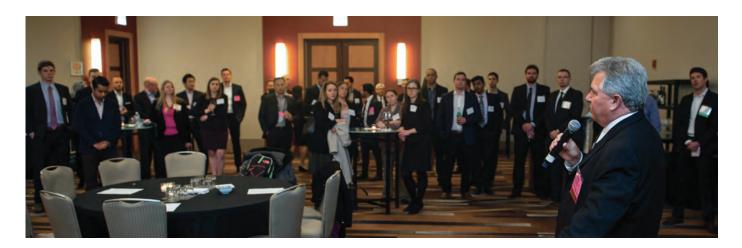
Wintrust Commercial Finance



# **Funding Conference Sees Huge Turnout**

ELFA'S 30TH ANNUAL NATIONAL FUNDING CONFERENCE attracted a strong turnout of approximately 680 industry executives to Chicago April 10-12. This unique event allows ELFA members seeking funding to meet with lending sources looking for investment opportunities. In recognition of the robust state of the industry, turnout was up by about 100 attendees over 2017, marking the largest attendance in memory. A total of 70 funding sources exhibited, up from 58 last year. The mood was upbeat, with members expressing optimism about the health of the economy and the potential for tax reform to have a positive impact on capital expenditures. Plan ahead for next year: The 31st Annual National Funding Conference is scheduled for April 9-11, 2019, at the Swissôtel in Chicago.





# **Event Draws Emerging Talent**

The Emerging Talent Regional Networking Event in Chicago in April drew more than 50 attendees from more than 20 member companies. The event was sponsored by LeaseTeam and the Emerging Talent Advisory Council, whose mission is to encourage industry employees to get involved in ELFA earlier in their careers and to attract the best and brightest to the industry. Two more networking events will be held on July 18 at ELFA in Washington, D.C., and on September 17 at the Loews Philadelphia Hotel in Philadelphia. For more information and to register, visit the Events section of www.elfaonline.org.



ELFA Chairman Dave Schaefer kicked off the joint luncheon with a discussion of the state of the industry.

# **Roundtables Tackle Pressing Issues**

**LEADERS** from ELFA member companies gathered in Chicago on April 10 to discuss hot topics and share best practices at a series of roundtables held immediately preceding the National Funding Conference. The members-only events brought together executives from bank, captive and vendor finance and independent companies to discuss the issues they are facing and how each is addressing those issues.



At the Bank Roundtable, attendees discussed federal public policy and industry updates, the implications of tax reform on go-to-market strategies and best practices when working with commercial bankers.



Independent Roundtable participants discussed an upcoming Foundation study on "Banking on the Non-Banks" and the impact of tax reform on the independent sector.



Millennials and managed solutions were the hot topics of discussion at the Captive and Vendor Finance Roundtable.





Women's Council Chair Lori Frasier

# First-Ever Women's Leadership Forum a Success

THE ELFA WOMEN'S LEADERSHIP FORUM was held April 23-24 at DLL headquarters in Wayne, Pennsylvania. This inaugural event, presented by the ELFA Women's Council, focused on leadership development for women at all stages of an equipment finance career. The forum, which was organized around the theme "Be a Force for the Future," featured dynamic speakers with plenty of time for attendee interaction and networking with other industry leaders. Attendance was limited to 80 attendees for this pilot event, but based on the popularity of this year's Forum, ELFA hopes to expand the event in 2019. We thank DLL for hosting the Forum, as well as all the attendees, sponsors, speakers and organizers who contributed to the success of the event.







# 5 Minutes with the **Independent Middle Market Chair**



BRIAN ESCHMANN, Chair of the Independent Middle Market Business Council Steering Committee

WHAT'S HAPPENING in the independent middle market sector of the equipment finance space? Equipment Leasing & Finance magazine recently talked to Brian Eschmann, Chair of the Independent Middle Market Business Council Steering Committee (BCSC), to take the pulse of this sector. Eschmann, President of Trans Lease, Inc., is currently serving his first year as Chair of the committee, which engages independent finance and multiline finance companies involved in transactions between \$250,000 and \$5 million, either individually or through lines.

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

Capital availability and a protracted positive economic cycle have attracted additional competition to the

marketplace. A softening regulatory environment has also attracted banks into some of our segment's niche markets, and we see a new breed of entrepreneurs that have brought an alternative approach to equipment financing through their proprietary technology platforms. As a response, our segment has attempted to understand and incorporate new technologies into our businesses to improve the customer experience, expedite transactions and combat these competitive pressures. Independents have consistently found new ways to adapt to new challenges and differentiate our products.

Our group has spent the early part of the year digesting the impact of tax reform. We generally see opportunity with the changes to develop solutions that maximize the benefits to both our companies and our customers. Like so many areas of the economy, independents are feeling the effects of a shallow talent pool and recognize the need to attract and develop new talent. What continues to set independents apart is our unique equipment and industry knowledge, which will continue to be the key aspect to our success as we embrace and incorporate many of the changes

in the broader marketplace. The key will be having the talent in our businesses to effectively deploy our strategies and fully realize the opportunities.

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

I enjoy the networking opportunities with fellow independents who share common challenges yet unique approaches to the market. Our BCSC is particularly diverse, varying in size, geography, equipment and industry focus. As entrepreneurs in the equipment finance space, we have all uncovered unique approaches to the market and possess the agility to adjust quickly when the marketplace changes. Serving on the committee has presented opportunities to engage more fully in the association and to develop new friendships with fellow members.

#### **About the BCSCs**

ELFA's Business Council Steering Committees represent ELFA's five key business segments: Captive and Vendor Finance, Financial Institutions, Independent Middle Market, Service Providers and Small Ticket. The committees pursue priorities related to their distinct memberships and integrate their work into the overall goals of the association. Activities include membership recruitment and grassroots political advocacy, contributing to industry research, presenting the Foundation's Guest Lecture Program and attending and contributing to the success of Capitol Connections and the Annual Convention. Interested in joining? Contact Ed Rosen at erosen@elfaonline.org.

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# INDUSTRY D ELFA



**52%** of smaller to medium sized equipment finance companies provide reimbursement for degree programs, according to ELFA's 2017 Small & Medium Enterprise Compensation Survey.

SOURCE: HTTP://BIT.LY/2Q5R4FL.



## **Return on Average Equity**

is highest for the following industry segments:

Type of Organization	Captives	12.5%
Market Segment	Middle Market	16.0%
Business Model	Mixed Originations	13.2%
Industry Average		11.8%

Source: SEFA Interactive Dashboard, www.elfaonline.org/SEFA

## New business volume grew 20%

year-over-year in February 2018, according to ELFA's Monthly Leasing and Finance Index at www.elfaonline.org/data/mlfi.



# **ASHBOARD**





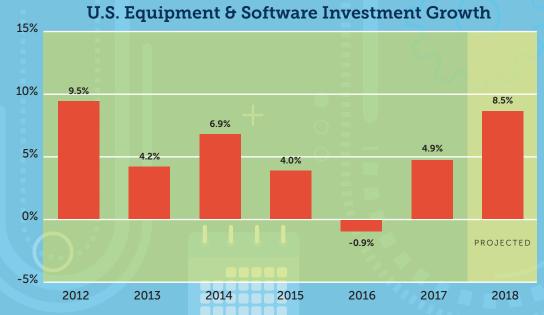
#### The U.S. economy expanded

at a 2.9% annual pace in the fourth quarter of 2017, bringing GDP growth to 2.3% for the year. Learn more in the Foundation's Industry Snapshot, a presentation slide deck summarizing the current conditions of the U.S. economy and equipment finance industry, at http://bit.ly/ELFFSnapshot.

**40%** of "Generation Z" worry about the impact of job automation on employment. The more we know about our future employees now, the better we can plan for success in 2030, when business and lifestyle perspectives and technology will be radically different from today.

Learn more in the **Industry Future Council report** at bit.ly/ELFFIFC.





Source: Macrobond Financial; Projections from Keybridge

Equipment and software investment are expected to grow 8.5% in 2018, the strongest

performance since 2012. That's according to the Q2 update to the Foundation's 2018

Equipment Leasing & Finance U.S. Economic Outlook. Access the full report at http://bit.ly/ ELFFEconomicOutlook.

# **Emerging Leaders**



By Susan L. Hodges



"[ETAC is] here to groom and empower you to do more for your organization and the industry, and do it sooner in your career."

