

**EQUIPMENT**  
**Leasing & Finance**  
THE MAGAZINE FOR INDUSTRY EXECUTIVES

OCTOBER 2020

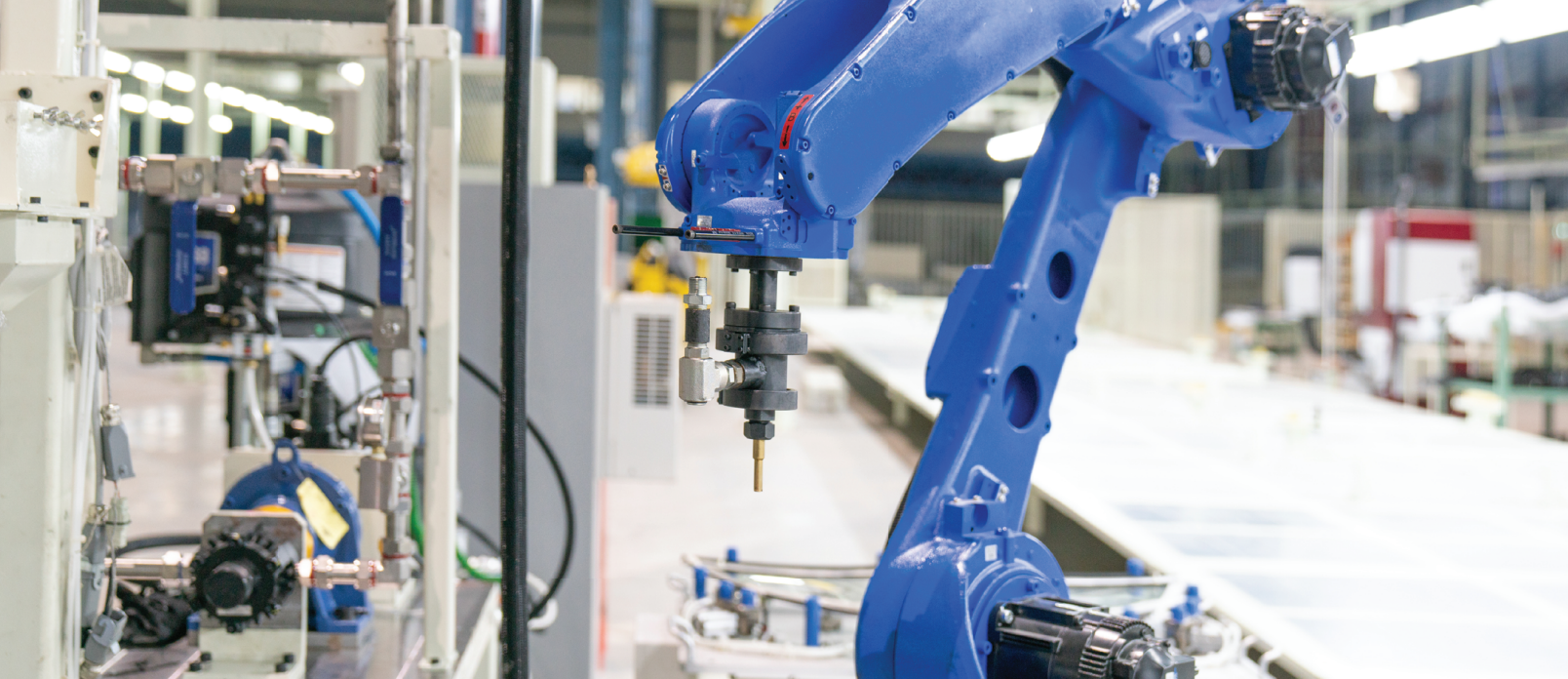
**ELFA 2020  
BUSINESS**

**LIVE!**

**Everything you need to know!**  
Join your industry on October 27-28.

Data on Demand:  
Survey of Equipment  
Finance Activity

**ELFA**  
EQUIPMENT LEASING AND  
FINANCE ASSOCIATION



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# ELFA 2020 BUSINESS

## LIVE!

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## EQUIPMENT Leasing & Finance

THE MAGAZINE FOR INDUSTRY EXECUTIVES

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By Susan L. Hodges



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## Let ELFA Know What's Important to You!

As an ELFA member, you may choose the types of notifications you wish to receive from the association. From the **EL&F magazine** to **event alerts** to **advocacy newsletters**, you can opt-in to receive relevant communications straight to your inbox. Follow the steps below to update your preferences today!

### Six Easy Steps to Update Your Communication Preferences

1. Visit the ELFA website at [www.elfaonline.org](http://www.elfaonline.org).
2. Click on **User Login** in the top right corner of the page and enter your credentials.
3. Click on **Account Tools** in the top right corner of the page.
4. Under **My Account**, click on **Update Communication Preferences**.
5. Select and update your preferences accordingly.
6. Please verify that **Exclude Email** is not selected to ensure delivery of timely information in your inbox.

Please contact ELFA membership at [membership@elfaonline.org](mailto:membership@elfaonline.org) with questions.



## *What you can't see could hurt you*

**Bankruptcy is expected to surge in the second half of 2020 and the average lender lacks first lien position approximately 20% of the time.** Changes since origination or small errors like debtor name mismatch can lead to a loss of claim. How much visibility do you have into imperfections in your lien portfolio?

With resources stretched thin and your focus on the customer, Lien Solutions can help you identify areas of concern within your portfolio. Our customized Risk Assessment can be the first step toward building processes to better secure your assets and build a stronger lending operation.

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# Reimagining the Future

**THROUGHOUT THIS EXTRAORDINARY YEAR**, ELFA members have demonstrated a resilience that has become a hallmark of the equipment finance industry. In response to a host of challenges in 2020—from the health crisis to the resulting economic impact—businesses in our industry have pivoted to meet changing customer and workforce needs.



At ELFA, we're pivoting as well, converting our traditional in-person Annual Convention into an interactive virtual event, **ELFA 2020 Business LIVE!**, on Oct. 27-28. Our first-ever virtual conference will help you discover new ideas, connect with colleagues and prepare for what's ahead.

In our rapidly changing world, we are all focused on reimagining the future. We hope you will join the ELFA community at **ELFA 2020 Business LIVE!**

to look beyond yesterday's strategies and seek out new opportunities to position your business for success today and beyond. Read the cover story on page 14 to learn why you and your entire team—from emerging talent to senior leaders—can't afford to miss this event.

In addition to wide-ranging educational sessions, targeted networking opportunities and a multimedia exhibit hall, you won't want to miss our exclusive keynote speakers:

- Political strategist **Donna Brazile** will handicap the fall elections and the view from Washington just days before Election Day.
- Economic forecaster **Marci Rossell** will share her insights on global economic issues and their impact on our businesses and our lives.
- Geopolitical analyst **Peter Zeihan** will assess how world trends in demography, economics, energy, politics, technology and more are shaping our future.

See the latest details and register at [www.elfaonline.org/2020buslive](http://www.elfaonline.org/2020buslive).

## Reading the Data

On page 22 we take a closer look at the Survey of Equipment Finance Activity. Many ELFA

members are turning to the SEFA Interactive Dashboard, a trove of industry statistics dating back to before the Great Recession. Access this powerful online platform—which is free to all ELFA members—to benchmark your company's performance, explore new business ideas and more. We thank all the members who respond to the survey each year, without whom this leading industry data source would not be possible.

## We Are ELFA

It's not just our industry surveys—everything we do at ELFA draws strength from our members' collective efforts. Our 575 member organizations and the thousands of individual volunteers your companies represent are stronger when we join together. In 2020, whether advocating on unprecedented federal and state advocacy issues, planning timely webinars or contributing to cutting-edge survey data, you have helped ELFA deliver on its value proposition. We remain committed to delivering a high-value return for your membership investment, and we thank you for your continued active engagement in your association.

We hope you and your families are safe and healthy. Please do not hesitate to reach out to us at any time. ☰

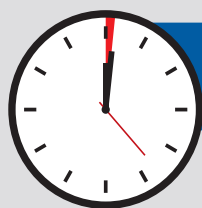
*Ralph*

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

**Network and learn together  
at ELFA 2020 Business LIVE!  
on Oct. 27-28.  
[www.elfaonline.org/2020buslive](http://www.elfaonline.org/2020buslive)**

## ELFA Executive Committee Meets

**THE ELFA EXECUTIVE COMMITTEE** met in August under the leadership of Board Chair Martha Ahlers. The meeting was originally scheduled to take place in person; however, due to the COVID-19 pandemic, the committee met virtually. During the meeting, ELFA leaders deliberated over a number of high-priority items focusing on the strategic direction of the association and the ultimate goal of ensuring that ELFA programs, products and services are responsive and continue to deliver value to members—despite the challenges presented by the COVID-19 crisis.



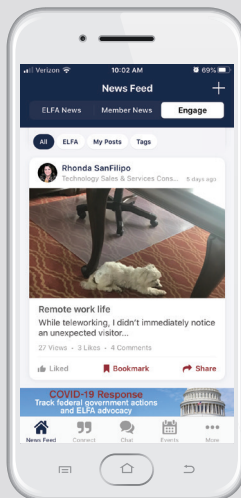
## Membership Minute

### Post your excitement about ELFA 2020 Business LIVE!

On the **Engage Wall** of the new *ELFA Engage mobile app*, members

may share news, photos and links to stay connected with the ELFA community. Click the plus sign (+) in the top-right corner to post messages and get started. Use the hashtag **#ELFA2020BusinessLive** between Sept. 1–Oct. 29, 2020, and you will be entered into a drawing to win a sought-after ELFA

mug and a \$25 Amazon gift card. **Two winners will be chosen!** Learn more at <http://apps.elfaonline.org/events/2020/2020buslive/socmed.cfm>. Contact Emily Winkler at [ewinkler@elfaonline.org](mailto:ewinkler@elfaonline.org) with questions.



## Connect with Your Business Sector

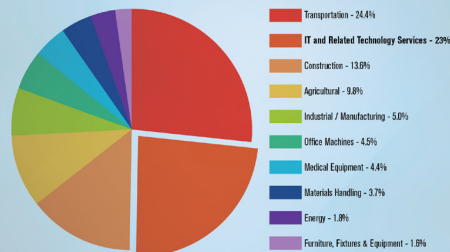


**NETWORK WITH COLLEAGUES** in your business sector and get up-to-speed on industry sector trends at ELFA 2020 Business LIVE! on Oct. 27–28. Several of the association's Business Council Steering Committees (BCSCs) are planning engaging educational breakout sessions for various industry sectors. Check the schedule of events at [www.elfaonline.org/2020buslive](http://www.elfaonline.org/2020buslive).



