# *Thank you for joining us for the Foundation of Equipment Finance Series!*

The National Equipment Finance Association (NEFA) is a national trade association comprised of professionals serving the equipment leasing and finance industry. Our member companies are diverse and include independent and bank-owned lessors and funding sources, commercial finance brokers, specialty lenders, and various specialized service/product providers serving the needs of these equipment finance specialists.

NEFA's members are highly skilled in their fields and believe that working together to advance the equipment leasing and finance industry is incredibly important and best achieved by working collectively.

NEFA
National Equipment Finance Association

The National Equipment Finance Association, since formed, has always provided educational resources for the membership. Following the 2023 Strategic Planning process, NEFA increased the focus on Educational Offerings for the membership by hiring an industry veteran as the Manager of Education. This person will manage and curate these offerings.  Additionally, NEFA has invested in securing other industry experts to provide education both virtually and at regional events.

The online portion of NEFA's education is at no cost to members through informative online workshops and webinars. We also provide educational sessions at various regional events and conferences.

We invite you to explore all the NEFA educational offerings:

- Spring and Fall Conference (Education through Round Tables, Presentations, Moderated Panels, Peer Networking, etc.)
- Regional Events
- Knowledge Exchange
- Virtual lessons

NEFA
National Equipment Finance Association

NEFA LEVEL 1:

# Four Course Overview

**Sudhir Amembal**
Chairman & CEO
Amembal & Halladay

**Bob Rinaldi**
President
Rinaldi Advisory Services

**Course 1**
Industry Overview & Products Offered

**Course 2**
Equipment Finance Benefits

**Equipment Leasing & Finance ("ELF")**

**Course 3**
It's About The Equipment

**Course 4**
How Equipment Finance Companies Make Money

# Industry Overview

## & PRODUCTS OFFERED


**Sudhir Amembal**

CHAIRMAN & CEO, AMEMBAL & HALLADAY

**Bob Rinaldi**

PRESIDENT, RINALDI ADVISORY SERVICES

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No Tape Recording or Photographing
of this Course is Allowed

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DISCLAIMER

# Workbook Instructions

1. The workbook mirrors the lecture, but is designed to allow note-taking
2. Many pages in the workbook have empty shaded grey spaces (see example below)
3. The empty spaces are intended for two reasons:
   a) To write what you will view in these spaces in the video. This breaks the monotony of just listening!
   b) To input the answers to questions you will be asked. This keeps you challenged!

Example:

→

Example:

Regulatory

# Sudhir Amembal

CHAIRMAN & CEO, AMEMBAL & HALLADAY

- Sudhir Amembal is the Chief Executive Officer of Amembal & Halladay, the world’s foremost authority in the field of equipment finance training, consultancy and publications. He co-founded the firm in 1978. The firm has trained over 80,000 professionals throughout the world.
- As a government advisor, Mr. Amembal spearheaded lease consultancy engagements conducted on behalf of over 20 governments . These engagements required him to review the overall leasing industry in each country and devise strategic recommendations to facilitate the growth of the industry.
- As an author he has authored or co-authored 18 publications including: Leasing-The Creative Financing Alternative, Winning With Leasing, Operating Leases: The Complete Guide, International Leasing: The Complete Guide, The Handbook of Equipment Leasing, Lease Securitization, A Guide to Accounting for Leases, and A Guide to Captive Finance Company Equipment Leasing.
- As an educator, he has conducted training sessions in over 80 countries. His latest offerings include five e-learning courses. His flagship seminar “ Winning With Leasing” is offered virtually as an interactive one-day seminar.
- As a keynote speaker, he has presented at numerous domestic and international conferences. He has addressed conventions held by all four of the global regional associations – African Leasing Association, Asia Lease, Lease Europe, and the Latin American Leasing Association. He chaired each of the annual World Leasing Conventions from 1993 until its discontinuance in 2013.
- In 2016, Mr. Amembal was inducted into the Equipment Finance Hall of Fame by the Equipment Leasing and Finance Association. The honor is bestowed on those who have made unique, significant, and lasting contributions to the equipment finance industry. He was a nominee for "The Legend" award at the Monitor Converge 2023 and a nominee for the "MVP Behind the Scene" award at the Monitor Converge 2023 and 2024. He was the first person to be awarded an honorary CLFP credential.
- He has served as an independent Board member for Corplease in Egypt, as well as for Operadora de Servicios Mega in Mexico. He served as Chief Advisor to two prominent leasing companies in China – CMIG Leasing Group and Juxin International Leasing Company.
- He served as Chairman of Amembal Capital Corporation, a middle market leasing company for a period of five years. Prior to founding Amembal & Halladay,, he was a member of the faculty at the College of Business, University of Utah, prior to which he worked for Ernst & Young in New York.
- He has a Bachelor of Commerce from the University of Bombay, and an M.B.A. from the University of Utah. He successfully passed the CPA examination in New York.
- He resides with his wife, Kiran, in Salt Lake City, Utah and San Miguel de Allende, Mexico.
- Mr. Amembal can be contacted at sudhir@amembalandhalladay.com or at (503) 867-5065