-Nate Gibbons, Innovation Finance

**NATE GIBBONS** spent the first several years of his equipment finance career chasing success. "Success had a very different meaning for me when I first entered the workforce, and to be completely transparent, it was primarily about advancing my career and becoming a person of influence," says Gibbons, Chief Operating Officer for Innovation Finance in Fairport, New York, and Chair of ELFA's Emerging Talent Advisory Council (ETAC). Then he had a revelation. "It occurred to me that I actually started having more success when I focused less on helping myself and more on helping the people around me," he says. "The personal achievements I was trying to manipulate began happening naturally." If that sounds like so much kumbaya, read on because

Gibbons is arguably one of the best-known young professionals in the industry today. By sharing his ideas and outlook with others, he met people, made new friends and came to the attention of industry leaders. "I certainly underestimated how impactful the friendships and networking would be," he says. "You might be volunteering on an ELFA committee and suddenly be asked to take part in an opportunity that would never have been presented to you otherwise. I never imagined how many close friends I'd generate in an association full of my competitors."





"[T]here are multiple paths available to us and if you know that, you can do amazing things that you're passionate about and that keep you fulfilled in your work."

-Kara Miyasato, Stryker Flex Financial

This summer Gibbons and other members of ETAC will host EMERGENCE2018, a two-day leadership development event designed 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 will include sessions on career mapping, networking and executive coaching.

#### Map Your Next Move

Kara Miyasato, Senior Manager of Marketing at Stryker Flex Financial in Portage, Michigan, and a member of ETAC, will conduct a session on career mapping at EMERGENCE2018 with Emily Latham of DLL. "Often people find a job they can do that pays well, and they look for satisfaction outside their work," says Miyasato. "Career mapping looks at all the things you do in your job, then at the ones you do best and enjoy the most, and the amount of overlap between them. The goal is to find work roles that maximize the things you're good at."

Miyasato went through career mapping herself and benefitted. "I was managing our front-end operations team and doing a lot of day-to-day transactions," she says. "I loved my job but knew I was really good at project management, and I wasn't getting enough of that in my position. So I told my manager and we looked at moving me into a more project-based role on a different team. We also talked about the activities or skills I'd need to develop to get from Point A to Point B."

Today Miyasato has a different job that employs more of her skills and aligns with her interests and affinities. "At the end of the day, career mapping is about ownership," she says. "We need to take responsibility for figuring out what we want and love to do, and shaping our careers so we can get to that place."

#### **Network for Exposure**

Mike Hube, Vice President of Syndications at Fifth Third Equipment Finance Co. in Cincinnati, advocates networking as a way to advance. "Networking is connecting or operating within a group of people that share common interests or goals," he says. "Whether it's a sales event or a meeting of a specific industry segment, there are so many types of networking opportunities, and they're about creating friendships and relationships that are valuable in the long run."

Hube will present on networking at EMER-GENCE2018 and will likely do a lot of it while he's there. "There are so many ideas and opinions in the world and when you network, you can share your ideas and knowledge and hear those of others," he says. "You may uncover opportunities you didn't know existed or find solutions you didn't know you were looking for because so many things come up in conversation." He pauses a moment and then says, "Besides, if you just sit at your desk, no one will know how smart you are."

Martin Klotzman is also a fan of networking and contributes to ETAC by helping to set up Emerging Talent Regional Networking Events, the next of which will occur July 18 in Washington, D.C. "These events are for young members of companies in our industry and even for college students interested in learning more about a career in equipment finance," says Klotzman, who is Marketing and Operations Manager at Ivory Consulting Corporation in Walnut Creek, California. Regional events supplement larger ELFA events that young professionals may not be able to attend. All feature time for networking and either a panel or roundtable discussion led by industry leaders who share information about how they achieved success. "In a way, you can see these as group mentoring sessions," says Klotzman. "Leaders who attend give graciously of their time. It's an opportunity to meet them and hear their stories."

#### **Travel to ETAC Events**

Klotzman first attended an Emerging Talent Regional Networking Event in 2015. "The experience was phenomenal," he recalls. "I met others in similar situations who were looking to learn as much as possible and be the best they can be at their companies. It was a great opportunity to learn from my peers who were trying to climb the same ladders. I've made friendships that will probably last across my career. And these events are free to attend."

Klotzman also participates in the Equipment Leasing

"The best thing I've done for myself in my career is to be as involved as possible, joining a committee, joining groups."

> -Martin Klotzman, Ivory Consulting Corporation



& Finance Foundation's Guest Lecture Program, which is designed to help industry leaders increase awareness of equipment finance and attract new talent to the industry. "As an undergrad, I never took a course on equipment finance," he says. "And not once was it covered when I went for my MBA, and this wasn't that long ago." He learned of the industry through a friend who knew Scott Thacker, CEO of Ivory Consulting. "It

opened a whole new world," he says. "I think the vast majority of people in this industry get here the same way: by chance. And it's such a great industry to be in."

To help widen the scope of equipment finance and his experience in it, Klotzman volunteers. "The best thing I've done for myself in my career is to be as involved as possible, joining a committee, joining groups," he says. "Working with people in different roles gives me a finer understanding of how ELFA works as a whole." He also gets to ask questions and connect with professionals in many areas of the business. Says Klotzman, "It's truly a great way to build your network, learn from your peers and grow as an individual."

Zack Marsh can vouch for that. Marsh is CFO of Mintaka Financial, LLC, in Gig Harbor, Washington, and Chair Emeritus of ETAC. As one of the handful of young professionals selected to start ETAC, he remembers early networking and volunteer activities that helped him learn more about the industry and get to know others. He'll talk about executive coaching at EMERGENCE2018 as part of a panel discussion on the subject.

# **GET INVOLVED**

If you're a young industry professional and still wondering where to start, here are some action steps you might consider:

- Reach Out to an ETAC Member: Seventeen equipment finance professionals compose ELFA's Emerging Talent Advisory Council. Contact any of these members to learn more and start advancing your career in new ways and new directions. Access the committee list at www.elfaonline.org/about/governance/committee-list/.
- Visit the Emerging Talent page at www.elfaonline.org/industry-topics/emerging-talent/ to access training opportunities, the Generation Next LinkedIn Group and more.
- Attend EMERGENCE2018, July 18-19 in Washington, D.C. Learn more at www.elfaonline.org/events.
- Attend an Emerging Talent Regional Networking Event on July 18 in Washington, D.C., or Sept. 17 in Philadelphia. Learn more at www.elfaonline.org/events.
- Present the Foundation's Guest Lecture Program at a college or university near you. Learn more at www.leasefoundation.org/academic-programs/ guest-lecture-program/.



"Focusing on goal-setting and where you envision vourself can help you set your sights on what it will take to get there."

> -Zack Marsh, Mintaka Financial, LLC



#### Search for an Executive Coach

"A coach can focus on your strengths and weaknesses to help you apply knowledge, actions and ideas for you to build on those strengths and perhaps offset some of your weaknesses," he says. Although different philosophies exist about tackling or simply acknowledging weaknesses, an executive coach can usually help a professional decide how to go forward and target ways to be a better leader. Executive coaching is not for everyone, Marsh says, but for those "who aspire to do more, be their best selves and become leaders and influencers."

Marsh enjoys many aspects of ELFA, but says the opportunity to meet others outside his company who are doing similar things in different ways is what he values most. "Being able to bring to the table information I've learned from others outside my bubble has helped me so much," he says. "You have to be proactive about what you want to accomplish and ask for help. Just sitting there doing a lot of work and waiting to be recognized isn't always effective. The larger your company, the better the chance that your contributions may go unrecognized."

Gibbons agrees and emphasizes the need for young professionals to take charge of their ambitions, partly by becoming more active in the ELFA. "Sometimes the most talented, gifted people don't realize their full potential because they simply need a little help from others and don't realize it," he says. "That's why industry involvement can be so powerful. Resisting the temptation to be consumed by day-to-day activities takes tremendous discipline, but if we don't take steps to extract ourselves and look for possibilities, we won't be prepared for the future."

Miyasato adds this point about being consumed by daily tasks: "People get caught up thinking they need to be in a certain job for five years and then another one for five years if they want to be leaders in this industry. But there are multiple paths available to us and if you know that, you can do amazing things that you're passionate about and that keep you fulfilled in your work."