## EQUIPMENT FINANCE IN THE IT and RELATED TECHNOLOGY SERVICES INDUSTRY

IT and Related Technology Services equipment represents 23% of equipment financing new business volume in the United States.



Source: 2020 Survey of Equipment Finance Activity.  
Learn how the equipment finance industry equips your business for success at [www.EquipmentFinanceAdvantage.org](http://www.EquipmentFinanceAdvantage.org)

ELFA  
EQUIPMENT LEASING AND FINANCE ASSOCIATION

## Fact Sheets Highlight Vertical Markets

**EVER WONDER** how prevalent equipment financing is in a particular industry? As part of ELFA's campaign to promote equipment finance, the association has released a series of fact sheets that reveal equipment finance statistics and facts for 10 industries. View more on the association's end-user website, [www.equipmentfinanceadvantage.org/](http://www.equipmentfinanceadvantage.org/).

## Showcase Your Membership

**IS YOUR COMPANY A MEMBER OF ELFA?** Upload the ELFA Member logo to your company website, business cards or literature and show your support of the industry and the association. Members may access the logo at [www.elfaonline.org/about/elfa-logos](http://www.elfaonline.org/about/elfa-logos). To learn more about ELFA's resources, contact Julie Benson, VP of Membership Marketing, at [jbenson@elfaonline.org](mailto:jbenson@elfaonline.org).



## Dues Renewal Season is Around the Corner!

*Key Dates to Remember...*

**Nov. 16, 2020**

Dues invoices emailed to key contacts

**Dec. 31, 2020**

Deadline to pay 2021 dues

**THROUGHOUT 2021**

Take advantage of ELFA's many benefits!

Contact [membership@elfaonline.org](mailto:membership@elfaonline.org) to learn more about the resources available to all ELFA members.

# DONE. NEXT!

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## Maximize Your Reach

**GET THE GREATEST IMPACT AND RETURN** on investment for your marketing dollars! ELFA's updated Integrated Marketing Guide highlights the most effective opportunities to reach decision makers in the nearly \$1 trillion equipment finance industry. Download the guide from [www.elfaonline.org/About/Advertise](http://www.elfaonline.org/About/Advertise) or contact Steve Wafalosky at [steve@larichadv.com](mailto:steve@larichadv.com) or 440-247-1060 for more information.

## Missed a Webinar? We've Got You Covered

**More than 4,000 attendees** have participated in ELFA's popular "Wednesday Webinars @1" series created to provide critical information to equipment finance professionals in the face of the global COVID-19 pandemic. The webinars have engaged experts on a series of hot topics—from e-leasing to loan modifications—and allowed attendees to ask questions during interactive Q&A sessions. If you missed a webinar, you can access the recordings and slides from more than 20 webinars presented this year at [www.elfaonline.org/events/elearning/web-seminars](http://www.elfaonline.org/events/elearning/web-seminars):



- Navigating Machine & Equipment Valuation
- Coronavirus and the U.S. Economy
- Federal Gov't. Response to COVID-19 Pandemic
- Cybersecurity and Fraud in the COVID-19 Environment
- e-Signatures and e-Leases in the COVID-19 World
- Operational Resiliency
- Pandemic Politics
- Lease and Loan Modifications and Restructurings
- COVID-19's Hidden Costs: Bankruptcy, Repossessions & Challenging Legislation
- Building a Foundation for Digital Agility
- Best Practices for Managing Sales Tax in Turbulent Times
- Bold Conversations to Effect Positive Change-Striving for Equality
- Unconscious Bias
- CECL: A New Accounting Standard and a Challenging Credit Environment
- Pay Attention to That CTO Behind the Curtain
- The FASB: Where to Now?
- Local Property Taxation-COVID-19 Impact and Challenges
- Ethical Issues for Equipment Finance Lawyers
- Managing Remote Teams and the Post-COVID Norm
- Igniting Relationships, Virtually Speaking



## Now Available: New Interactive SEFA Dashboard

**THE INTERACTIVE SEFA DASHBOARD** has been updated and is full of cutting-edge industry data. This free tool—which is only available to ELFA members—allows you to quickly and easily connect to a decade of critical statistics from the Survey of Equipment Finance Activity. In just a few clicks, you can segment the data by year, type of organization, market segment, size of organization and business model. It's easy to select categories, add filters and drill down into specific information.

- Benchmark your company against others in the industry
- Find your own insights and identify trends
- Uncover new business opportunities and more.



Visit the Dashboard at [www.elfaonline.org/InteractiveSEFA](http://www.elfaonline.org/InteractiveSEFA).

# Futureproof your equipment finance.

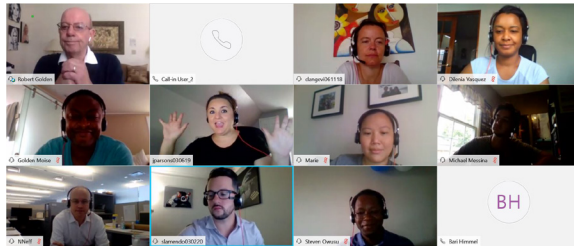
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## Principles Workshop Goes Virtual



**CONGRATULATIONS** to the latest graduating class of ELFA's Principles of Equipment Leasing and Finance Workshop, held virtually for a team at Societe Generale Equipment Finance. If you're interested in scheduling a virtual Principles workshop for your team, please visit [www.elfaonline.org/POL](http://www.elfaonline.org/POL).



## Taggart Shares Insights

### WHAT IS THE MOST REWARDING RISK OF YOUR CAREER?

What are the top three tips you'd give someone starting out in the industry? Mark Taggart, President and CEO of Toyota Industries Commercial Finance, answers these questions and more in a new "Ask a Leader" interview sponsored by the Emerging Talent Advisory Council. Check out this thought-provoking interview series at [www.elfaonline.org/industry-topics/emerging-talent/ask-a-leader](http://www.elfaonline.org/industry-topics/emerging-talent/ask-a-leader).

## Fall Special: Save 25% in the ELFA Career Center

**ARE YOU LOOKING FOR TOP-QUALITY CANDIDATES** to join your organization? Set up your organization for success by posting your job openings in the ELFA Career Center, the equipment finance industry's premiere online employment resource. **Special Offer:** Employers save 25% using promo code Fall2020 when you purchase your 30- or 60-day listing. Questions? Call 888-491-8833 x1814.



## Tech Innovation Winners Announced

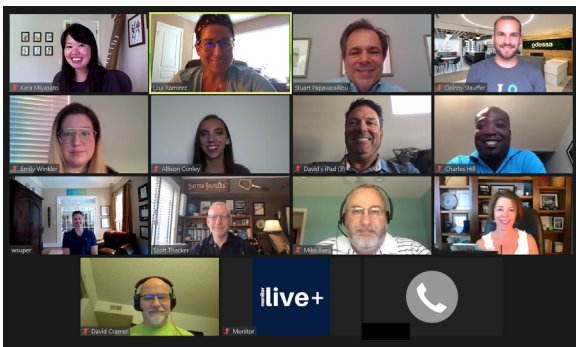
**ELFA HAS ANNOUNCED** the winners of the 2020 Operations and Technology Excellence Award. The two award-winning projects will be showcased at a session during ELFA 2020 Business LIVE!, the association's virtual conference on Oct. 27-28.

- Volvo Financial Services (VFS) is the winner of the Operations and Technology Excellence Award COVID-19 Project. As a result of the COVID-19 pandemic, VFS faced an unprecedented increase in customers' payment relief requests. In response, VFS developed solutions that allowed them to more quickly process the requests, communicate with customers and gain efficiencies so that customer service levels were satisfied.
- TIAA Commercial Finance Inc. is the winner of the Operations & Technology Excellence Award. The company was recognized for their successful digital transformation effort. Shifting from a project mindset to a product mindset allowed for greater agility in adjusting plans as business and market conditions changed. The result was great efficiency, increased focus on the customer experience and transformation of the business from analog to digital.



## Join the ELFA Equality LinkedIn Group

**THE ELFA EQUALITY COMMITTEE** has created a new LinkedIn group to bring industry professionals together in support of diversity and inclusion. This group is designed as a forum to share information, exchange ideas and network with other members of the equipment finance community. All members are welcome to connect with the group at <https://www.linkedin.com/groups/12317521/>.



ELFA Equality Committee meeting

**ELFA EQUALITY**  
DIVERSITY & INCLUSION

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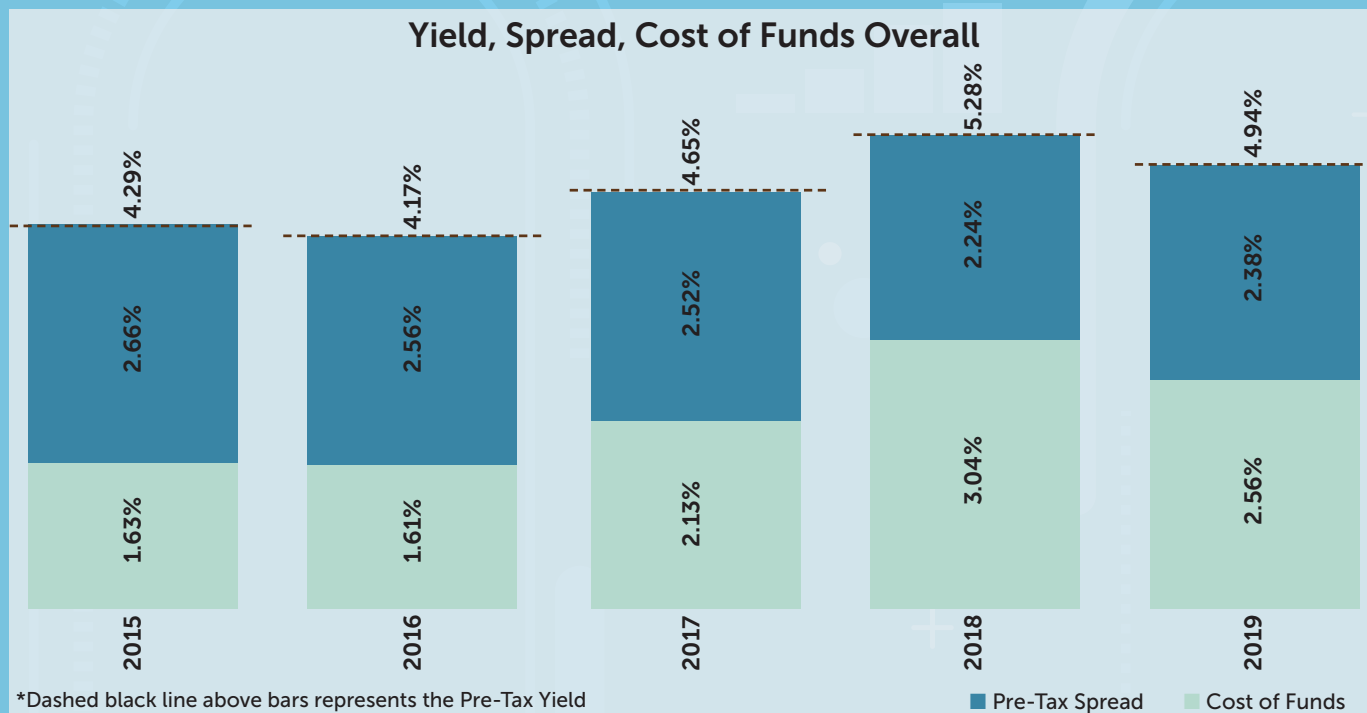
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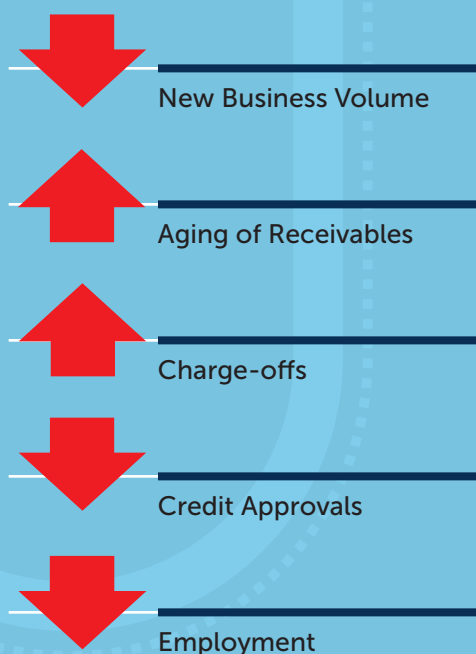
## Margin Compression Improved in 2019

