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The Business of Asset Finance A Primer for Lawyers

Types of Equipment Finance



1. Lease (a) True
 (b) Finance Lease
2. Conditional Sales Contract
3. Loan and Security Agreement
4. Installment Payment Program

Why Lease (Finance Lease)



1. Not disclose interest rate
2. Landlord waiver
3. Some accountants still provide off balance sheet treatment (not true)
4. Certain tax priorities and may be better rights under certain insolvency laws
5. Client expectations

Market for Asset Finance



1. **Small ticket – 1,000 – 50,000**
 - (a) Standard documents
 - (b) Process shops
 - (c) Loose credit standard
2. **Mid ticket – 50,000 – 500,000**
 - (a) Mostly standard documents
 - (b) Credit reviews tend to be more rigid
 - (c) both process and transaction shops
3. **Large ticket 500,000 +**
 - (a) tend to be negotiated but not heavily
 - (b) tighter credit standard
 - (c) more transaction shop
4. **Structured 4 million +**
 - (a) Custom documents
 - (b) Tight credit standards
 - (c) Transaction shops

Types of Financers and How They Finance



1. **Small ticket commercial finance**
 - (a) Bank line
 - (b) Bulk sales
 - (c) Private securitization
 - (d) Public securitization
2. **Small/mid ticket broker**
 - (a) Bank line
 - (b) Bulk sales
 - (c) Private securitization
3. **Commercial finance companies – mid/large**
 - (a) Bank line
 - (b) Private securitization
 - (c) Sale to large bank
 - (d) Public securitization
4. **Large ticket finance companies**
 - (a) Own funds
 - (b) Commercial paper
 - (c) Public securitization
 - (d) Sale to other institution

Credit Requirement/Pricing



	Now	18 Months Ago
1. Small Ticket/Mid Ticket Broker	<ul style="list-style-type: none"> • Automatic scoring, tighter credit but available to most companies; many leasing companies have structures for bad risk • Some reliance on asset • Less residual • 450+ 	<ul style="list-style-type: none"> • Automatic scoring, easy credit • Residual but low • 350+
2. Mid Ticket	<ul style="list-style-type: none"> • Credit committee • Cash flow • Asset value more important • Less soft costs • 325+ 	<ul style="list-style-type: none"> • Reviewed by underwriter but no credit committee • Cash flow • May rely strictly on asset (rare) • 225+
3. Large Ticket	<ul style="list-style-type: none"> • Credit committee – strict rules • Cash flow • Strict review of assets • Some soft cost • Long turnaround • Strict house internal limits • 175+ 	<ul style="list-style-type: none"> • Credit committee – flexible rules • Short turnaround • Review of assets • May expand house internal limits • 80+

Vendor Program Structures

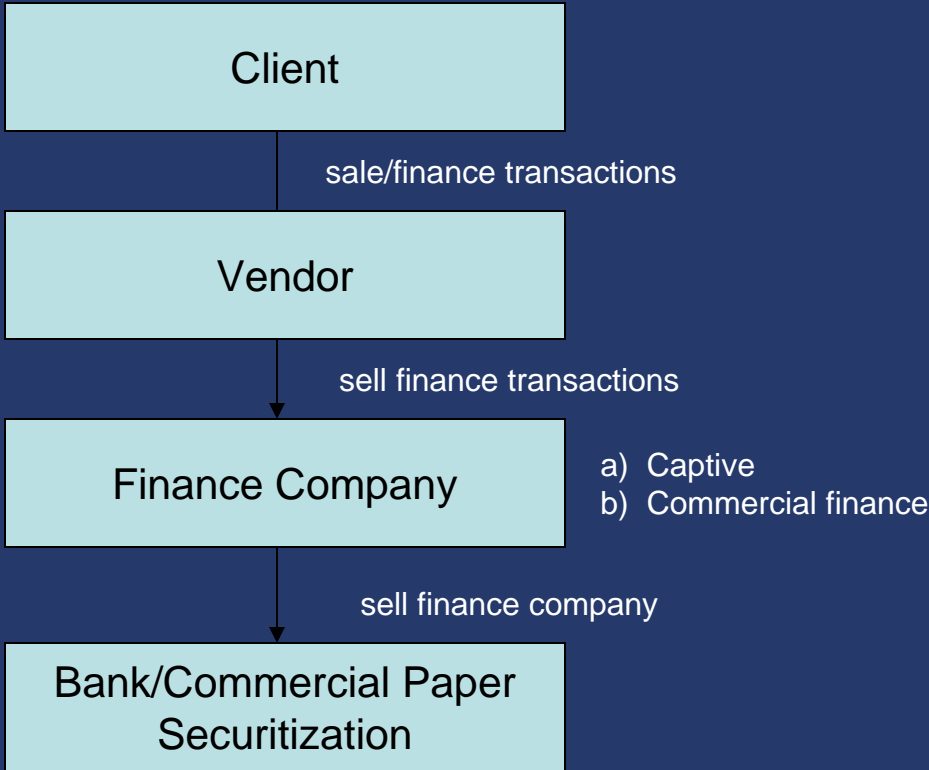


1. Vendor sells assets/intangible to client
2. Vendor provides a finance option
3. (a) Vendor refers client to finance company and finance company enters into the transactions in its own name
(b) Vendor enters into finance transaction in its name and then sells transaction to finance company. Vendor advises client of sale
(c) Vendor enters into finance transaction and then on a non-notification to the customer basis sells the transaction to finance company



1. Almost all small and mid-sized finance companies must obtain financing for their activities. They do not hold their paper.
2. Vendor finance often requires sale or transaction to third parties.
3. Large banks and commercial finance companies often sell transaction to one another to rebalance their risk profiles or stay within house internal limits.

Vendor



Who Are the Players



1. Small tickets under 25k
 - small finance company
 - commercial finance companies who have a small ticket division (eg. DLL, GE)
 - brokers
 - high risk lenders
2. Mid ticket 25k – 2 million
 - commercial finance companies (eg. CIT, GE & Maxim)
 - Banks (Bank of America, DLL, RBC, Scotia, Roynat)
 - brokers
3. Large ticket/structured 500k +
 - commercial finance (same as mid ticket)
 - banks (same as above)
4. Purchases of paper
 - insurance companies (Manulife, Sunlife)
 - large bank
 - public markets

Key Success Factors



1. Documents must be drafted for easy sale – different ticket sales have different rules
2. Systems must be developed to ensure essential information is captured and easily reviewed
3. Credit S of portfolio must be saleable
4. Must be easy to explain



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