Hube says ETAC activities and other opportunities in ELFA fill yet another role for young professionals. "We all recognize the graying of the industry, and as it continues, younger industry members need to know each other to understand each other's capabilities. In this way, we can become the leaders we know we're capable of being and lead our industry forward."

#### **Pointers to Get Started**

If you're a young industry professional and still wondering where to start, contact an ETAC member or go to www.elfaonline.org/industry-topics/emerging-talent/ to learn more. Also consider these suggestions: "Take time to focus on your own learning and skill sets, be they soft skills or professional skills relating to your specific job," says Marsh. "Focusing on goal-setting and where you envision yourself can help you set your sights on what it will take to get there."

"Come to an ETAC session," says Miyasato. "We really focus on development activities and want to inspire people. We want them to feel they can take control of their careers and see what that looks like. We also feel impassioned about this industry and want to share that with others. ETAC provides opportunities to learn more about the industry and the opportunities available in it."

"Get involved," advises Klotzman. "Participate in the Guest Lecture Program or join a committee or another volunteer effort. Attend an ETAC regional event, and if your company can send you to a conference, by all means go. This industry has so many moving pieces, and we can learn from every one of them."

"Get out and talk to people," adds Hube. "Make new friends. The diversity of knowledge and backgrounds of people in ELFA is astonishing: the ideas they can bring to the table and the many different perspectives...you'll find people in similar situations that you can talk to in confidence and get advice and support. There are so many people out there who can help."

"I often hear that people are unsure of themselves, of their career moves, of what they can do to add value," says Gibbons. "ETAC's mission is to focus all of its attention and energy on the industry's single-most valuable and competitive resource: its people. We're here to groom and empower you to do more for your organization and the industry, and do it sooner in your career. Let's get started!" =

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

# Third-Party NATION

**ECS FINANCIAL SERVICES** in Northbrook, Illinois, began as a CPA firm more than 50 years ago providing general accounting and tax services to companies in the Great Lakes area. But when a client asked for help starting a captive leasing company, ECS not only joined in; the company partnered with a software provider and bought its program to manage the new leasing company's operation. ECS Financial Services now provides third-party services nationwide. "We used that software to service the leasing company's portfolio, and then we started managing portfolios for

others in the industry," says Shari Lipski, Principal at ECS.

"By selling our services as a third-party provider to equipment finance businesses, we've tripled the size of our company."

-Shari Lipski, ECS Financial Services

Today Beacon Funding is an ECS sister company originating \$100 million annually in small-ticket transactions in the textile, medical equipment and transportation industries. ECS, meanwhile, manages over \$1 billion of equipment lease transactions annually though portfolio administration, accounting, tax preparation, compliance and audits while still maintaining its roots as a traditional accounting and tax firm with more than 2,500 clients nationwide. "By selling our services as a third-party provider to equipment finance businesses, we've tripled the size of our company," says Lipski. "We're constantly hiring to meet and exceed customer needs, and with each new client, we learn something new that makes us stronger, more flexible and more adaptable. We capitalize on each new relationship by customizing a partnership with them and becoming an extension of their company."



SHUTTERSTOCK/ STANKEVSKAYA89/ BLAMBCA

# Third-Party Services and Managed Services: THE DIFFERENCE

- **THIRD-PARTY SERVICES** are services supplied to an equipment finance company by another company.
- MANAGED SERVICES is a term that describes the bundling of equipment and ongoing services and/or supplies into a solution that an equipment finance company provides to customers who use the equipment, but don't own it and can give it up at any time.

Because of the recent expansion of managed services into more markets, many companies offering these solutions need third-party services for billing, collections and processing the managed-services business.



## Narrowing the Focus

In the success of ECS Financial Services and other companies offering third-party services to industry members, David Schaefer sees a trend. "I think there's a bit of a renaissance going on," says Schaefer, Chairman of ELFA and the CEO of two companies, service provider Orion First and equipment financing company Mintaka Financial, both in Gig Harbor, Washington. "Equipment finance companies are focusing more narrowly on what they do best and reassessing how they do everything else," he says. "Many are asking why they continue to do some things they know others can do for them—and do better."

The result is twofold: More equipment finance companies are looking to acquire third-party services, and organizations that provide them are growing. "I'm getting input from companies interested in developing managed-service programs but which don't have servicing capabilities, and conversely from funders that want to expand their offerings to become servicing agents," says Diane Croessmann, Director of The Alta Group, a Glenbrook, Nevada-based consultancy that provides expertise in equipment leasing and asset management. "Many smaller equipment manufacturers and resellers are likely to be at a greater disadvantage as they contemplate entering the managed-services market due to the investment required to accommodate the servicing requirements around hardware, software, supplies and services bundles," she adds. "They will be in search of servicing agents and the industry will be well served if more equipment finance companies consider providing them."

Eric Gross, Senior Vice President and Director, Managed Services, at Bank of the West in Portland, Oregon, explains. "Companies that provide back-office services are not new. What's new is the increased demand for third-party services from leasing companies coming into the equipment finance industry. They see the value of outsourcing some or all of their back office."

At the same time, Gross says, finance companies, especially those that are captives of technology manufacturers, want to accommodate the growing number of customers calling for pay-per-use arrangements instead of traditional leases or loans. "But there's no way a traditional bank or equipment finance company will finance these structures, because they can't discount the payment stream," he says. "And because of the manufacturers' go-to-market strategy and product

"There's a bit of a renaissance going on. **Equipment finance** companies are focusing more narrowly on what they do best and reassessing how they do everything else."

-David Schaefer, ELFA Chairman and the CEO of Orion First and Mintaka Financial

offerings, they can't place the paper, but must keep it on their balance sheet—and they don't have the infrastructure to service this business."

Before we go further, an explanation of managed services and third-party services is in order. Bank of the West provides third-party services, mostly to captive finance companies, and has done so since acquiring Trinity Capital 17 years ago. These services form an end-to-end solution customized for each partnering company that can include application-processing, documentation, invoicing, customer service and collections to the end of the lease term. Funding may also be included. "This is third-party servicing, but we've always called it 'managed services,'" says Gross. "And we know the phrase now means something completely different in the technology markets."

He's right. Managed services refers to the bundling of equipment and ongoing services and/or supplies into a solution that a company provides to customers who use the equipment but don't own it and can give it up at any time. Because of the recent expansion of managed services into more markets, however, companies offering these solutions need third-party services.

# Changing Markets, **New Opportunities**

"Companies providing managed services need support of the entire managed-services portfolio," says Bruce Kropschot, Senior Managing Director of The Alta Group. "The number of leasing companies providing third-party servicing is still quite small, and these companies have only a small percentage of the overall marketplace," he adds. "But those that have diversified from equipment financing into providing services have done very well and have growing operations."

"Companies that provide back-office services are not new. What's new is the increased demand for third-party services from leasing companies coming into the equipment finance industry."

-Eric Gross, Bank of the West

GreatAmerica Financial Services is such a company. Created in Cedar Rapids, Iowa in 1992 as GreatAmerica Leasing Corporation, the firm today provides financing and consulting services in all 50 states and certain U.S. territories and employs 500 individuals in Georgia, Minnesota, Missouri and Iowa.

"Our whole reason for existence is to provide value to our partners that we provide funding and servicing solutions for in the markets we serve," says Joe Andries, Vice President and General Manager, GreatAmerica Financial Portfolio Services Group. "Subsequently, about 15 years ago, we realized that these channel partners wanted more from us than financing."

GreatAmerica responded first by creating Collabrance, a private-label service delivering IT solutions and customer support to vendors of office, telecom and IT equipment. Next came PathShare HR Services, a customized solution customer companies can use for hiring, training, leadership and organizational needs. Today the company is organized into seven entities, each of which focuses on a specific market and immerses itself into the events, education, training and research of its industry. "Collabrance and PathShare put us in the mindset that we could leverage those things we happen to be really good at," says Andries. "From there, it was a natural step to form GreatAmerica Portfolio Services Group, where our partners could benefit from access to our operational platform."

The company had spent millions on the platform, and customers were asking about it. "Demand for these services was coming from independent finance companies, banks, captives and financial investors," says Andries. "We understood that by using internal

talent and acquiring some outside talent, we could launch a whole new division based on outsourcing our platform."