According to the SEFA Interactive Dashboard, pre-tax spreads improved for the first time since the Great Recession. See details at [www.elfaonline.org/interactive-sefa](http://www.elfaonline.org/interactive-sefa).



## MLFI Monthly Leasing and Finance Index Products July MLFI Year-Over-Year

See details at  
[www.elfaonline.org/data/MLFI](http://www.elfaonline.org/data/MLFI)



## COVID-19 Drives Deferrals

According to 75 survey responses collected from Sept. 1-13, 91% of equipment finance companies have offered payment deferrals—including extensions, modifications or restructuring—this year. Access the COVID-19 Impact Survey result highlights and comments from survey respondents at [www.leasefoundation.org/industry-resources/covid-impact-survey/](http://www.leasefoundation.org/industry-resources/covid-impact-survey/).



## Computer Investment Remains Strong

Investment in computers surged 83% (annualized) in Q2 2020 and is up 12% year-over-year. Additionally, several equipment verticals show investment improving over the next 3-6 months in the Equipment Leasing & Finance Foundation's September Equipment & Software Investment Momentum Monitor: [www.leasefoundation.org/industry-resources/momentum-monitor/](http://www.leasefoundation.org/industry-resources/momentum-monitor/).



# ELFA 2020 BUSINESS LIVE!



## What Is a Virtual Conference?

It's an online event that mimics many of the qualities of an in-person event. On the ELFA 2020 Business LIVE! virtual platform, attendees can move around the conference hall, clicking from one virtual area to the next. You can also attend educational sessions, connect with other attendees for networking and discussion, visit a multimedia exhibit hall, stop by a help desk with any questions, and go back and watch recorded sessions, available immediately and posted for up to six months after the event.

# Get Ready to Go LIVE!



**The equipment finance community is gearing up to network and learn at ELFA 2020 Business LIVE!**

*Why you don't want to miss it.*

## **ONE HALLMARK OF THE EQUIPMENT FINANCE INDUSTRY IS ITS RESILIENCE.**

In 2020, ELFA members are once again demonstrating their knack for turning uncertainty into opportunity. While the COVID-19 pandemic is limiting in-person industry gatherings, that isn't stopping members from learning and networking together. In lieu of the in-person 59th ELFA Annual Convention originally scheduled to take place in Austin, the ELFA community is preparing to gather online on Oct. 27 and 28 for ELFA 2020 Business LIVE!, the association's first interactive virtual conference.

This innovative event couldn't come at a better time, says Martha Ahlers, ELFA Board Chair and President of United Leasing & Finance. "A lot has changed in the past six months," notes Ahlers. "It's more important than ever for us to come together as a community to connect, exchange insights and prepare for what's coming next. I'm really excited about ELFA 2020 Business LIVE! and look forward to seeing as many members as possible there."

ELFA President and CEO Ralph Petta agrees. "These are extraordinary times as the health and economic crisis caused by the COVID-19 pandemic continues to grip our nation," he says. "We've got a lot to talk about as an industry. This one-of-a-kind gathering will be a great chance for all members to make new connections and address critical issues and trends affecting the equipment finance industry in our rapidly changing world."

You may be wondering what to expect from a virtual conference. One thing is for sure: ELFA 2020 Business LIVE! won't be just another video conference. Participants will meet on a user-friendly platform featuring the latest technology tools. This will be an interactive experience featuring unique opportunities never offered at an ELFA event. Read on for highlights.



## What's on the Agenda?

The two-day agenda at ELFA 2020 Business LIVE! will include high-quality educational sessions on industry hot topics, interactive presentations led by industry leaders and world-class speakers, formal and informal networking opportunities, a multimedia virtual exhibit and even a surprise or two!



**"It is in times exactly like these that customers of the equipment finance industry need our help. ELFA 2020 Business LIVE! comes at the right time to both keep our industry strong and help individual members grow professionally. The agenda looks great and I'm looking forward to attending."**

*David Walton, President and CEO  
Caterpillar Financial Services Corporation*

More than 75 industry subject matter experts will speak at 20 concurrent breakout sessions on a wide range of topics to ensure there's something for everyone. Topics will include financing alternatives, technology and innovation, the customer experience, marketing agility, pockets of opportunity, growth after COVID-19, legal issues, data analytics, diversity & inclusion, credit and risk and more. In addition, sector-specific sessions will focus on banks, independents and captive and vendor finance organizations. See the full agenda on page 20.

Keynote speakers will share insights on a range of issues relevant to the equipment finance sector.

## Important: Registration Deadlines

To register and learn more about ELFA 2020 Business LIVE!, please visit [www.elfaonline.org/2020buslive](http://www.elfaonline.org/2020buslive).

### Thursday, October 1 – Early Bird Deadline.

Register by this date for the best rate!

### Tuesday, October 20

Last day to register. Companies registering 10 or more employees will receive a discount.

Speakers include geopolitical analyst Peter Zeihan, renowned political strategist Donna Brazile and expert economic forecaster Marci Rossell. Learn more about the keynote speakers on page 19.

## Who Should Attend?

All ELFA members—from emerging talent to senior executives—are invited to attend this accessible event. Discounted registration fees and expanded content are designed to allow you and your colleagues representing a wide range of job responsibilities and experience levels to register.

"We are designing ELFA 2020 Business LIVE! as a one-of-a-kind gathering for the entire membership," explains Petta. "In addition to our regular ELFA Annual Convention attendees, we look forward to seeing a lot of new faces, including those who planned to attend other events that were cancelled this year, and those who've never attended an ELFA Convention."

## Build Your Network

You'll have multiple opportunities to expand your professional network, engage with other attendees and create lasting connections. A number of unique networking opportunities are available to you from within the virtual conference platform. Virtual gathering will include:

- **Head to the networking lounges** to chat with your peers about industry hot topics or continue the dialogue from breakout sessions. The conference will feature a variety of lounges where attendees can network, with chats focused on best practices in specific areas.
- **Engage in private 1:1 chats** with other attendees at any time throughout the event.
- **Participate in group chats** within sessions to exchange thoughts with other attendees on the topics at hand.
- **Visit the virtual exhibit hall** to network with industry service providers. Attendees can engage in private 1:1 chats with exhibitors and also participate in private "in-booth" group chats with exhibitors and other attendees. In addition, exhibitors have the ability to schedule and conduct 1:1 video chats within the platform.
- **Exchange emails** with individual attendees.



## 10 Tips: Maximize Your Experience

How can you get the most out of ELFA 2020 Business LIVE? Follow these 10 tips to ensure you are prepared to take full advantage of the virtual conference experience:

1. **First things first!** – Make sure to add the event to your calendar as soon as you register, so you won't accidentally miss out!
2. **Minimize distractions!** – Just like attending an in-person conference, you'll want to have your full attention on all our content and exhibitors, which can be a little more difficult virtually. Closing your door and turning off notifications are a couple steps you can take to fully immerse yourself in the conference.
3. **Plan your schedule!** – Take a look at the conference schedule in advance to see which events you'd like to attend.
4. **Check out the exhibitors!** – The exhibitor list is available on the LIVE website. Plan which booths you'd like to visit in our virtual exhibit hall.
5. **See who will be there!** – Check the attendee roster to see who you want to connect with.
6. **Get social!** – Reach out to colleagues and your professional network to start chatting now about the conference and what sessions you're planning to attend. Consider connecting via ELFA's social media channels, online communities and your personal LinkedIn account. Remember to use the hashtag #ELFA2020BusinessLIVE.
7. **Coffee break!** – Make sure to have some coffee, water and snacks close by. Don't forget to refresh and energize your brain during the conference! And of course, frequent stretch and bio-breaks are highly recommended.
8. **Take notes!** – Sounds a little obvious, but it's a great way to stay focused and get as much as possible out of the conference.
9. **Tech check!** – The platform for ELFA 2020 Business LIVE! is user-friendly and you should not encounter access issues. However, it never hurts to check your Internet connection and conference login before the day of.
10. **Help, I missed a session!** – Don't worry about missing out on content, you can check out any of the sessions for up to six months after the conference!