# Bob Rinaldi

PRESIDENT, RINALDI ADVISORY SERVICES

- Bob Rinaldi is a trailblazing entrepreneur and the driving force behind Rinaldi Advisory Services, a renowned consultancy specializing in equipment leasing and financing. With a penchant for unconventional strategies and a track record of success spanning multiple ventures, Rinaldi and his distinguished team of seasoned chief executives in the industry, bring a wealth of experience to the table.
- In 2018, Rinaldi founded Rinaldi Advisory Services ("RAS"), swiftly establishing it as the premier advisory firm in the equipment leasing and finance domain. RAS is widely recognized for its expertise in crafting exit strategies for independent leasing companies and devising entry strategies for banks seeking to enter this lucrative market.
- Before RAS, Rinaldi held pivotal leadership roles, including serving as Chief Executive Officer of Commercial Industrial Finance ("CI Finance"), a nationally acclaimed equipment finance company. Under his stewardship, CI Finance was successfully acquired by CBank, a prominent Cincinnati-based community bank focusing on commercial and industrial lending to small and medium trans-sized businesses.
- Rinaldi's illustrious career also includes tenure as Senior Vice President of CSI Leasing, where he spearheaded organic and inorganic growth initiatives. He further distinguished himself as Executive Vice President of National City Commercial Capital Company (NC4), now PNC, and as President of NC4 Canada. Notably, as a founding partner of Information Leasing Corp. (ILC), later acquired by Provident Bank, Rinaldi played an instrumental role in propelling the company to become the fifth-largest bank-owned leasing enterprise in the United States.
- Recognized for his outstanding contributions to the industry, Rinaldi has served as Chairman and Director of the Equipment Leasing and Finance Association (ELFA), a prestigious role within the premier trade association representing the $1 trillion equipment finance sector. His dedication and advocacy have been honored with prestigious awards, including the Steven R. LeBarron Award for Principled Research and the David H. Fenig Distinguished Service in Advocacy Award.
- Currently, Rinaldi continues to shape the industry landscape as a director of the National Equipment Finance Association. He remains actively involved in industry research and development initiatives, serving on the Equipment Leasing & Finance Foundation's Research Subcommittee and Development Committee.
- Rinaldi's expertise extends beyond the boardroom, as evidenced by his extensive contributions to thought leadership through speaking engagements and publications, both domestically and internationally. A proud alumnus of Michigan State University, Rinaldi holds BS degrees in Animal Science and Agricultural Biochemistry.
- For further inquiries or collaboration opportunities, Rinaldi can be contacted at Bob@RinaldiAdvisory.com. Connect with him on LinkedIn or explore his dedicated website, www.RinaldiAdvisory.com, dedicated to honoring the pioneers of the modern equipment leasing industry.