Customers would need more than the technology platform, however. They would need help determining which processes and reporting capabilities would best suit their situations and provide them with full control of their portfolios. "Clients also placed high value on the service experience their customers would receive through our outsourced servicing model," Andries adds.

Andries says the launch of the Portfolio Services Group was relatively smooth. Experienced employees were initially assigned to the new effort, and servicing policies and procedures the company had established and refined for the past 18 years were applicable and served as a value-add for the new clients.

#### **Benefits Outside the Box**

"The Portfolio Services Group has opened opportunities in industries and markets that wouldn't have appeared on our horizon if we had remained solely in our lending role," says Andries. "The move has also strengthened the GreatAmerica brand by exposing other industries to the company's mission of helping companies achieve greater success."

Andries says the company has also grown in its ability to handle more complex transactions and has been able to apply the experience to its other operations. "We've also purchased lease portfolios from clients who've decided to divest or leave the industry," he says. "With the knowledge we gain from servicing the assets for an extended time, it's often a much easier risk assessment when it comes to evaluating the portfolio purchase."

Asked if servicing the portfolios of other companies presents privacy risks to any party, all story sources said no. "In our case, we have two separate companies," says Schaefer. "Each is a separate entity with separate ownership and separate purposes. I could do servicing and leasing in one company, but it would be more confusing."

ECS and Beacon Funding are also separate companies. Says Lipski, "Although ECS Financial and Beacon Funding are sister companies, they operate as separate entities, allowing each to maintain the integrity of its databases. This is a core fundamental component in providing third-party services."

"When we launched our portfolio services, we built silos around our new portfolio-services clients," says Andries. "We set up security parameters to make sure all client data and customer data were secure, and configured things so that only clients could see their information and other clients could not. That was probably the biggest part of the initiative."

Deb Reuben, President of Reuben Creative, LLC, a Minnetonka, Minnesota-based technology consultancy specializing in the equipment finance industry, says the opportunities for finance companies with digital technology platforms are burgeoning. "If you think the about the life cycle of the lease and consider the possibilities for both machine learning and data analytics, you realize these could be applied at every part of the cycle," she says. Reuben cites collections as an example. "For years, companies have tried to make their accounting systems do collections, but it's a whole different paradigm," she observes. "Collections has a very heavy data component to it and is about analytics, about tracking data and managing queues of work. An equipment finance company with a digital platform could handle collections for other companies. Or documentation services or due-diligence services or fraud detection and prevention. You could spin off any element of leasing and offer it as a third-party service."

#### Thinking Critically

Pivotal to the thought process before offering any third-party service, though, is the decision about exactly what to provide. "When we started Orion First 20 years ago, we thought it would be a complete platform for anyone wanting to start an equipment leasing company," says Schaefer. "I thought we'd do everything—property taxes and so on. But there are so many facets of specialization and in the service business, it's about what you do best. Today our claim to fame is our ability to collect, because I owned a collection agency before I started Orion. So our value proposition is about helping others in the industry by keeping the quality of their portfolios great."

At Bank of the West, the value proposition for clients is increased control of their customers' experience, along with more adapted product offering and the ability to provide a competitive advantage to their parent company. "It's not a one-size-fits-all,"

says Gross. "We offer a customized partnership, a recognized name and best-in-class systems and services."

Another consideration for becoming a service provider: your company's ability to meet multiple goals and objectives. "If you're prepared to handle the dayto-day operations of multiple companies by providing custom solutions, then there are no drawbacks," says Lipski. "Staffing is key. Everyone needs to be dedicated, motivated, multi-faceted, departmentalized and completely professional so that the client knows the job will get done right the first time."

Andries agrees. "You need a workforce that is seasoned, hungry and prepared to take on challenges you didn't even know existed," he says. "People who are successful in these roles have a solid foundation of universal reporting and finance principles that guide decision-making and customer problem-solving."

Andries also advocates having a scalable and flexible infrastructure that can accommodate various lease product types, diverse niche industries and a range of ticket contract sizes. "Outsourcing services may not

> be a viable option for all equipment finance companies, depending on equipment

> > "The Portfolio Services Group has opened opportunities in industries and markets that wouldn't have appeared on our horizon if we had remained solely in our lending role."

-Joe Andries, GreatAmerica Financial Portfolio Services Group

type, credit profile, contract size, scale, staffing and control of the customer-experience factors," he says. "For example, providers who are particularly good at managing only prime credits may not be the best solution for managing a portfolio of sub-prime obligors. Evaluating each individual situation to determine feasibility is important." ≡

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

# INDUSTRY

**NCERTAINTY** is typically the enemy of the equipment leasing and finance industry. When companies have a murky view of important issues on the horizon, they typically retreat into "wait and see" mode in purchasing, which can spell bad news for ELFA members.

But questions surrounding the implementation and impact of sweeping tax reform, a volatile stock market, a rising interest rate environment and other issues have done little to dim the optimism of members or their clients. The ELFA Beige Book, a quarterly survey of four of the organization's Business Council Steering Committees (BCSCs) captive and vendor finance firms, financial institutions, independent middle market companies and small ticket firms finds most unfazed by lingering questions and highly optimistic about the future.

"Last year was excellent in terms of business performance, and 2018 is off to a good start. Many members of our steering committee are optimistic about how 2018 will turn out from a results perspective," says Andrew Blacklock, Senior Director, Strategy and Business Operations at Cisco Systems Capital in San Jose, California, and Chair of the Captive and Vendor Finance BCSC.

Members weigh in on the health of the equipment finance market By Gwen Moran



# SNAPSHOT



"The recent clarity provided around the tax environment could potentially lead to large equipment purchases and related financings

once companies fully digest and understand the implications."

-Andrew Blacklock, Cisco Systems Capital



Blacklock and three of his fellow BCSC chairs reviewed the latest Beige Book data from the final guarter of 2017 and shared

their views on the state of the equipment finance industry. Their insights reveal some important considerations in the sector for the coming year.

# New Business and **Existing Portfolios Are Strong**

Overall, new business is strong. Each of the chairs said their businesses and their sectors overall were performing well, with strong deal flow, high levels of transactions being submitted through the credit process and no capital constraints.

"There is an enormous amount of capital in the market-more than I've ever seen in my entire career," says David Normandin, Chair of the Small Ticket BCSC and Managing Director of the Commercial Finance Group at Hanmi Bank in Irvine, California, who has worked in the industry for more than 20 years. "At my bank, it's not a question of whether or not we've got a concern about allocation of capital. It's more a question of how much more can we do? And so that's a unique situation."

Normandin's group also saw a return to seasonal cycles for the first time in several years. The return



"There is an enormous amount of capital in the market-more than I've ever seen in my entire career."

-David Normandin, Hanmi Bank

of a "slow summer" marked a change from previous years, followed by a very busy fourth quarter, he says. The first quarter of 2018 continued to be strong. He doesn't read much into the cycle other than to call it "interesting."

# Amid Optimism, Some Challenges Remain

Even in this positive environment, sectors are facing some challenges. One of the foremost is competition, says Brian Eschmann, Chair of the Independent Middle Market BCSC and President of Trans Lease, Inc. in Denver, Colorado. While his seament has seen a steady rise in overall opportunities, they face competition both from within their sector and from other sectors—more so than other BCSCs.

At the same time, competitors seem to be driving significant pricing pressure and narrower margins in their reluctance to fully pass along their higher capital costs. That means that spreads are tight. "In time, we'll see the market start to accept the upward movement in rates," he says.

Members of the small ticket sector saw an uptick in delinquencies in the second quarter, which is consistent with a slow but steady rise in charge-offs and de-

## Don't miss the latest data:

- ELFA's Monthly Leasing & Finance Index and Quarterly Beige Book at www.elfaonline.org/data/MLFI.
- The Foundation's monthly Momentum Monitor, Monthly Confidence Index and quarterly Economic Outlook Report at www.LeaseFoundation.org.

linquencies shown in previous Beige Book data across all sectors. At first, Normandin says his fellow small ticket sector members began to worry, but when delinquencies came back in line during the third and fourth quarters, it appeared to be an anomaly. Each of the chairs said that, while they're watching portfolio quality and the rise in delinquencies, those levels are still near historic lows, so it's not yet a concern.

"We're in the fourth year of low commodity prices in the cash grain sector. We have seen some increase in delinquencies but it has stabilized over the last year," says Michael Romanowski, Chair of the Financial Institutions BCSC and President of the Farm Credit Leasing Services Corporation in Minneapolis, Minnesota.