—By Emily Winkler



**"This will be my first ELFA conference. I recently joined the equipment finance industry and I have been eager to learn more and engage with others in the industry. I would love to meet others and find out more about how we can all work together for the greater good!"**

*Jenaleigh Lathrop, CLFP, Sales Support Specialist  
Arvest Equipment Finance*

## What Are the Benefits?

As members share their reasons for registering for ELFA 2020 Business LIVE!, some common themes are emerging. Here are some key reasons to attend:

- This is an opportunity to connect with the ELFA community on issues important to my business. I can focus on the topics that matter to me through targeted sessions and interactive discussions with experts, colleagues and friends.
- I'm looking to expand my professional network through formal and informal networking.
- No plane tickets or hotel rooms are needed. I can attend from anywhere.
- Discounted registration fees and expanded content make it easier for me and my employees—representing a wide range of job responsibilities and experience levels—to attend.
- Sessions will be recorded so I'll have access to them for up to six months after the event. I can join in real-time or watch sessions on-demand.
- Access to the multimedia exhibit hall will help me discover the latest solutions for my business.
- By registering for this event, I am showing my support for and contributing to the success of our industry and our association.



**"I'm very excited to be attending the first virtual ELFA annual conference.... I think it's important we pull together as an industry and show that we are still connected, still vibrant, still important and able to pivot and adjust to serve our customers."**

*Cam Krueger, Senior Managing Director -  
North American Specialty Finance Leader, Accenture*

## GO LIVE!

During these unprecedented times, as the equipment finance industry navigates new challenges and looks ahead to new opportunities, ELFA 2020 Business LIVE! is *the* place to invest in the success of your business, your staff, your industry and your career. To learn more about this event, please visit [www.elfaonline.org/2020buslive](http://www.elfaonline.org/2020buslive) or email [meetings@elfaonline.org](mailto:meetings@elfaonline.org). We hope to see you there! ☰

Amy Vogt is ELFA VP of Communications and Marketing.



**"While the difficult times have impacted events, that does not require us to be isolated from learning and engaging with industry experts. With all the uncertainty we face, it is events like ELFA 2020 Business LIVE! that provide the knowledge to assist us in making thoughtful and insightful business decisions."**

*Brett Davis, Vice President, New Holland North America  
CNH Industrial Capital LLC*



**"2020 has challenged us to adapt to a new way of life. ELFA 2020 Business LIVE! is a great opportunity to network within the industry and learn about new trends. I expect this year's conference to take it to the next level."**

*Jeff Elliott, CLFP, Senior Managing Director  
Huntington Equipment Finance*



**"As a relatively new professional to the equipment finance industry, and a member of the Emerging Talent Advisory Council, I am very excited for ELFA 2020 Business LIVE! I am especially looking forward to hearing Peter Zeihan and his thoughts on the current geopolitical climate given what a wild year 2020 has been. I've been following him on social media for years and have always enjoyed his perspective on global events."**

*Grant Fate, Associate – Capital Markets Stonebriar Commercial Finance*



**"I am looking forward to attending ELFA 2020 Business LIVE! Although I will miss the in-person social aspect of the customary Annual Convention, my experience with virtual events during the lockdown means that the educational element will be just as valuable as the usual breakout sessions."**

*Steve Whelan, Partner, Blank Rome LLP*

## KEYNOTE SPEAKERS



**Donna Brazile**  
*Renowned  
Political Strategist  
and Commentator*

Veteran political strategist Donna Brazile has devoted her life to work-

ing for progressive change, responsible governance and the advancement of all people in a society that is fair and equitable. She has worked on every major presidential campaign since 1976 and in 2000 she became the first African American woman to serve as the manager of a major party presidential campaign, running the campaign of former Vice President Al Gore. She is a contributor to Fox News and was formerly a contributor to ABC News and CNN.



**Marci Rossell**  
*Expert Economic  
Forecaster,  
Former CNBC  
Chief Economist  
and Co-Host of  
SQUAWK BOX*

Marci Rossell elec-

trifies audiences nationwide, speaking on the nexus of economics, politics, culture and the media. She takes complex economic issues and makes them relevant to people's lives, families and careers. Prior to her career in broadcast journalism, Rossell served as Corporate Economist and Investment Spokesperson for OppenheimerFunds, one of the nation's largest mutual fund companies. She began her career as an economist with the Federal Reserve Bank of Dallas.



**Peter Zeihan**  
*Geopolitical  
Strategist*

Peter Zeihan is a geopolitical strategist, which is a fancy way

of saying he helps people understand how the world works. He combines an expert understanding of demography, economics, energy, politics, technology and security to help clients—including energy majors, financial institutions, business associations, agricultural interests, universities and the U.S. military—prepare for an uncertain future. Peter is a author of *The Accidental Superpower* and *The Absent Superpower*. His latest book is *Disunited Nations: The Scramble for Power in an Ungoverned World*.

## Thank You to All Sponsors and Exhibitors

Make sure you visit the virtual exhibit hall at ELFA 2020 Business LIVE! A robust group of equipment finance industry service providers are exhibiting, giving you a look at services available to help increase the operational efficiency of your company. In addition, a number of companies are supporting this event through sponsorships. For information on becoming an exhibitor or sponsor, please contact Steve Wafalosky at [stevew@larichadv.com](mailto:stevew@larichadv.com) or 440-247-1060.

### Exhibitors (as of September 10):

Alfa  
American Lease Insurance  
Constellation Financial Software  
eOriginal Inc.  
FIS  
IDS  
Liventus  
LTi Technology Solutions  
NETSOL Technologies  
Odessa  
Oracle  
Orion First Financial, LLC  
PayNet, an Equifax Company  
Q2 Cloud Lending  
RTR Services, Inc.  
Sopra Banking Software  
TAO Solutions Corp.

### Sponsors (as of September 10):

Alfa  
LTi Technology Solutions  
NETSOL Technologies  
Odessa  
Orion First Financial, LLC  
PayNet, an Equifax Company  
RTR Services, Inc.  
Wintrust Asset Finance, Inc.



**"I am looking forward to ELFA 2020 Business LIVE! It will be a great opportunity to get back to networking and stay informed in our increasingly tumultuous environment."**

Marci Slagle, CLFP  
President, BankFinancial Equipment Finance



# ELFA 2020 BUSINESS

LIVE!

## — SCHEDULE OF EVENTS —

### TUESDAY, OCTOBER 27

11:00 am – 12:15 pm

#### Welcome and General Session Keynote



**RALPH PETTA**  
President and CEO of ELFA



**DONNA BRAZILE**  
Renowned Political Strategist and  
Commentator

12:15 pm – 1:00 pm

#### Exhibit Hall

1:00 pm – 2:00 pm

#### Breakout Sessions

- Adapt to Thrive: How Marketing Agility Enables a Stronger Response to Extraordinary Challenges  
*Brought to you by: ELFA Communications Committee*
- There Is More Than Meets the Eye: Diversity and Inclusion Beyond Race  
*Brought to you by: ELFA Equality Committee*
- Has COVID 19 Ushered in the Leasing Company of the Future?
- Balancing Tech & Human Interaction  
*Brought to you by: ELFA Operations & Technology Committee*
- Back to Basics: Introduction to the Leasing and Finance Industry

2:00 pm – 2:30 pm

#### Exhibit Hall

2:00 pm – 2:30 pm

#### Networking Lounge Programs

2:30 pm – 3:30 pm

#### Breakout Sessions

- What's New in the Law?
- Creative Financing Alternatives: Power by the Hour and Pay Per Use
- Transport Finance in the Age of COVID: Aircraft, Trucks, and Vessels
- Fast Tracking Your Technology in the Age of COVID  
*Brought to you by: ELFA Operations & Technology Excellence Award*
- Where Confidence and Resilience Intersect to Face and Overcome Personal and Professional Challenges  
*Brought to you by: ELFA Women's Council*

3:30 pm – 3:45 pm

#### Exhibit Hall



**"In addition to our regular ELFA Annual Convention attendees, we look forward to seeing a lot of new faces, including those who planned to attend other events that were cancelled this year, and those who've never attended an ELFA Convention."**

*Ralph Petta, ELFA President and CEO*

3:45 pm – 4:45 pm

## Welcome and General Session Keynote



**KELLI NIENABER**  
Executive Director, Equipment Leasing  
& Finance Foundation



**SCOTT THACKER**  
Chair, Equipment Leasing & Finance  
Foundation



**MARCI ROSSELL**  
Expert Economic Forecaster, Former  
CNBC Chief Economist and Co-Host of  
SQUAWK BOX

4:45 pm – 5:15 pm

## Newcomer and First Time Attendee Virtual Reception

4:45 pm – 5:15 pm

## Women's Council Virtual Reception

5:15 pm – 5:45 pm

## Opening Virtual Reception

**WEDNESDAY, OCTOBER 28**

11:00 am – 12:15 pm

## Welcome and General Session Keynote



**MARTHA AHLERS**  
ELFA Board Chair



**PETER ZEIHAN**  
Geopolitical Strategist

12:15 pm – 1:00 pm

## Exhibit Hall



**"It's more important than ever for us to come together as a community to connect, exchange insights and prepare for what's coming next."**

*Martha Ahlers, ELFA Board Chair  
President, United Leasing & Finance*

1:00 pm – 2:00 pm

## Breakout Sessions

- The COVID-19 Economy and Outlook for Equipment Finance  
*Brought to you by:*  **ELFA FOUNDATION**  
Your Eye on the Future
- Developing Young Talent for Long-Term Success  
*Brought to you by: ELFA Emerging Talent Advisory Council*
- Emerging Technology: Hype vs Reality
- Collateral Repossession - Challenges in a Post COVID Environment
- Finding Growth After COVID: A Search for New Green Pastures

2:00 pm – 2:30 pm

## Exhibit Hall

2:00 pm – 2:30 pm

## Networking Lounge Programs

2:30 pm – 3:30 pm

## Breakout Sessions

- How Data Analytics Can Improve Your Business Results  
*Brought to you by: ELFA Research Committee*
- Pockets of Opportunity for Independents - Where to Shoot the 8-ball  
*Brought to you by: ELFA Independent Middle Market BCSC*
- Automating Credit Decisioning & Risk Modeling  
*Brought to you by: ELFA Small Ticket BCSC*
- I'm a Bank Finance Company: What Do I Need to Know to Survive and Thrive?  
*Brought to you by: ELFA Financial Institutions BCSC*
- Optimizing Managed Bundled Services & Market Practices

3:30 pm – 4:00 pm

## Exhibit Hall

4:00 pm – 4:45 pm

## Closing General Session

4:45 pm – 5:45 pm

## Virtual Reception







# Data on Demand

By Susan L. Hodges

**ELFA's Survey of Equipment Finance Activity Interactive Dashboard reveals industry trends and insights that can help your company plan for the future. And it's *free* to ELFA members.**

**TO ENABLE HIS SALES TEAM,** Jeff Bell uses ELFA's Survey of Equipment Finance Activity (SEFA) Interactive Dashboard. As Vice President of Sales Operations at Key Equipment Finance, Bell zeroes in on sales-volume charts and other data to glean industry insights, study trends and compare his company's progress to that of its peers.