# Table of Contents

PART 1

# Overview of the Industry

# Overview of the Industry

Size and Significance

Types of Players

Transaction Sizes

Origination Methods

## Size and Significance

Equipment Finance is a $ 1.2 trillion Industry

Accounts for Over 50% of Investment

Accounts for a Significant Portion of GDP

# Types of Players

**Funders**

- Banks
- Captives
- Independents

**Brokers**

- Pure
- With portfolios

**Service Providers**

# Transaction Sizes

**Small ticket**

< $ 250,000

**Middle-market**

$ 250,000 –
$ 5,000,000

**Large ticket**

> $ 5,000,000

# Origination Methods

**Direct**

**Broker**

**Vendor**

PART 2

# Varied Products & Their Characteristics

# Varied Products & Their Characteristics

Equipment Finance Agreement

Distinction Between the Capital and the FMV Lease

Leveraged Lease

TRAC Lease

Municipal Lease

Managed Services

# Equipment Finance Agreement

**Preface**
- Loan-like

**Nature**
- Net
- Full payout

**Purpose**
- Facilitates financing and ownership
- Facilitates financing of certain equipment types

**Nuanced Benefits to Customers**
- No additional collateral
- Section 179 and bonus depreciation
- Simple product

**Nuanced Benefits to Funders**
- No legal risks
- No hassles with property and sales tax issues

# Capital & FMV Leases: The Distinction

## Rental

Definition of Short Term:

**Source:**
Accounting

**Impact on customer:**

- Off balance sheet
- No disclosures

## Capital Lease

## FMV Lease

# Illustrating the Difference

## Capital Lease

$3.04

0 → 36

$100 6%

## Consequences of no RV:

1. Rental
2. Lessor Risk
3. Nature of transaction

## FMV Lease

$2.41

0 → 36

$100 6%

## Consequences of RV:

1. Rental
2. Risk
3. Nature of transaction

Definition of Residual Value:

## Three Questions

**Conclusion:**

# A Comparison

| Characteristic | EFA | Capital Lease | FMV Lease |
|---|---|---|---|
| Nature | Full-payout | Full-payout | Non full-payout |
| End-of-term | Not applicable | Nominal buy-out | Varied options |
| Services | Net | Net | Net or full service |