#### **Key Markets Vary Between Sectors**

Perhaps nowhere is the difference between the industry sectors—and member companies—more clear than in evaluating the differences between which markets offer the most opportunity. Some of the "usual suspects" topped the list for best-performing markets. such as construction, health services and industrial/ manufacturing.

But those aren't the sweet spots for everyone. For example, while agriculture was named as a laggard in the aggregate data from all four sectors, it's Farm Credit Leasing Services Corporation's bread and butter. And they're doing just fine, Romanowski says. Working primarily in agriculture and energy, he's had to shift to various areas of focus—moving from doing a great deal

of business in the cash grain sector a few years ago to solar installations

"Drawing others to the industry, educating them and investing in them is going to be key to

the future success of the broader industry, as well as each of our individual companies."

-Brian Eschmann, Trans Lease, Inc.

at nut harvesters and wineries, for example—but finding these niches has led to well-paced growth and customers moving from replacement to expansion mode.

"As a lender in the transportation space, I thought it was interesting to see truck financing appearing as both a best- and worst-performing segment," Eschmann says. "I think it illustrates the broad array of business models in our segment, how different companies can have a different experience in the same segments."

# A Bright Future with Some Speed Bumps

When the chairs look into their crystal balls to attempt to predict how the rest of the year will go, they like what they see overall, but there are some caveats.

Among the variables that seem positive, but members aren't sure yet, is the sweeping new tax law that went into effect at the beginning of 2018. While the lower corporate tax and 100% bonus depreciation seem to spell good news for customers, the BCSC chairs said that it's still not clear how much of an impact the law will have on investment.

"Our committee members are reviewing the recent Tax Cut and Jobs Act to understand the impact on customers and their own businesses," Blacklock says. "In the past few years, many companies have held off on large capital purchases because of uncertainty around the business environment and taxes. The recent clarity provided around the tax environment could potentially lead to large equipment purchases and related financings once companies fully digest and understand the implications."

Eschmann says he thinks the law will drive new capital expenditure spending, but that will likely happen after companies realize some of that savings. Once they see it on their financial statements, they may be more likely to invest, he says. And while some companies are seeing customers ask about the new lease accounting standards, it's not a major issue for most of them, the BCSC chairs agree.

Member companies are in growth mode, which is more good news. But they're challenged in finding talented workers, Eschmann says. "I think drawing others to the industry, educating them and investing in them is going to be key to the future success of the broader industry, as well as each of our individual companies," he says.

Big-picture issues like rising interest rates and immigration issues affect members in different ways, as "We're in the fourth year of low commodity prices in the cash grain sector. We have seen some increase in delinquencies but

> it has stabilized over the last year."

-Michael Romanowski, Farm Credit Leasing **Services Corporation** 



well. Everything from weather to the search for workers affects Romanowski's business lines, while the small ticket

sector needs technology investment to remain competitive. "We're really technology companies that lend money," Normandin says.

All of these varied issues point to an industry that is bound together by similar products, but that is deeply individual and has varying concerns. The good news is that the rising tide seems to be lifting the majority of individual ships, regardless of how different they are.

**GWEN MORAN** is a New Jersey-based freelance business and finance writer.



# **Data Outlook**

Find out what recent industry data reveals about the state of the equipment finance sector in ELFA President and CEO Ralph Petta's second-quarter video message at www.elfaonline.org/news/Q2video.

# Between Now and

# Industry Future Council examines "Gen Z" and the multi-generational workforce of tomorrow

By Anneliese DeDiemar

The Equipment Leasing & Finance Foundation's Industry Future Council (IFC) is comprised of a cross-section of selected industry executives who explore current issues, trends and the outlook for the future of the equipment finance industry.

This past February in Washington, D.C., IFC members focused their conversation on the workforce of the future. The Industry Future Council Report outlines key takeaways from the two-day convening, which was sponsored by PayNet and IDS.





# 2030

# **Preparing for Radical Changes** in Customers and Employees

# **Key Themes**

- The equipment finance industry is already in the midst of incredible change, and the pace will only accelerate. The good news is that younger generations will embrace technology and use it to ever greater efficiency and productivity.
- Changes in the environment, which will likely include an increase in natural disasters and water shortages, will foster changes in the types of equipment needed and financed.
- Companies that take time to create scenarios of possible futures are better able to identify trends and early indicators of change that others may miss.
- By thinking ahead not three or five years, but 10 to 12 years down the road, equipment finance leaders are likely to find exactly what they are looking for: new ideas to perpetuate an industry with a remarkable history of adapting to change.

The complete 2018 Industry Future Council Report is now available. Visit the Foundation's website at www. LeaseFoundation.org to access this free planning tool.

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



# Federal Court in New York Enforces "Floating" Forum Selection Clause

**FORUM SELECTION CLAUSES** are favored by most courts in most jurisdictions as a contractual mechanism to provide certainty with respect to where a litigation may be commenced in the event of a dispute between the contracting parties. However, not all forum selection clauses are created equal.

One type of forum selection clause that courts have generally declined to enforce are those that are deemed to be overbroad and therefore do not serve the statutory purpose of providing certainty as to where a litigation may take place. An example of such a clause would be one that allows one of the contracting parties to sue the other "in any court located in the United States." *Brooke Group Ltd. v. JCH Syndicate*, 87 N.Y. 2d 530 (1996).

Another type of forum selection clause that has not been universally enforced is the so-called "floating" forum selection clause. A floating forum selection clause is one that subjects a contracting party to jurisdiction and venue wherever an assignee of the other contracting party may be located, even if the assignee is unknown or unidentified at the time of the contract. Courts that have been critical of floating forum selection clauses have typically focused on the fact that at

the time of execution of the agreement containing such a clause, at least one of the contracting parties does not know where a potential assignee may be located and, therefore, where they may be subjecting themselves to jurisdiction and venue. *Preferred Capital, Inc. v. Power Engineering Group, Inc.,* 112 Ohio St. 3d 429 (2007).

Nevertheless, floating forum selection clauses are widely used in the equipment leasing and financing industry and courts have recognized that the clauses serve a valid business purpose by making agreements more readily assignable, which results in lower pricing to customers. *IFC Credit Corp. v. Aliano Brothers General Contractors, Inc.*, 437 F. 3d 606 (7th Cir. 2006). Even courts that have refused to enforce floating forum selection clauses on state law public policy grounds have recognized their valid business purpose. *Preferred Capital, supra.* 

Recently, the enforceability of a floating forum selection clause under both New York and federal law was addressed by a federal judge in the Southern District of New York in a case titled *Signature Financial, LLC v. Neighbors Global Holdings, LLC et al.*, No. 1:17-cv-06098-JSR, 2017 U.S. Dist. Lexis 208857, which is a pending case being handled by the authors' firm. Because the case is still pending, we can only provide a cursory discussion of the decision, but because of the topic's importance to the industry, we felt it appropriate to bring it to the industry's immediate attention.

In an opinion dated Dec. 19, 2017, the Court explained a prior "bottom-line order" that had denied in its entirety the defendants' motion to either dismiss the Signature's case against them for lack of personal jurisdiction or, alternatively, transfer venue to the Southern District of Texas. The opinion recognized that the question of personal jurisdiction was governed by New York State law, while the question of venue was



governed by federal law. Therefore, the Court was required to analyze the enforceability of the floating forum selection clause under both New York State law and federal law. After a detailed analysis, the Court held that the floating forum selection clause is enforceable under both New York State and federal law, subject to the traditional grounds for invalidating forum selection clauses generally, such as fraud relating to procuring the clause (which was not present in the Signature case). As the judge stated when discussing the floating forum selection clause's enforceability under New York State law:

Floating mandatory consent to jurisdiction clauses are enforced in New York because they facilitate the loan assignment market by allowing lenders to assign loans to other lenders and still sue borrowers for non-payment of rent in their home jurisdictions. The purpose of the clauses is not to surprise or inconvenience defendants, but to lower the cost of servicing lease portfolios. Lenders with large books of leases bring many suits for non-payment, and they can manage these portfolios more efficiently if they can bring all such suits in one place.