"I look at the data in reference to our own challenges and successes," says Bell, who serves on ELFA's Research Committee. "Are our peers experiencing the same ones we are? Whether the data says yes or no, I can drill deeper to learn more. The Dashboard lets me look at the industry as a whole and also get a relevant picture of my peers. Then, depending on what I'm curious about, I can drill down by organization type, market segment, organization size or business model to find answers to my questions."

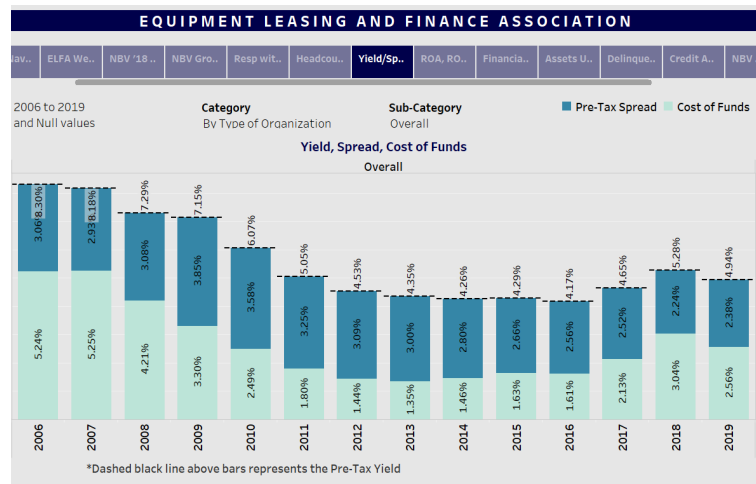
## **SEFA Says...**

The SEFA Interactive Dashboard is a powerful online tool available to all ELFA members at no charge. Showcasing executive summary data from years of SEFA reports, the Dashboard tracks such measures as New Business Volume; Yield, Spread and Cost of Funds; and Delinquencies to reveal the state of the equipment finance industry each year from 2006 through 2019. Tabs and drop-down menus let users segment data in multiple ways as Bell describes.

ELFA's annual SEFA Report, by comparison, is a PDF document charting the most recent two years of lease and loan data from 100 or more participating ELFA-member companies. A recurring survey conducted for over 25 years, the SEFA report has grown to more than 300 pages of tables and graphs as features and categories have been added. Included is information relating to respondents' volume and type of leasing business, productivity measures and residual experience. Also presented are balance-sheet data, financial ratios and profitability measures.

Survey participants receive a free copy of the report with their company's data highlighted to facilitate comparisons and analysis. The report is available to non-participating ELFA members for a discounted rate.

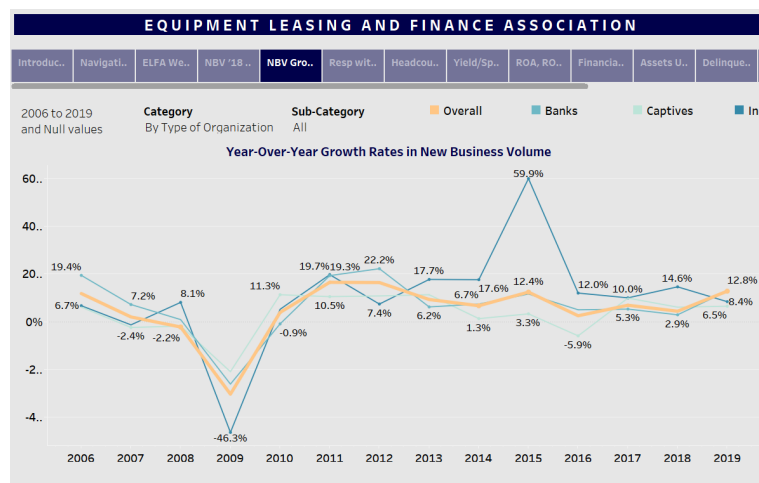
Kevin Prykull, a member of ELFA's Research Committee, explains the significance of the tools. "The SEFA is the preeminent data source for the nearly \$1-trillion equipment finance industry," he says. "This year, 100 leasing companies participated, capturing a who's who of the industry and submitting lease and loan data in a variety of forms. With guidance and assistance from experts at PwC (formerly PricewaterhouseCoopers), this information is collected, scrubbed to remove company-specific identifying factors, and reconfigured in a variety of ways to allow users to slice and dice it to extract the data they need. And because it's historical, users can drill down into the finer points of their observation, hypothesis or perception to learn even more."



## Annually Increasing Value

Ray James, Senior Consultant at Ivory Consulting Corporation and ELFA Research Committee Chair, says the Dashboard is particularly useful for spotting and studying long-term trends, and that its value increases annually as data for the current year is added. "Unlike the SEFA Report, which uses two years of data for each measurement, the Dashboard uses only the most recent data compiled for each year of the Survey and goes back to 2006, the first year the Survey was conducted in this format," he observes. "This means that the Dashboard numbers for 2019 will differ from those in the current SEFA report, but will span a much longer period of time. The 2020 Dashboard spans 13 years—one entire business cycle and nearly half of a second cycle. Each year, users will have more historical data, enabling more insights and analysis than ever."

James points to the 2020 Dashboard's "Yield, Spread, Cost of Funds Overall" chart as particularly insightful. "This year, we see something quite significant—that in 2019, Spreads improved for the first time since the Great Recession," he says. "But we also see that that the Pre-Tax Yield, or overall rate on a transaction, went down in 2019, even as the Spread went up. Looking further at this chart, we see that the Cost of Funds in 2019 fell further than Pre-Tax Yields. This means that companies lowered the rates they charged their customers, but not by as much as the decrease in their Cost of Funds. This is how they achieved wider



spreads—and if we look at 2009, we'll see that the same thing happened then."

He cites data in "Year-Over-Year Growth Rates in New Business Volume" as an example of the varying ways a trend can affect different types of companies. "One of the first things we notice in this chart is that Independents experienced a huge drop in new business volume in 2009. Memory tells us that this was during the Great Recession, triggered by the subprime mortgage crisis. Independents did not have direct access to federal capital, so they had to borrow their money from banks. When banks stopped lending, many Independents could not add new business and some closed their doors completely."

Yet, the same chart shows that by 2015, Independents were back and starting to thrive with a 59.9% year-over-year increase in NBV, more than four times the overall average of 12.4%. "This was the result of Independents being a very small portion of NBV and thus having little impact," says James. "Concurrently, there were some new Survey participants."



**"In 2019 Spreads improved for the first time since the Great Recession."**

- Ray James, Ivory Consulting Corporation

## Worthy Considerations

Carol Ann Fisher, Consultant at PwC, says the SEFA Dashboard provides food for thought and a framework for best use. "Because it is data provided by Survey respondents, it includes blips that are the result of unique phenomena, such as the Great Recession or GE Capital leaving the ranks of Independents to sell off most of its portfolio," she says. "Depending on what you're looking for, you may want to discount such blips by dropping the outliers to see the real trend," she adds. "But hunting for data this way can be educational and enlightening—as well as fun."

Also important to keep in mind is that the SEFA respondent base changes yearly. "This is why, in the SEFA Report, we ask for two years of data only and show two years of data when reporting dollar amounts



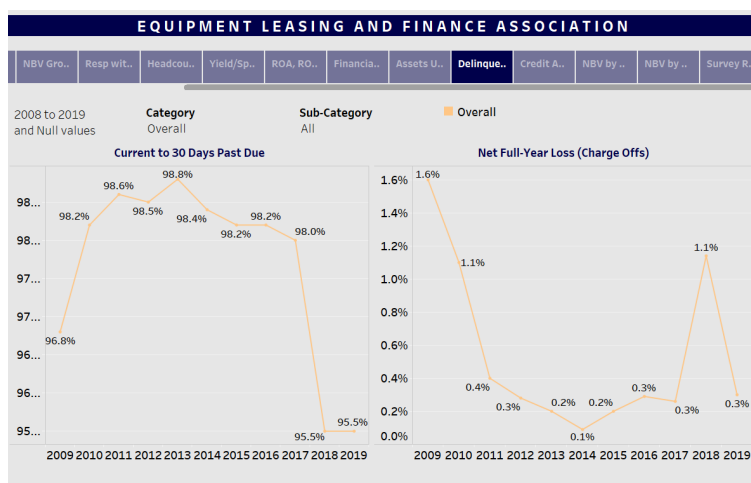
**"Go in and experiment with the Interactive Dashboard to see how it works. You can't break it."**

- Maria Nejeschleba, Wells Fargo Equipment Finance

or actual number counts," says Fisher. "It would be misleading to report these over a longer period. But we do feel comfortable showing percent changes over a longer time, because percentages reflect industry trends. That's why you'll see percentage measures in the Interactive Dashboard."

Indeed, percentages are great storytellers and can unearth as many questions as answers. Listen to Jeff Bell talk about the way he uses the Dashboard's Delinquencies charts. "If we look at 'Current to 30 Days Past Due,' we can see that something is happening because of changes that occurred in 2017-2018," he says. "The overall percentage of accounts in this category fell sharply, from 98.2% to 95.5%. But then a recovery occurred in 2019 when the percentage of accounts in this segment improved to 97.9%."

Bell notes a similar occurrence in "Net Full-Year Loss (Charge Offs)." "We see a similar blip as charge-offs more than tripled in 2018, from 0.3% the previous year to 1.1%. And as in 'Current to 30 Days Past Due,' we see a recovery in 2019 as charge-offs fell back to 0.3%. What happened, and how do my company's numbers look in comparison? I can dive deeper into end-user or equipment type to more closely compare our values at Key Equipment Finance with those in the



Dashboard. And depending on my findings, I might then ask if we're targeting the right businesses that are still a strategic fit for our company. This is the thought process I go through."

### Where to Start

Maria Nejeschleba, Strategic Initiatives Manager at Wells Fargo Equipment Finance and a member of ELFA's Research Committee, says the Dashboard is easy to use and requires only a short time to become familiar. "Just go in and experiment with it to see how it works," she suggests. "You can't break it—and by taking some time to click around and get comfortable with it, you'll know where to find data when you need it."

Asked how she uses the Dashboard, Nejeschleba gives this example: "Let's say I want to look at vendor organizations, and I want to see results both for those companies that only use vendors, and those that have a mix of origination methods. I can click to narrow the results. And if I'm trying to forecast for the next three to five years, I might also look at the last downturn in 2009 to see the Spreads and Head Count for those companies to learn what occurred in those areas before and after the downturn." She adds, "It's important to look at the past because we don't have a playbook for today. We can use the Dashboard to spot past trends, become alert to them, and work to assure they don't happen again in your company."