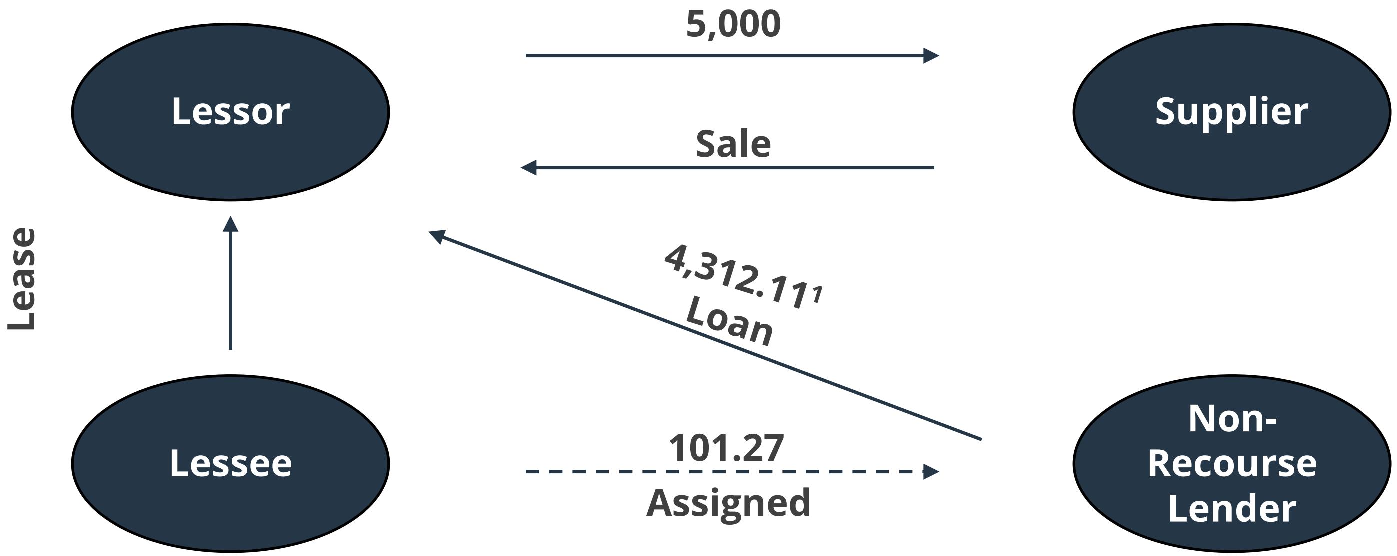
# Leveraged Leases

## Definition

## Existence of Non-Recourse Debt

## Illustration

| | | | |
|---|---|---|---|
| Equipment cost | $ 5,000 | Residual | $ 1,500 |
| Term | 48n | Lease payment | $ 101.27 |
| Interest rate | 10% | Lessor debt rate | 6% |




[1]Present value of $ 101.27 for 48 months at 6%
Lessor inserts equity of $ 687.89

# Leveraged Leases

## Benefits

Supplier

Lessee

Lender

Lessor

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# TRAC Lease

## Definition

Terminal rental adjustment clause
Guaranteed residual by lessee

**Illustration: Lessee guarantees $5 RV on first net loss basis**

| | |
|---|---|
| 0 | 36 |
| $100 | $35 |
| EC | RV |

## Consequences:

If asset purchased ... $35

If asset returned and sold or valued at less than $35
... lessee is responsible for first $5.

## Purpose

Lower rate
Mitigates lessor risk

**Types of Assets Conducive for Product:** Fleets

**Types of Lessees Suited for Product:** Retail and transport

# Municipal Lease

**Purpose**
Lending to states and political subdivisions
Generally known as Lease-to-Own

**Nature**
Full payout
Net

**Nuanced Benefits to Customers**
Non-appropriation clause

**Nuanced Benefit to Funders**
Tax-exempt interest

# Managed Services

**Purpose**
A consequence of the circular economy

**Types**

**Consumption Based**
Pay-as-you-go

**Subscription Based**
Upgrades

PART 3

# Accounting, Tax & Legal Impact

# Accounting, Tax, & Legal Impact

Accounting

Tax

Legal

# Accounting

**Preface**
Purpose is to understand accounting treatment of commonly offered products

**Treatment**
EFA is a loan—hence treated as a loan
Lease treatment depends on certain criteria

**Criteria for Lease Treatment**
Source-ASC 842
Effective January, 2019

# Accounting Treatment of EFA

## Customer

Balance Sheet

Assets

Liabilities

P&L

## Funder

Balance Sheet

Assets

Liabilities

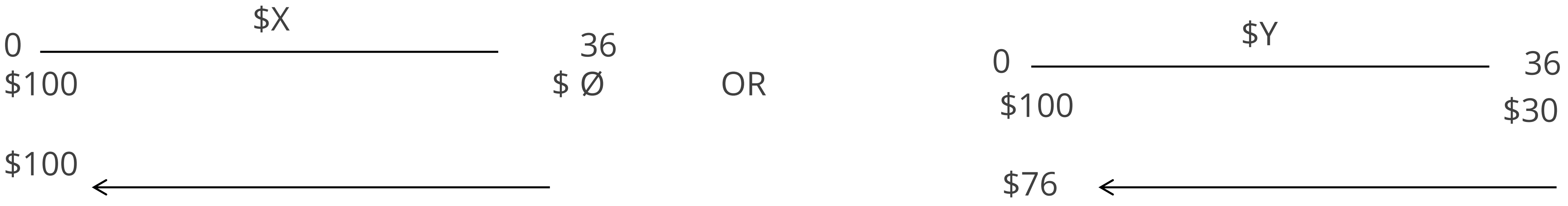
P&L

# Overall Impact of ASC 842

## Two Types of Leases

- Those representing purchase agreements will be classified as finance leases
- Those representing usage agreements will be classified as operating leases