By enforcing these clauses, New York courts lower borrowing costs for lessees by expanding the pool of capital available to finance leases. Were New York courts to invalidate these clauses, financial institutions in New York might refrain from buying leases extended in other states, such as Texas, reducing access to capital for individuals and businesses in these areas. The negative effects may be particularly pronounced in those areas with





MARC HAMROFF, ESQ. is the Managing Partner and ROBERT TILS, ESQ.

is the Co-Chair of the Litigation Group at Moritt Hock & Hamroff LLP. Thank you to Kelly Schneid, Esq., and Lauren Bernstein, Esq., who assisted in preparing this article. lower concentrations of banking assets.

The opinion distinguished the "series of cases arising out of the nationwide fraud perpetuated by a defunct firm called NorVergence ... where the defendants were small, out-of-state, local businesses ill-equipped to litigate in New York," and

courts refused to enforce floating forum selection clauses. However, where the party opposing enforcement of the floating forum selection clause is a "sophisticated business," as is the case in the Signature matter, the Court found no reason to refuse enforcement of the clause.

# COUNDATION Academic Outreach



Designed to increase awareness of equipment leasing and finance and attract new talent to the industry. Share your personal experience and pay it forward!



A one-stop resource for managing your intern search in the equipment leasing and finance industry. The Foundation Internship Center provides a platform for students and organizations to find each other and make connections.

Our team is available to answer your questions and guide you throughout the process. Contact Stephanie Fisher at sfisher@leasefoundation.org to learn more.

www.leasefoundation.org

### **CECL: The New FASB Requirements** for Loss Accounting

#### Forecasting credit losses over the entire lifetime of your loans and leases

**WHO** Applies to all lenders of all types, banks, independents, captives. **WHAT** New accounting requirements to forecast all future losses on current portfolio.

WHEN Fiscal years starting 12/16/2019 for SEC filers; others 12/16/2020 (for non-public entities

interim quarterly reporting required only after 12/16/2021)

WHERE FASB's CECL applies in the United States. Abroad, IASB's IFRS-9 applies.

**WHY** Many lenders did not adequately reserve for losses going into the last recession.

**HOW** A wide variety of methods are permitted.

**IMPACT** FASB's Chair expects CECL to increase loss reserves by 15% to 50%.

THE GREAT RECESSION CAUGHT MANY FINANCIAL INSTITUTIONS OFF GUARD. To reduce the risk of a similar crisis in the future, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have adopted new rules requiring lenders to maintain loss reserves sufficient to cover expected future credit losses. As these are accounting rules, not government regulation, they are unlikely to be affected by the current political climate toward deregulation.

While CECL will be something of a burden for everyone, there is a substantial silver lining in better understanding expected loss.

FASB's new Current Expected Credit Loss (CECL) requirements apply to any business issuing financial statements, and to the entire remaining lifetime of every asset that could experience a credit loss, including loans, leases, bonds, trade receivables and off-balance-sheet exposures, such as letters of credit. Current FAS 5/ASC 450 rules are substantially different, only requiring lenders to reserve for incurred losses, losses that are both probable and reasonably estimable, and anticipated to be taken in the next year or two.

The impact of the new rules will be recognized on day one, with quarterly adjustments to the forecast thereafter for every open exposure. The impact varies significantly by institution and credit type; transactions with longer terms are affected more than those with shorter terms. Fitch estimates that CECL will increase the reserves of U.S. banks from \$135 billion to about \$185 to \$235 billion.

FASB does not prescribe specific methodologies, nor are lenders required to incur "undue cost and effort" to obtain future loss forecasts. Forecasts are simply required to be "reasonable and supportable." Relevant information, such historical experience, current conditions and all reasonably available information, should be considered. The unit of account can be the individual transaction level, or it can be pools of assets with similar risk characteristics (e.g., risk ratings, asset type, collateral type, size, term, industry, geography, vintage). All methods require historical loss data, preferably including a full economic cycle.

"Top-down" loss forecasting methods estimate losses at the portfolio level. For example, quarterly forecasts can be obtained by calculating historical average loss rates for homogeneous risk pools and applying adjusted versions of these rates to segments of the current portfolio. Top-down methods are generally easier; however, these forecasts involve a measure of subjectivity, compromising their accuracy. Furthermore, they are of limited use in contributing to portfolio risk management goals.

"Bottom-up" methods calculate expected losses at the individual transaction level. These methods require more data and effort, but will be more accurate, consistent and defensible over time. Moreover, expected loss data can be combined with pricing and overhead data to calculate profitability by transaction, program or asset type, for use in portfolio management, col-



lections, funding, pricing, target marketing and potentially credit decisioning and structuring. Bottom-up loss forecasting methods generally use the Basel framework of:

#### Probability of Default x Exposure at Default x Loss Given Default = Expected Loss

PayNet has utilized its massive database of more than 24 million contracts to conduct extensive research on loss forecasting. This database was used to develop a model for equipment finance loss forecasting that is an amalgam of more than 300 underlying models for different asset types and transaction sizes, going out to seven years in the future. In the process, a great deal was discovered about the drivers of loss, which should be helpful to those building their own models, as well as to credit practitioners generally in decisioning and structuring transactions.

The myth is that Loss Given Default is "all about the collateral and its value." The reality, however, as proved by the data, is that collateral is only one of many factors that determine LGD. In total 10 factors, in three broad categories, were identified (see figure above).

While many potential factors were tested as part of the research, those listed in the figure above proved to be both statistically significant and explainable from a common-sense point of view. For example, transaction size has a large impact on Loss Given Default. While 15.5% of defaulted transactions under \$10,000 were total losses (100% of EAD), only 2.9% of transactions over \$1mm were total losses. This makes sense, as very small deals are often not worth the cost of seriously pursuing, repossessing or litigating—whereas a credit manager with a seven-figure deal that's a total loss might want to think about finding a new line of work!

Credit quality materially impacts Loss Given Default. Among borrowers with very high credit quality, such as hospitals, universities, schools and government, two-thirds of defaults were administrative, "nuisance defaults," with no loss whatsoever. But even those industries aside, LGD is usually more than twice as much for the lowest quality credits versus the highest quality ones—as they say, "you can't get blood from a stone." Similarly, lenders with experience in an asset class knew better what to finance and with whom, and how to maximize proceeds from the collateral if the deal went south—which new market entrants would not know as well.

While CECL will be something of a burden for everyone, there is a substantial silver lining in better understanding expected loss. Just as PDs that provide specific Probabilities of Default are more useful than credit scores that simply rank-order risk, so are ELs better than PDs, as loss is what really matters in lending. Whatever methods lenders decide to use to satisfy CECL, the impact on reserves is potentially large enough that it's worth addressing these rules early, to manage the impact of CECL when it arrives.



THOMAS E. WARE is Senior Vice President - Analytics & Product Development at PayNet, Inc.



### A Turbulent Political Outlook

THE ECONOMY IS DOING WELL, unemployment is at or near all-time lows, major tax reform that lowered corporate and individual tax rates was signed into law and Republicans control the House, the Senate and the presidency. Considering what should be a position of strength going into the mid-term elections, one has to ask, "Why are Republicans in Washington not exuberant?"

When one talks to Republicans who are retiring or sees them interviewed on television, a fairly consistent answer is, "It's just not fun anymore."

The problems with the legislative process in Washington have been long in the making. While the shift of power from the legislative branch to the executive branch began shortly after the Constitution was ratified, that process has been slow over time. The changes that have led to a breakdown in the legislative process have been going on for some time, but have accelerated rapidly in recent years.

After Republicans took over the House following the 1994 elections, Republicans centralized power within leadership to a degree that had never been seen before. That process has continued and increased under both Democratic and Republican led Houses since then. Scandals in the 2000's led to the elimination of earmarks, which, for all of their faults, were undoubtedly the grease that made the sausage making machine work by allowing members to claim credit for improving roads and bridges in their districts. Increasing attention to optics led to less frequent and smaller congressional delegations to foreign capitals. These trips were often bipartisan, sometimes included spouses and were a critical tool for building relationships among members of Congress. Elections have become more expensive, meaning that members of Congress must spend more time raising money and less time working

on policy matters or interacting with constituents. On top of all of this, add the explosion of social media and a camera in everyone's pocket, and being a member of Congress starts to resemble living in a pressure cooker under a microscope.