**"The SEFA tools provide insight into our industry that's not available anywhere else."**

- Jeff Bell, Key Equipment Finance

Prykull agrees. "The Dashboard not only provides a benchmark for the last economic downturn on all industry segments, components and transaction styles; it also enables users to consider what-if situations," he says. "What if your company specializes

in large-ticket transactions but wanted to entertain entering a small-ticket product? What if you wanted to establish a vendor program: how would that look, and how might you model the results to show executive management the impact? To do these things, you can utilize the SEFA data from either the Report or the Dashboard in your own financial projection model."



**"You can...drill down into any question or concern you have about your company's performance."**

- Kevin Prykull

Prykull acknowledges that some find the SEFA tools intimidating and hesitate to use the Dashboard as a result. "But you don't have to be a data geek to use it," he stresses. "You can use it to look broadly at trends or to get into the weeds whenever you want to by drilling down into any question or concern you have about your company's performance. It's designed so that companies can go through the data in different ways and use it to run their business."

"The SEFA tools provide insight into our industry that's not available anywhere else," adds Bell. "The way ELFA has built them, they improve as management tools every year as features are added and the amount of data grows. And if you participate in the Survey, you get the Report for free, and your data is embedded in it for easy comparisons. What started as a small survey in the 1980's has grown into a robust instrument that you can manipulate to find the specific data you care about."

Nejeschleba offers a parting thought. "Those who don't use the SEFA are missing out on valuable data they need to help them plan for the future," she says. "They're not using tools at their disposal that their competitors already have." ☰

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



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# The Law Says It Is Inventory

**MOST GOODS FINANCED BY THE EQUIPMENT FINANCE INDUSTRY SPEND AT LEAST PART OF THEIR EXISTENCE AS “INVENTORY”** as defined by the Uniform Commercial Code (UCC). Failing to understand when goods constitute inventory can have disastrous consequences for equipment lenders and lessors. Differing rules of perfection, priority and protection of security interests for goods deemed to be inventory place equipment finance companies in an uncomfortable and unusual spot compared to most other areas of their business. The UCC provides an expansive definition of inventory beyond the moment the goods are sitting on a dealer’s floor-plan financing line. The growth of rental and pay per use/service businesses will cause more transactions to fall into the inventory categories as discussed below. This article uses a crane as an example to illustrate this issue.

## What constitutes “inventory” under the UCC?

Four broad categories of goods constitute “inventory”: (1) goods being leased by a lessor, (2) goods being offered for sale, lease or furnishing as part of a contract for service, (3) goods being furnished as part of a contract for service or (4) raw materials, works in process and goods consumed as part of a business. A crane could be inventory under all four definitions during different stages of its life.

The crane would start its existence as raw materials that become a work in process for a manufacturer. After completion, it might end up being offered for sale by a manufacturer and/or a dealer. While these are more obvious examples of the crane being “inventory,” a good might also constitute inventory in the hands of a buyer in other contexts. The buyer of the crane might lease it to others or furnish it as part of a contract for service to those needing a specific crane for a project with an operator and other support. This latter category is one of the more poorly understood possibilities for goods to be considered inventory and a category likely implicated by the growth of pay per use or service businesses.

## Why does this matter?

How one perfects, obtains and maintains priority and protects its security interest in the crane differs in several key aspects if it is treated as inventory instead of equipment under the UCC. Most importantly in the equipment finance industry, goods being considered

inventory are impacted by the rules for obtaining purchase money security interests, how proceeds are treated and the rights of buyers of goods in the ordinary course. Further, in the case of motor vehicles, the relevance of titling laws offers unique challenges for even experienced equipment finance teams.

Understanding when these rules apply and being able to shift between financing goods considered inventory and goods considered equipment is one of the biggest operational challenges for the equipment finance industry.

In the example of the crane, whether the state UCC system or the motor vehicle title laws govern the perfection of security interests

could vary if the goods are considered inventory or equipment. When it comes to having a first lien on the crane, as shown in the table on the next page, the process and timing for obtaining priority differs drastically for inventory and equipment. Funders need to also be aware of concerns unique to inventory regarding long-term rental arrangements and the rights of buyers in the ordinary course.

## Tips for avoiding the “inventory” trap

Equipment finance teams can avoid some of the issues associated with financing goods treated as “inventory” by taking a few pro-active steps. First, understand the customers, the goods being financed for them and how they intend to use these goods. Acquiring these details should be standard practices for anyone in the equipment finance industry and is critical in identifying

**Failing to understand when goods constitute inventory can have disastrous consequences.**

## Requirements for Perfection and Priority of Purchase Money Security Interest

### Inventory

Filing of UCC-1 Financing Statement evidencing security interest before debtor receiving possession of the goods **plus** providing authenticated notification to holders of conflicting security interests **plus** the holder of conflicting security interests receive the notification within five years before debtor receives possession of the inventory **plus** the notification stating that the person sending the notification has or expects to acquire a purchase-money security interest in inventory of the debtor and describes the inventory.

### Equipment

Filing of UCC-1 Financing Statement evidencing security interest before or within 20 days of the date debtor receives possession of the goods.

when goods should be treated as inventory or not.

Second, properly train all team members to identify potential transactions treated as inventory. Training in advance will assist in assuring that transactions are properly identified. This is not just a sales or credit function, but something that all team members including sales, credit, documentation, booking and collections should be aware of and understand.

Third, understand the UCC requirements for inventory and properly train and equip operations to handle inventory transactions.

Fourth, set internal and external expectations accordingly. The perfecting and obtaining priority in inventory can be more time consuming if not done right out of the gate. Customers and vendors need to understand this to avoid customer and vendor conflict.

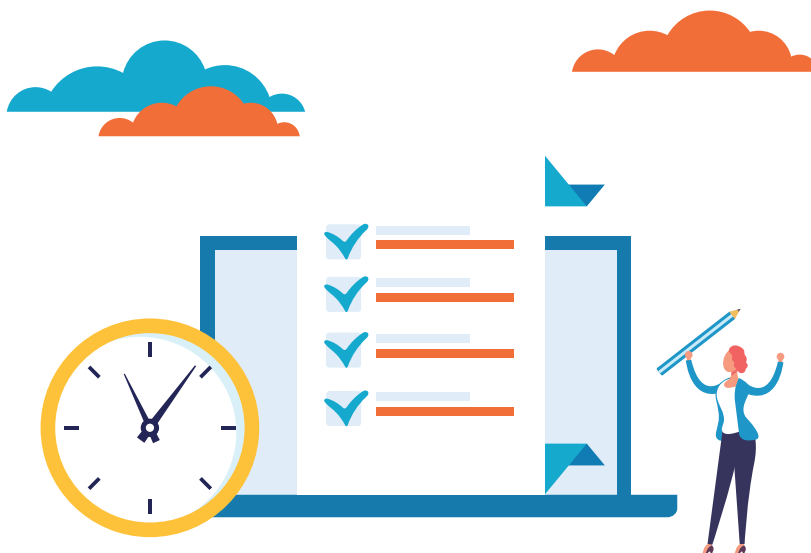
### Conclusion

The UCC rules for inventory can be a hiccup for even experienced equipment finance teams who do not regularly finance goods considered inventory. The varying rules for inventory and equipment under the UCC are one of the hardest concepts for teams to understand. The UCC has a broad definition of inventory that captures many transactions that might occur in an end-user equipment finance business regardless of the terms of the financing. The growth of rental and pay per use / service industries will lead to more transactions falling into the inventory categories. Understanding early in the financing process that

transactions can be considered inventory can prevent problems for a finance company's business, its customers and the vendor of the goods throughout the process. ☰



**RYAN THOMPSON** is Counsel for PNC Bank, where he supports PNC's Dealer Finance, Equipment Finance, Vendor Finance and Commercial and Corporate Banking businesses. The views expressed do not represent statements, positions or opinions of PNC Bank, National Association or The PNC Financial Services Group, Inc.





# CECL: A New Accounting Standard and a Challenging Credit Environment

**PUBLIC COMPANIES ACROSS ALL INDUSTRIES** have adopted or are adopting the current expected credit loss (CECL) impairment model, but that process has proved challenging within a pandemic-impacted economic environment. A recent ELFA Wednesday Webinar, “CECL: A New Accounting Standard and a Challenging Credit Environment,” offered a CECL refresher before discussing COVID-19 considerations and hot topics for lessors. The session was moderated by John Bober, Managing Member, IXL Lease Advisory Services, LLC and Chair of ELFA’s Financial Accounting Committee, and featured Drew Banach, Senior Manager, Strategy and Transactions, Ernst & Young LLP; Kyle Elken, Controller, DLL U.S.; and Joseph Soviero, Managing Director, Financial Accounting Advisory Services, Ernst & Young LLP.

## The Ins and Outs of CECL

The new guidance under Accounting Standards Update (ASU) 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, makes significant changes to the accounting for credit losses on financial assets and disclosures about them. The Financial Accounting Standards Board (FASB) developed the guidance in response to concerns that credit losses had been identified and recorded “too little, too late” in the lead-up to the 2008 global financial crisis.

The CECL impairment model under Accounting Standards Codification (ASC) 326-20 affects entities in many industries and applies to a wide variety of financial assets measured at amortized cost, including trade receivables, financing receivables (loans), held-to-maturity (HTM) debt securities, off-balance-sheet credit exposures not accounted for as insurance, and net investment in leases recognized by a lessor. The standard also modifies the existing impairment guidance for available-for-sale (AFS) debt securities and certain other types of financial assets.

The standard introduces a new expected loss impairment model, which is a change from the current incurred loss model. The object of the new model is to recognize an allowance for credit losses that results in the financial statements reflecting the net amount

expected to be collected from the financial asset. Under the expected loss model, management must also include an estimate of expected credit losses, measured over the contractual life of an instrument, that considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions.

Under the expected loss model, many companies can expect the following changes:

- Credit loss estimates will incorporate forward-looking information.
- Losses will likely be recognized sooner than under current guidance.
- Accounting policies, processes, controls and documentation will need to be updated and consideration given to whether changes are needed in financial reporting systems.

ASC 326-20 provides entities with significant flexibility in how to pool financial assets with similar risk characteristics, determine the contractual term, and obtain and adjust the relevant historical loss information that serves as the starting point for developing the estimate of expected lifetime credit losses. As a result, applying the guidance will require significant judgment.