## Recorded at the Present Value of Lease Payments

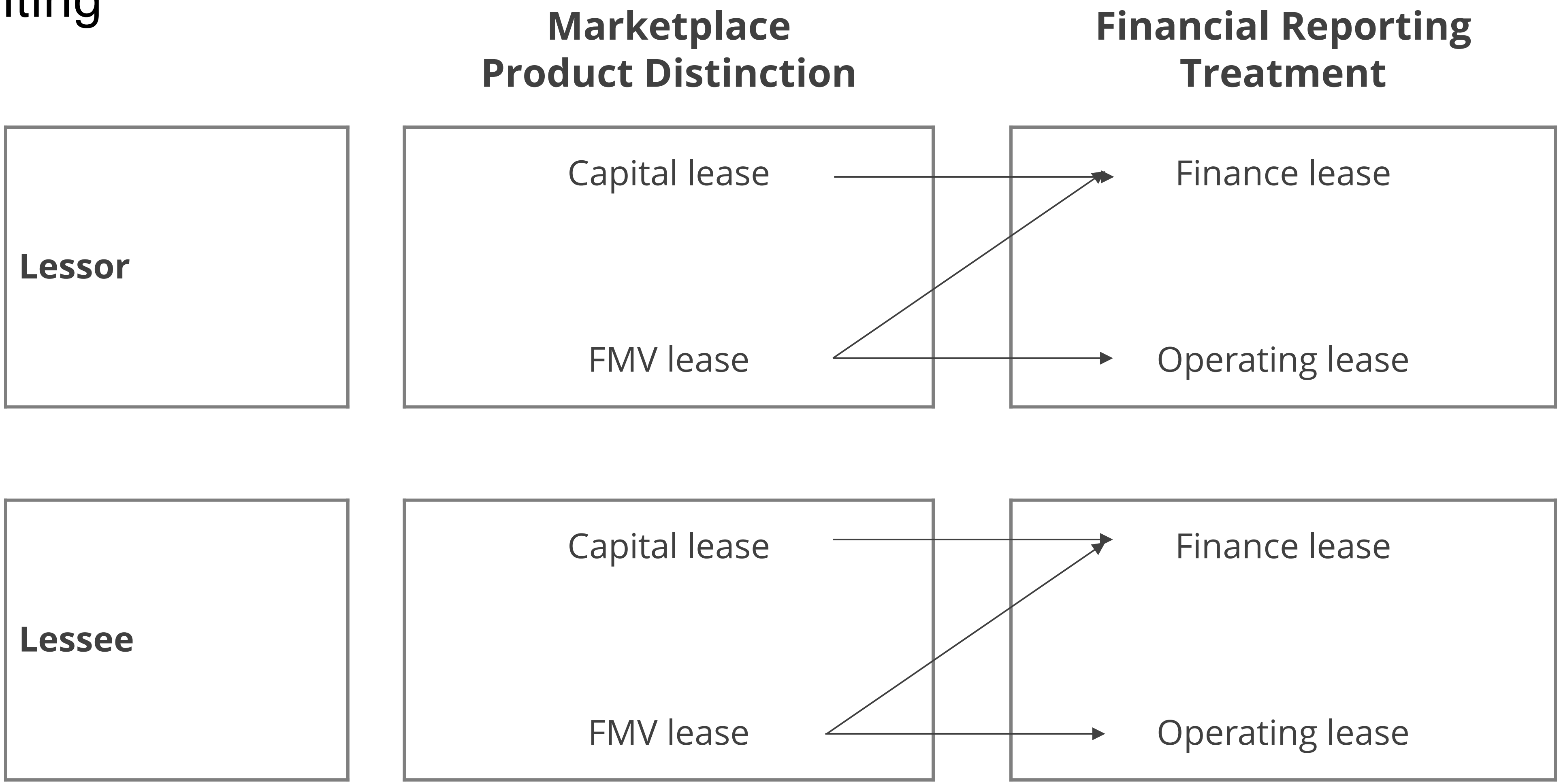



## Right of Use Asset & Liability to be Booked at $100 or $76 Depending on Type of Lease

## Subsequent Measurement

- Depends on lease classification based on criteria

# Accounting




Accounting classification based on five criteria from ASC 842

# Criteria from ASC 842

**If one or more of five criteria met, the lease is a finance lease: a loan equivalent**

Contractual transfer of ownership

Bargain purchase option

Lease term is for the major part of the remaining economic life of the asset

Leased assets are of a specialized nature

Present value of the payments amounts to at least substantially all of the fair value of the asset