These factors have affected both parties to a large degree, but Republicans seem to be suffering from this malaise inducement more so than their Democratic colleagues. A big part of this is due to the President. When Republicans want to be talking about tax reform or reducing regulations, they get asked questions about Russia. When they want to be talking about confirming conservative judges, they get asked about the latest tweets. The elephant has long been a symbol of the Republican party. To discount the effect that the President has had in causing Republican ennui is to avoid the largest elephant in a room full of elephants.

Then to add insult to injury, Republicans are looking toward the midterms, having just experienced a watershed election in Virginia, and having lost a U.S. Senate seat in Alabama and a House seat in Pennsylvania in a district that the President won by 20 percentage points. In light of the choppy electoral seas that they've just gotten through, they very clearly see a storm on the horizon, and many are simply deciding to retire, rather than try to navigate through what will be a very tough 2018 election cycle. To prove the point, nine of the 21 Republican Committee Chairman are retiring this year.

Interestingly enough, there are a few rays of legislative sunshine breaking through the clouds. Recently Republicans and Democrats teamed up to pass a bank-



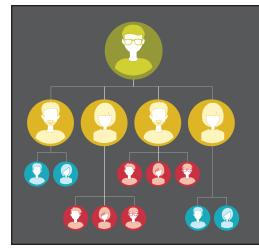
### **ELFA Creates Tax Reform Industry Topics Page**

ELFA has launched an Tax Reform Industry Topics page on our website at www. elfaonline.org/industry-topics/tax-reform. Visit this page for articles about the impact of tax reform on the industry, a full recording of the ELFA webinar on tax reform from earlier this year and other information on this topic. This will be a dynamic page that will be updated as new information becomes available.

ing reform bill in the Senate. And on the House side, a bipartisan bill was introduced to reform the IRS, which included an ELFA advocacy priority, which would make getting tax transcripts from the IRS much more efficient. One can hope that these efforts will trigger the muscle memory of how to legislate in a way that makes consensus legislating more of a common occurrence in the years to come.



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



### **Update Your Staff Listing**

Key contacts of ELFA member companies are encouraged to periodically update your staff listing in the ELFA member directory. This ensures your employees have access to the full array of member benefits and allows ELFA to communicate with the relevant people within your organization. Please take a moment this spring to log into the ELFA website and remove former employees as needed. Also, new hires of an ELFA member company may gain access to member resources by creating an account from the ELFA website. Please contact Julie Benson at *jbenson@elfaonline.org* with questions.



## **State Advocacy Update**

WITH 34 STATE LEGISLATURES CURRENTLY IN SESSION AS OF THIS WRITING, your team at ELFA is working to review and where needed address all legislation filed that impacts your interests. ELFA's efforts are focused on identifying any and all measures that would wrongly infringe on the operations of ELFA members in the commercial sector, addressing those bills that require our attention and conversely promoting legislation that addresses industry needs. Of the 180,000 expected state legislative bills filed across the 46 states in session in 2018, ELFA estimates there will be in excess of 2,000 bills introduced this year that may impact our members' interests.

### State Legislatures in Session

**34** states are currently in regular session

**16** states are out of session, including **MT** (no regular session in 2018), **NV** (no regular session in 2018), **ND** (no regular session in 2018), **TX** (no regular session in 2018).



#### Illinois Sales Tax Regulations Published

The Illinois Department of Revenue has posted for public comment new regulations for the sourcing of sales tax on conditional sales as required by the ELFA-backed 2015 enactment of Senate Bill 1548 - Public Act 099-0126. ELFA had formerly commented on preliminary language by identifying three inconsistencies needing modification. The ELFA State Tax Committee reviewed this final regulation for industry comments that focused on whether these three issues were addressed.

**Background:** Before enactment of Senate Bill 1548, the correct local tax to charge was uncertain because the sourcing of tax was the location of equipment before shipment to the customer, which often was not in Illinois, or the equipment may not even yet be manufactured. The bill addresses that issue.

**Text of Senate Bill 1548:** A retailer selling tangible personal property to a nominal lessee or bailee pursuant to a lease with a dollar or other nominal option to purchase is engaged in the business of selling at the location where the property is first delivered to the lessee or bailee for its intended use.

There was a lack of symmetry between the text and intent of this enacting legislation in the first draft of regulations provided to ELFA in 2016. It invited differing forms of compliance open to interpretation in the marketplace. Following are three inconsistencies pinpointed by ELFA as needing revision before publication of the final regulation.

- Requiring an additional "certification" on each transaction that is in addition to and not part of documentation captured in the standard conduct of business.
  - **a.** Use of separate "certification" solely for sales tax sourcing opens the door for error and/or foul play when the standard documentation captures the proper

location based on where the property is "first delivered for its intended use."

- 2. Requiring the sourced location to be where the property is "actually first used" rather than where the property is "first delivered for its intended use."
  - **a.** "First use" can be an action less than "first delivered for its intended use." This is a slippery slope, again opening the door for error and/or foul play.
- **3.** Use of the term "product" rather than tangible personal property or property.
  - a. This can be rectified with a change of word.

ELFA sends out email updates on state legislative and regulatory activity as it occurs. You can receive this information by sending complete contact information to Scott Riehl, ELFA Vice President, State Government Relations, at sriehl@elfaonline.org.



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



**NEXTGEN** Risk Management – The Future Is Now

# Credit & Collections Management Conference and Exhibition

June 4-6, 2018 Omni Royal Orleans, New Orleans, LA

#### **PROGRAM HIGHLIGHTS**

- The 2018 Economic Outlook, presented by Beth Ann Bovino, Chief U.S. Economist, S & P Global
- · Credit & Collection Manager Effectiveness Surveys
- Would You Do the Deal? Discovering ways to strengthen the transaction and make it work
- · Tax & Regulatory Update
- Green Energy
- 2018 Equipment Industry Panel
- Future Technologies
- RegTech
- NextGen Workforce: Recruiting, Motivating and Retention Panel Discussion

# EXHIBIT AND SPONSORSHIP OPPORTUNITIES

Contact Steve Wafalosky
at 440-247-1060 or
stevew@larichadv.com if
you are interested in learning
more about the exhibition or
if you would like to sponsor
any of the conference events.

For complete conference details and registration information go to: www.elfaonline.org/events/2018/CC

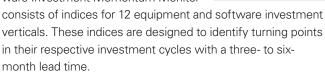




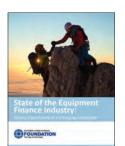
# Leverage Foundation Resources for Sustainable Success

**INDUSTRY LEADERS REGULARLY REMARK** on how integral Equipment Leasing & Finance Foundation research and resources are in determining strategic direction for their company. As we approach the mid-year mark, we encourage you to leverage recent Foundation products in your decision-making. Some of the most popular studies published by the Foundation include:

- 2018 Equipment Leasing & Finance
  U.S. Economic Outlook Updated
  quarterly, this resource highlights key
  trends in equipment investment and
  places them in the context of the
  broader U.S. economic climate.
- Momentum Monitor The Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor



■ **New Technologies Video** – In this lively, animated video, the Foundation provides a comprehensive visualization for how artificial intelligence, blockchain and smart contracts will impact the equipment finance model over the next five years.



Other helpful resources providing a broader context of current economic trends relevant to the equipment finance industry include:

■ State of the Equipment Finance Industry Report (SEFI) – The SEFI provides a unique look at trends in the industry over the past year, identifies key drivers

for future growth and explores emerging opportunities and risks that could shape the industry over the next three to five years.

- Industry Snapshot The Industry Snapshot is a presentation slide deck summarizing the current conditions of the U.S. economy and equipment finance industry. Updated on a quarterly basis by Keybridge Research, it comprises clear, easyto-digest charts and short narratives of key economic and industry trends, ideal for incorporating into your organization's executive briefings and presentations.
- Headwinds, Undercurrents, and Tailwinds: How Equipment Finance Companies Can Learn and Benefit from the

The Foundation has an expanded mission, which includes a more charitable focus and a "pay it forward" philosophy intended to engage the next-generation workforce and attract new talent to the industry.

**Fintech Phenomenon** – In this new study, the Foundation reveals that rapidly emerging fintech technology platforms present a disruptive force to the equipment finance industry. However, fintech is *not* forecast to become a competitor as a major source of equipment funding. The study provides an in-depth examination of fintechs—companies that offer or enable financing using streamlined technology—and their opportunities, risks and trends for the equipment finance industry.