For lessors, the CECL model also applies to a lessor’s net investment in sales-type and direct financing leases (operating leases are not in scope). The net investment in a lease includes the lease receivable,

the unguaranteed residual asset and deferred selling profit (for direct financing). The entire net investment in the lease is used to estimate the CECL, including the amount that the lessor expects to derive from the unguaranteed residual asset, which would be based on the expected value of the residual asset at the end of the lease term. In addition, the expected cash flows from the disposal of leased assets (including any gains and losses) should be included in the estimate of expected credit losses on net investments in leases in the scope of ASC 326.

## COVID-19 Considerations

Companies are finding it challenging to estimate the economic effect of the COVID-19 pandemic because of its unprecedented nature. In addition, companies applying ASC 326 are required to consider reasonable and supportable forecasts of future economic conditions in their estimate of expected credit losses.

### Example disclosure of COVID-19 exposure by industry

COVID-19 impacted industry	Loan balance o/s	% of total loans held for investment	ALL	ALL %
Retail	100	10%	3.5	3.5%
Restaurants	50	5%	1.25	2.5%
Travel	75	7.5%	3.0	4.0%
Oil and gas	25	2.5%	.875	3.5%

Source: Ernst & Young LLP

In an Ernst & Young LLP survey of 100 entities that extend significant amounts of credit, most of the respondents stated in their disclosures that the COVID-19 pandemic was the most significant driver of their allowance for loan losses in the first quarter of 2020 (Ernst & Young LLP, *Review of the first wave of credit impairment disclosures under the new standard*, June 25, 2020). In addition, 35% quantified their exposure to certain industries that were more heavily impacted, such as retail, hotels, travel, and oil and gas.

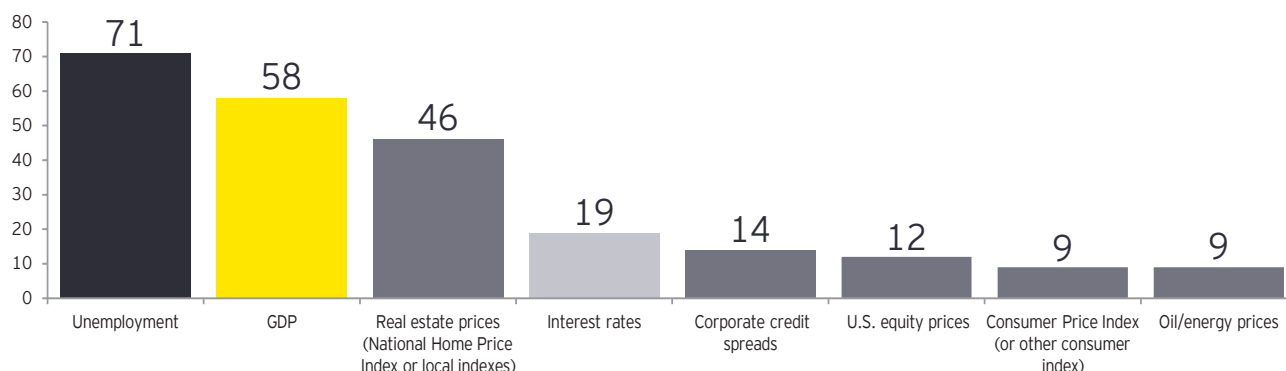
Affected companies that apply ASC 326 will need to consider the degree to which the market disruption may change their forecast under a number of possible scenarios, such as expected government support, and various sensitivity analyses. Business disruption and changes in demand will often increase the likelihood of lessees taking a longer time to repay amounts outstanding or being unable to repay their obligations when due.

ASC 326 requires companies to pool financial assets but allows them to choose which risk characteristics to use. Companies should assess whether financial assets in pools continue to display similar risk characteristics or determine whether they need to revise their pools or perform an individual assessment of expected credit losses.

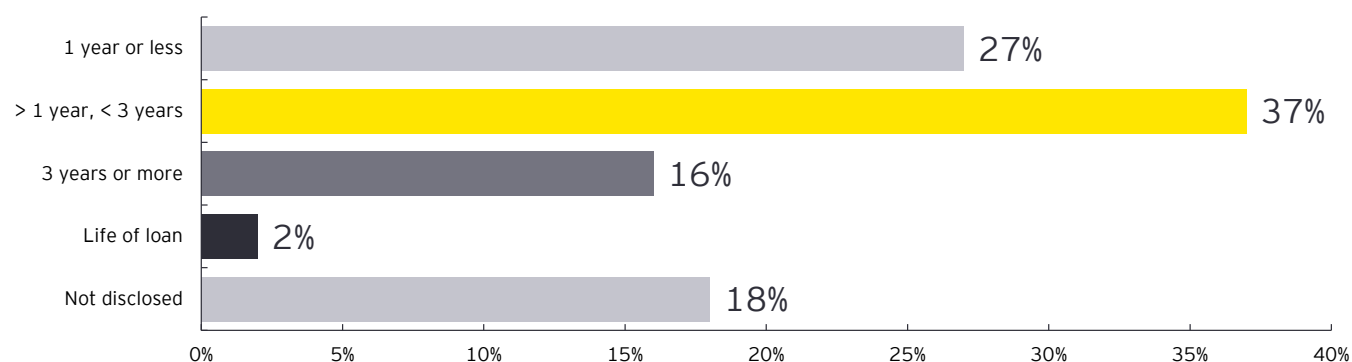
Lessors should consider the disclosures related to the basis of inputs and assumptions and estimation techniques used, and how forward-looking information has been incorporated. Many companies are disclosing inputs, assumptions or forward-looking adjustments associated with the impact of the COVID-19 pandemic.

### Macroeconomic factors used in the CECL estimate

Number of entities that disclosed the following factors used to develop a reasonable and supportable forecast of future economic conditions



Source: Ernst & Young LLP

**Reasonable and supportable forecast period**

Some entities reported a range for the R&S period; for those entities, we used the high end of the range.

Source: Ernst & Young LLP

**Hot Topics for Lessors**

**How are companies approaching implementation?** Many companies are taking a phased approach, similar to other accounting changes. They typically start with an assessment to determine the applicability of ASC 326 to their financial asset portfolio, identify gaps in accounting policy and financial reporting, and develop a workplan for design and implementation. A successful implementation will likely include ownership and sponsorship from affected business functions, such as finance/accounting and asset management, risk and credit. Going forward, these functions will likely require strong coordination, so training and education about ASC 326 and its impact on the business should be included in any effort.

**What are some considerations around data, models and reasonable and supportable forecasts?** There are several common credit loss calculation methods that are generally acceptable, such as the discounted cash flow (DCF) methods, loss-rate methods, and probability of default (PD) and loss-given default (LGD) methods.

When using these methods, the CECL impairment model requires an estimate of expected credit losses to consider in forecasts of future economic conditions, in addition to information about past events and current conditions. For historical data, companies may want to consider losses dating back several historical business cycles, including the financial crisis of 2008.

Another area of focus is the incorporation of macroeconomic factors in the CECL estimate, such as unemployment, GDP or inflation-related indexes. However, lessors may not want to consider these factors simultaneously as they may be correlated.

At the point that the reasonable and supportable forecast is

no longer a better estimate of expected credit losses than historical loss information, companies should revert to historical loss information for the remaining contractual term of the financial asset. The reversion period timing and method is another area of management judgment.

As previously mentioned, the CECL estimate includes the expected cash flows derived from the disposal of the residual asset at the end of the lease term (including any gains and losses). For example, if an asset at the end of its lease term is expected to be sold for a gain, then that additional cash flow should be considered in the CECL estimate. Collective pooling is required under CECL when assets share risk characteristics and lessors should consider residuals for contracts with similar risk characteristics for analysis. The nature of the leased asset is a key consideration as well as the value of the assets correlated among the leases. The end-of-lease-term residual asset cash flows, which may include a gain or loss on sale as well as an expectation of evergreen payments, are discounted back to the measurement date and offset against the estimate of expected credit losses.

With all these different complexities to consider, and depending on in-house capabilities, lessors should decide whether to gather the appropriate data and develop the estimate themselves or seek the assistance of a third-party vendor.

**What about processes and controls?** Lessors may need to consider updates to internal controls over financial reporting related to the adoption of ASC 326 — or even possibly new ones altogether. For instance, they may need to update controls around economic variables being relevant and accurate, and they will likely need processes and controls around the review and approval of the new estimate. Developing the estimate requires



data to be appropriate, accurate and complete, with appropriate periods used to develop the expected credit loss calculation.

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# 21%

Disclosed a material change to internal control over financial reporting

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Source: Ernst & Young LLP

Overall, models and calculations, including quantitative and qualitative adjustments made to outputs, should be appropriately factored into the estimate of expected credit losses in relation to GAAP requirements. This affects financial statement users as well, who will need to understand what caused changes to the allowance for credit losses and affected credit loss expense (or reversal) reported for the period. [E](#)

*The views reflected in this article are those of the author and do not necessarily reflect the views of Ernst & Young LLP or other members of the global EY organization. This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.*



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# Regulators Have Small Business Finance in Their Sights

**FOR EQUIPMENT LEASING AND FINANCE COMPANIES** that lease equipment or provide financing to small businesses, the regulatory trends are clear. We don't know all the changes coming, we don't know exactly how they'll be enacted and we don't know exactly when, but it is clear that the trend is moving toward treating small business finance similar to consumer finance.

For years now, the trends in consumer finance have been toward disclosure, limitations on utilizing certain contract provisions and even requiring lenders to determine whether the customer has the ability to pay.

This trend has been driven by the worst examples of lenders utilizing complicated contracts to unscrupulously take advantage of customers. We all know that these examples are usually the exception rather than the rule, but unfortunately, if these bad stories make it into a media exposé on the practice, they are spun in a way that makes it seem as if every industry participant is treating their customers poorly.

Unfortunately, the small business finance world is no different. The use of automatic renewals is a good example. In many cases, automatic renewals are convenient for the customer and lessor alike. However, one company exercising their automatic renewal clauses to the extent that the customer has

paid more in lease payments than the underlying equipment is worth, sometimes many times over, ruins it for everyone.

Another example is the use of confessions of judgment; in many cases they are a tool that allows work-outs to be completed to the advantage of both the customer and lender. However, some finance

companies have exercised their confessions of judgment on perceived technical defaults, even if the customer is making their payments. This has led to negative media coverage, and follow-on legislative efforts at the state and the federal levels to

prohibit the usage of these provisions in all commercial transactions.