# Accounting Treatment of Full Payout FL

| Customer | | Funder | |
|---|---|---|---|
| Balance Sheet | | Balance Sheet | |
| Assets | Liabilities | Assets | Liabilities |
| P&L | | P&L | |

# Accounting Treatment of OL

## Customer

Balance Sheet

Assets

Liabilities

P&L

## Funder

Balance Sheet

Assets

Liabilities

P&L

# Accounting - Customer Summary

| Product | Balance Sheet | Income Statement |
|---|---|---|
| EFA | On | Depreciation + Interest |
| FL | On | Depreciation + Interest |
| OL | Partially On | Lease Expense |

# Accounting - Funder Summary

| Product | Balance Sheet | Income Statement |
|---|---|---|
| EFA | Receivable | Interest Income |
| FL | Receivable | Interest Income |
| OL | Leased Asset | Rent Income - Depreciation |

# Tax

## Preface

- Purpose is to understand tax classification of leases

## Sources

- Internal Revenue Code
- Revenue Ruling 55-540
- Revenue Procedures
- Judicial Criteria

## Lease Qualifying as a Lease

- Lease
- Tax lease
- True lease

## Lease Not Qualifying as a Lease

- Non-tax lease
- Sale
- Conditional sales contract

# Tax

**Revenue Ruling 55-540**
Defines what is not a lease

**Criteria**
If one or more of the criteria are present, the lease may not be a lease for tax purposes:

- Portions of the payments are specifically applicable to an ownership interest by the lessee
- The lessee acquires title upon the payment of a stated amount of rentals
- The total of the lease payments over a relatively short period of use constitutes an inordinately large portion of the required sum to be paid to secure title
- The total lease payments materially exceed the current fair value
- The property may be acquired under a bargain purchase option
- Portions of the payments are specifically designated as interest

# Tax

**Other Sources**

Revenue Procedure 75-21

Revenue Procedure 2001-28 and 2001-29

Judicial criteria

# Marketplace and Tax Correlation

| **Marketplace**<br>Product Distinction | **Tax**<br>Tax Treatment |
| --- | --- |
| Capital Lease | Non-tax Lease |
| FMV Lease | Tax Lease |

Tax classification based on various criteria — the above is not definitive

# Customer Tax Treatment

| Treatment | Capital | FMV |
| --- | --- | --- |
| Classified As | Non-tax Lease | Tax Lease |
| Deduction | Depreciation<br>+<br>Interest | Lease Expense |

# Funder Tax Treatment

| Treatment | Capital | FMV |
|---|---|---|
| Classified As | Non-tax Lease | Tax Lease |
| Treatment | Interest Income | Rent Income<br>-<br>Depreciation |

# Legal

**Purpose**
To understand the legal classification of leases so as to distinguish between a true lease and a security interest

**Sources**
Uniform Commercial Code
Article 2A
Article 9
Case law

**Classification**
True lease
Lease intended as a security

**Impact**
Ownership
Liability
Bankruptcy

# Legal

**Distinction**
Section 1-203

**Security Interest**
A transaction creates a security interest if the consideration that the lessee is to pay for the right to use and possess the goods is an obligation for the term of the lease and is not subject to termination by the lessee, and

The original term of the lease is equal to or greater than the remaining economic life of the goods; or

The lessee is bound to renew the lease for the remaining economic life of the goods or is bound to become the owner of the goods; or

The lessee has an option to renew the lease for the remaining economic life of the goods for no additional consideration or for nominal additional consideration upon compliance with the lease agreement; or

The lessee has an option to become the owner of the goods for no additional consideration or for nominal additional consideration upon compliance with the lease agreement.

# Legal

**True Lease Status**

Determined by Section 1-203 and case law

Many case law determinants are common to accounting and tax

# Summary

| Product | Accounting | Tax | Legal |
|---|---|---|---|
| Capital Lease | Finance | Non-tax Lease | Secured Transaction |
| FMV Lease | Operating | Tax Lease | True Lease |

The above is likely but not definitive

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**Thank you!**