In addition to providing—now FREE—access to these studies and reports, the Foundation has an expanded mission, which includes a more charitable focus and a "pay it forward" philosophy intended to engage the next-generation workforce and attract new talent to the industry. To highlight two resources, the Foundation offers fully-customizable presenter tools for its Guest Lecture Program, as well as a digital Internship Center to connect students with industry leaders.

Finally, we are grateful for your support and look forward to your continued involvement as we fulfill our mission to inspire thoughtful innovation and contribute to the betterment of the equipment finance industry.



**ANNELIESE DeDIEMAR** is the Equipment Leasing  $\vartheta$  Finance Foundation's Director of Marketing  $\vartheta$  Communications.

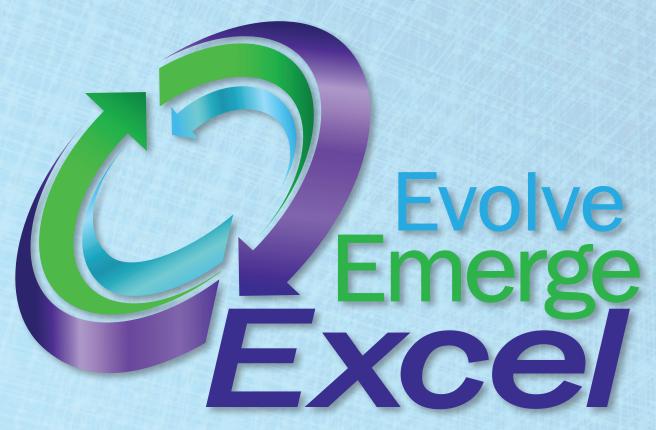
Learn more about expanding your investment in the industry and how to access free reports via the Foundation website at www.LeaseFoundation.org.

# CALL FOR PRESENTATIONS

# **57th ELFA Annual Convention**

October 14-16, 2018

JW Marriott Phoenix Desert Ridge • Phoenix, AZ



The 2018 ELFA Annual Convention is the largest and most important annual gathering of industry leaders. This year's convention theme, "Evolve, Emerge, Excel!," is all about positioning your company for success by Evolving your business operations and staying relevant, Emerging stronger and Excelling at achieving your goals.

"Evolve, Emerge, Excel!" today and submit a proposal to lead a discussion at the 57th ELFA Annual Convention. All proposals will be reviewed by a committee of your peers, consisting of representatives from each of the business council steering committees and the ELFA Board of Directors. Entries must be received no later than 11:59 pm EST, Wednesday, July 11, 2018—No Exceptions.

You may find the complete details on how to submit a proposal by going to this link:

https://bit.ly/2Jm8VrA

Questions? Please contact Heather Staverman at <a href="mailto:hstaverman@elfaonline.org">hstaverman@elfaonline.org</a> Submissions Due by 11:59 pm EST, Wednesday, July 11, 2018





# Reinventing Our Industry for the Next Generation

what are you do do those born between 1995 and 2010, will account for one-third of the U.S. population by 2020. The first true group of digital natives, this demographic makes up 25.9% of our population. In February, I had the unique opportunity to spend the day in Washington, D.C., with the Equipment Leasing & Finance Foundation for our 2018 Industry Future Council Meeting [see p. 32]. This experience got me thinking about how we can effectively connect with this future generation.

# 1. Showcase the value add of digital and how your organization integrates it every day.

Digitalization is defined as the integration of digital technologies into everyday life.2 Currently, 92% of Gen Z-ers have a digital footprint.3 For this population, smart phones and social media aren't seen as devices and platforms, but rather a way of life. Companies that showcase how and why they embrace a digital mindset and apply it in day-to-day business will be at the forefront of emerging talent's minds. That's why internship programs are critical. Our Siemens Financial Services Program will involve students in value-driven work, from launching a new internal app for employees, to supporting digital projects managed by our teams.

# 2. Position how our industry offers entrepreneurial opportunities, growth and security.

Being born into an environment where many watched their elder family members struggle in the Great Recession, Gen Z may lean more toward security and money. Though idealistic and entrepreneurial like their millennial predecessors, Gen Z is also motivated by assurances of a secure life outside of work.<sup>4</sup> For equipment leasing,

many signs point to strong business confidence and increased investments as our key markets grow. The industry is a \$1 trillion sector well positioned for the future. In terms of the entrepreneurial agenda, equipment finance 2.0 as coined by Dexter Van Dango is not our father's leasing company. The new equipment leasing and finance market is rooted in data-driven processes and blockchain technology and offers this new generation an opportunity to come in and further "digitize" this cultural shift.

# 3. Encourage your hiring managers and employees to connect with potential talent digitally.

Gen Z is the first generation to grow up where the idea of becoming a social media influencer makes just as much sense as going to school and getting a business degree. They spend hours each day watching influencers online and studying the art of establishing a digital identity. Now more than ever, our employees' online personas serve as both an employer branding and a talent acquisition tool to engage this newest workforce demographic. According to Forbes, 60% of Gen Z-ers want their career and everyday work to impact the world.<sup>7</sup> Employees that share the positive societal impacts that equipment leasing can provide will

have a higher chance of establishing an authentic connection. What better way to do this than working for an organization that applies financing solutions to improve healthcare, upgrade infrastructure and even revitalize our manufacturing floor?

The time has come to reinvent our industry to attract a new generation of talent. Through showcasing the value add of integrating digital, positioning the security and opportunities for growth and encouraging our employee networks to establish genuine connections with this new demographic online, we have the ability to both attract and learn from our newest addition to today's workforce.  $\equiv$ 



Gary Amos is CEO, Commercial Finance Americas, at Siemens Financial Services, Inc.

#### Footnotes:

- 1. www.huffingtonpost.com/george-beall/8-keydifferences-between\_b\_12814200.html
- 2. www.igi-global.com/dictionary/digitalization/7748
- 3. www.huffingtonpost.com/george-beall/8-keydifferences-between\_b\_12814200.html
- 4. www.forbes.com/sites/deeppatel/2017/09/21/8ways-generation-z-will-differ-from-millennials-inthe-workplace/#598ca73776e5
- www.elfaonline.org/docs/default-source/data/2017sefi-slide\_final.pdf?sfvrsn=58c2b50d\_0
- 6. www.monitordaily.com/article-posts/equipment-finance-2-0-not-fathers-leasing-company/
- www.inc.com/nicolas-cole/5-things-brands-can-doto-attract-generation-z-as-consumers-and-potentialemploy.html



# Operations & Technology Excellence Award

Has your company demonstrated a best practice with an innovative use of technology to:

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#### **Previous O&TE Award Winners:**

- (2017) CIT Direct Capital and Mintaka Financial (Honorable Mention: Cisco Systems Capital)
- (2016) LEAF Commercial Capital, Inc. and National Leasing
- (2015) Element Financial Corporation and Quick Bridge Funding, LLC
- (2014) BB&T Equipment Finance Corporation and Wells Fargo Equipment Finance, Inc.
- (2013) TCF Equipment Finance, Inc. and SunPower Corporation
- (2012) AIG Commercial Asset Finance and LEAF Commercial Capital, Inc.
- (2011) First American Equipment Finance and ICON Capital Corporation
- (2010) Winthrop Resources Corporation
- (2009) Key Equipment Finance and PHH Arval
- (2008) Orion First Financial LLC and Trinity Industries Leasing Co.
- (2007) TCF Equipment Finance, California First National Bancorp and Xerox Capital Services
- (2006) Farm Credit Leasing
- (2005) Sytx Capital, Relational LLC
- (2004) Cisco Systems Capital Corporation
- (2003) AgStar Financial Services and National Leasing Group
- (2002) ABB Financial Services, IBM Global Financing, and Caterpillar Financial Services Corporation

### Does your company belong on this list?

### **NOMINATION DEADLINE: MONDAY, JUNE 4, 2018**

Winners of the O&TE Award will be recognized at the 2018 Operations and Technology Conference, scheduled September 17-19, 2018, at the Loews Philadelphia Hotel in Philadelphia, PA.

For more details, please go to the O&TE Award website: www.elfaonline.org/About/Awards/OTE/





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# The Odessa platform isn't one thing, it's everything.

A lease management product is critical, but it isn't enough. The Odessa platform brings system configuration, app development and test automation into one seamless platform. Eliminate workarounds by unifying IT and business. Work smarter, scale faster. Building your business your way? In leasing, that means everything.



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