Many of these issues have started at the state level and then moved slowly to the federal level. In the next few years, absent some sea change, Section 1071 of Dodd-Frank will come into effect. Once that

occurs, commercial finance companies will be required to report certain demographic and loan/lease level information to the federal government for every credit applicant. While there hopefully will be broad exemptions, the trend toward disclosure is clear. Additionally, in recent months, there have been moves at the state and federal levels to apply the Truth in Lending Act to small business finance.

In light of the economic effects of the pandemic disproportionately affecting small

**Small business finance is increasingly being treated like consumer finance.**



business, the appetite by policy makers for information about the level of small business credit issuance will be large. This appetite will be for all small business credit but will be even stronger in the areas of minority-owned and woman-owned businesses, which are also being disproportionately affected by the economic consequences of the pandemic.

For those of you who were active market participants during the Great Recession in the 2008-2010 timeframe, you'll recall the amount of media coverage regarding the slow recovery of small business credit markets. Current indications are that, in many ways, this economic downturn's impact on small business could be worse, albeit more intensely focused on

certain market segments. If history is a guide, the trend toward policy makers wanting more information about the recovery in these segments will accelerate.

Equipment finance companies that lend to small businesses are wise to think about how their business processes could be amended to report this information. While it may not be required next week or next month, this is an undeniable trend that our industry will need to adapt to. ■



For more information, contact **ANDY FISHBURN**, ELFA Vice President of Federal Government Relations, at [afishburn@elfaonline.org](mailto:afishburn@elfaonline.org).

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## ELFA Remains Active in the States

**WITH 9 STATES CURRENTLY IN SESSION**, your team at ELFA is working to review and, where needed, to 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 50 states in 2020, ELFA estimates there will be in excess of 2,000 bills introduced this year that may impact our members' interests.

The COVID-19 crisis threatens multiple and unprecedented special sessions in states across the country. The prospect of full and part-time legislatures in session late into the year along with the unprecedented spread of gubernatorial executive orders only creates additional uncertainty in these already uncertain times. Currently:

- 9 state legislatures are in regular session
- 2 states are in special session
- 3 sessions were interrupted due to COVID-19
- 36 states are not in session

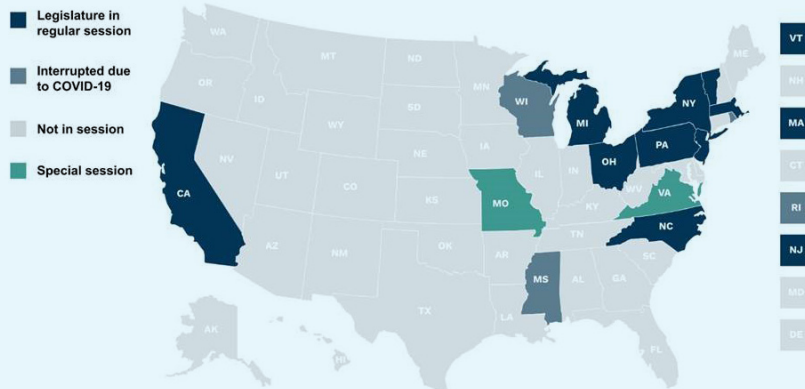
at the urging of ELFA to exempt from all requirements "a lease as defined in Section 2-A-103 of the Uniform Commercial Code."

These bills were introduced in March "to require greater transparency from commercial financing providers consistently across financing products" with emphasis on commercial financing disclosures for recipients that do not intend to use the financing primarily for personal, family or household purposes.

Recent amendments include exempting individual transactions over \$500,000 wherein § 802 Exemptions declares it shall not apply to, and shall not place any additional requirements or obligations upon, "(e) a lease as defined in section 2-A-103 of the uniform commercial code" and "(g) an individual commercial financing transaction in an amount over five hundred thousand dollars."

ELFA's exemption language, which was sought over two years, was certainly not everything we asked for; it was, however, one of the few exemptions permitted and passed. ELFA would like to express our thanks for the collective input and guidance of the ELFA Legislative and Regulatory Subcommittee of the Legal Committee. Your insights on the revised scope of this legislation are welcomed in assessments sent to [Scott Riehl](#), ELFA Vice President, State Government Relations.

### State Legislative Sessions: COVID-19 Impact



### New York Legislation Impacted by ELFA Amendment Passed and Sent to the Governor

On July 23, the New York Senate and Assembly passed and sent to the Governor [New York Senate Bill 5470B / New York Assembly Bill 10118A](#), enhanced financial disclosure legislation significantly amended

### New York Legislation Requiring Financial Licensing Filed

[New York Assembly Bill 10878](#) has been filed as legislation identical to [New York Senate Bill 6688](#) that has been the topic of ongoing discussions with the sponsor and staff of the Senate Committee on Banks, State Sen. James Sanders (D-Rochdale Village, Far

Rockaway). AB 10878 is sponsored by Assembly Committee on Banks member Assemblywoman Kimberly Jean-Pierre (D-Lindenhurst), who serves as Chairman of the Assembly Subcommittee on Lending in Underserved Communities. The exemptions listed in § 363-b of each bill are the same and do not include an exemption favorable to ELFA members. AB 10878 has been referred to the Assembly Committee on Banks and SB 6688 remains in the Senate Committee on Banks. ELFA is currently in discussions with the sponsors and committee staff, expressing our concerns and requesting critical changes to the legislation. Your views of this development can be shared with ELFA Vice President, State Government Relations, [Scott Riehl](#).

## ELFA Presents State and Local Resources for Critical Coronavirus Information

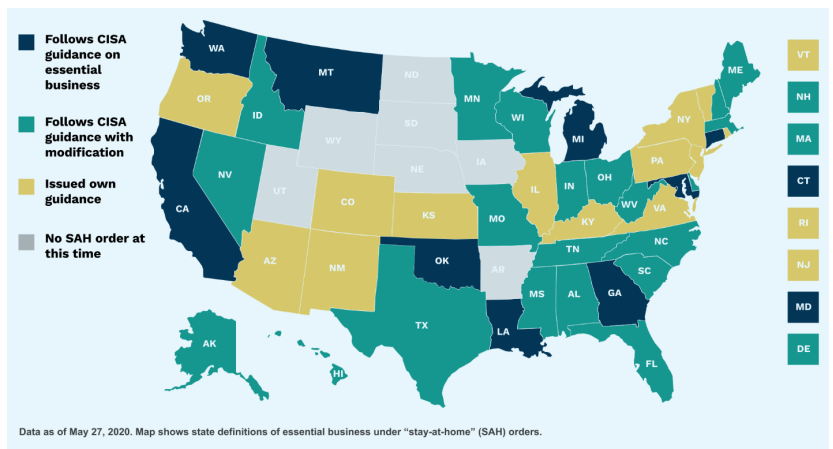
To monitor the response of state and local governments to the coronavirus, ELFA's state legislative tracking partners at Multistate Associates and Vertex have created helpful tools that provide our membership with the most state specific critical information available. [Access these tools](#).

- **State/Local Activity Dashboard** - This resource from Multistate Associates provides a quick and easy reference to updates and information issued by state and key local agencies and policymakers.
- **COVID-19 State Reopening Guide** - As states announce plans for phased reopenings, the resource from Multistate Associates monitors each state's degree of "openness" as determined by 11 factors.
- **State Tax Filing Date Changes/Extensions** - Vertex has created a resource showing states that have issued sales and use tax guidance in response to the COVID-19 crisis.

## Essential Business – Definition Dependent

States and localities continue to take additional measures to limit the spread of COVID-19, including requiring residents to stay home and requiring non-essential

businesses to close physical locations. Definitions of "essential" vary by state and locality. The Cybersecurity and Infrastructure Security Agency released guidance detailing which workers should be considered essential critical infrastructure workers by state and local governments. Some states have chosen to adopt this guidance themselves, while others have adopted it with modification. Others have adopted their own definitions. For more information on these orders and state-specific definitions of essential business, [visit this link](#).



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 ELFA Vice President, State Government Relations [Scott Riehl](#). [≡](#)



For more information, please contact ELFA Vice President of State Government Relations **SCOTT RIEHL** at [sriehl@elfaonline.org](mailto:sriehl@elfaonline.org).

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# Adversity: The Driver to Achieve Success

**THERE IS A UNIQUE LEADERSHIP STYLE** that I developed along the way as an entrepreneur, especially from the experience of starting a company with just a few associates that grew into a large organization providing careers and opportunities for over 500 people. And this leadership style has been transformed further during challenging times of economic uncertainty. Leadership and strong team members are what enable a company to thrive versus just survive.

## Leadership Versus Management: The Nuance of the Roles

I have been through a debt crisis, the Great Recession, the COVID-19 pandemic and many other challenges over the last several decades. I found it critical as a leader during these periods to maintain a team-first methodology. This approach nurtures a multitude of ideas that will ultimately solve issues. Team bonding, not blaming, is what solves challenges. This is accomplished through successful leadership, not just management.

It is the nuance between leadership and management that makes an impact. Leadership is the next level of professional achievement. A leader not only puts the team together but builds a bond of respect. With this bond, the team then has a strong foundation and can act as a focused unit with the leader guiding objectives.

In uncertain times, this is critical. Most of us have experienced moments when meeting goals may be a challenge or even unobtainable. An exceptional leader will accept responsibility for these unmet goals, then analyze the situation and quickly pivot to remedy the situation.

To accomplish this, extensive collaboration with the team members must occur. Once the vision and strategy are determined, the leader builds consensus to drive the vision forward, making it a reality. Leadership, not just management, is necessary to be a thriving organization—especially during challenging times.

## Investing in Your Most Important Asset: People

Hire great people then coach them. This will help

develop the strongest team members that will complement the company and help drive objectives, especially during challenging periods. As a leader it's my responsibility to nurture and coach so actions can be executed to accomplish goals.

Since professional growth occurs when experiencing adversity or even failure, having some of your team members who have experience with adversity provides a certain level of comfort in dealing with a constant stream of difficult challenges. The ability to adapt, to define solutions and stay focused will also help drive positive attitudes, ensuring organizational moral stays intact. The culmination of this: thriving not just surviving.



## Experiencing Adversity: A Catalyst for Accomplishments

The entrepreneurial aspect of my career has exposed me to on-going adversity but developing and leading a trusted team has made all the difference in driving organizational success. I have been fortunate to create two financial businesses that ultimately reached over \$1 billion in annual funding volume. A successful business model combined with a strong team was attractive to the Fortune 500 companies that ultimately acquired these organizations. I am a big believer that the adversity I experienced and the challenges my team surpassed were the drivers for long-term success. I believe any organization with strong leadership that invests in their people will thrive. ☐

**TOM DEPPING** is Executive Vice President - Ascentium Group Manager, Ascentium Capital LLC.

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