



CLFP EXAMINATION OUTLINE

Part I – 2 Hours (282 points)

History and Purpose of Leasing.....	50 points
Classification and Terminology	150 points
Lessor-Vendor Relationships	50 points
Essay.....	32 points

Part II – 2 Hours (284 points)

Credit and Financial Statement Review	50 points
Lease Law and Documentation.....	150 points
Collections.....	50 points
Essay.....	34 points

Part III – 2 ½ Hours (282 points)

Financial and Tax Accounting.....	100 points
Sources of Financing for a Leasing Company.....	50 points
Lease Pricing	100 points
Essay.....	32 points

Part IV – 1 ½ Hours (150 points)

Select 3 of the following	50 points each
Marketing	
Sales and Lease vs. Buy	
Portfolio Management	
Government Leasing	
Lease Company Management	
Insurance for Leasing Companies	
Agriculture Leasing	
Advanced Pricing and Structuring	
Alternative Financing	



PART I

History and Purpose of Leasing

The candidate should be able to list, describe and answer questions about:

1. Lease versus buy considerations
2. Options when a lease terminates
3. Differences between true and finance leases
4. Differences between operating and true leases
5. Types of equipment that can be leased
6. Reasons why leasing is a popular method of financing
7. The CLFP Standards of Professional Conduct

Although ***History and Purpose of Leasing*** covers many areas of common knowledge well known to the lease professional, some specific technical knowledge is required for the candidate to be successful with this section. Candidates are expected to know such things as depreciation; tax law; the history and impact of Tax Credits on the industry; the distinctions between leasing and financing; and the accounting treatment for operating vs. capital leases. A sound understanding of FASB 13, Revenue Ruling #55-540 and Revenue Procedure #75-21 will also serve you well for this section.

Sample Questions

1. What did the adoption of FASB 13 accomplish?
2. How is a true lease treated for tax purposes from the Lessee's perspective? From the Lessor's perspective?
3. Why has the leasing industry historically been such a growth industry?

Classification & Terminology

The candidate should be able to answer questions about:

1. Stream rates
2. "At Risk" rules
3. "Section 38" property
4. Other names for Operating Leases
5. Characteristics of leveraged, master and closed-end leases
6. Equity in a leveraged lease transaction
7. FASB 13 criteria for a capital lease
8. FASB 13 criteria for an operating lease
9. Purchase options consistent with a true lease
10. Sale and Leaseback
11. Assignment with/without recourse



Classification & Terminology is a combination of questions and in some areas, overlaps the body of knowledge tested in Section I. For example, candidates should be familiar with the specific criteria that would qualify a transaction as a lease for tax purposes. From the financial reporting perspective, candidates should be able to apply FASB 13 criteria to determine if a lease should be classified as an operating or capital lease.

Sample Questions

1. What is a leveraged lease and what impact did ITC have on leveraged leasing during the 1970's and early 1980's?
2. How does IRS Revenue Procedure 75-21 differ from IRS Revenue Ruling 55-540?
3. What impact does a 20% Put Residual position have on how a lease is treated for tax purposes?

Lessor-Vendor Relationships

Candidates should be able to answer questions about:

1. Lessor Responsibilities
2. Vendor Responsibilities
3. Full vendor recourse
4. Agency
5. Elements of a Vendor Lease Application
6. Elements on a Vendor's Invoice
7. Vendor Qualifications
8. How a Lessor views a vendor
9. Establishing Lessor independence
10. Ways a vendor can defraud a Lessor

In **Lessor-Vendor Relationships** candidates should understand the advantages and potential pitfalls that can arise when dealing with vendors, the flow of vendor transactions in the leasing company, spotting the red flags that may say "maybe we shouldn't do business with these people," and the importance of maintaining an arms-length relationship.

Sample Questions

1. You want to establish some vendor programs and are trying to decide what kinds of equipment to target. What should you look for?
2. A salesperson for your best vendor tells you he has been giving most of his business to XYZ Leasing but promises you "first look" if you give him a 2% spiff. How do you respond and why?
3. What information should you obtain from a vendor in order to qualify them to do business with your company?



PART II

The Credit Process & Financial Statement Review

Candidates should be able to answer questions about:

1. Definition and types of Current assets
2. Intangible assets
3. Common Equations - current ratio, quick ratio, ROA, ROE,
4. Accounts Receivable Turn Day Ratio
5. The differences between a partnership and a corporation
6. Ways to reduce risk on a lease transaction
7. Lessee's Capacity
8. Balance sheets, income statements and the credit decision

The Credit Process & Financial Statement Review

Sample Questions

1. Know the commonly used ratios to analyze a financial statement.
2. Understand the difference between tangible and intangible assets.
3. Construct a simple balance sheet and profit/loss statement.

Leasing Law & Documentation

Candidates should be able to answer questions about:

1. Security Deposit Clauses
2. Acceleration Clause
3. Disclaimer of Warranties Clause
4. Waiver of Defense Clause
5. Hell or High Water Clause
6. "After acquired" clauses
7. "Cross Default" Agreement
8. Security Agreements
9. Guaranty Agreements
10. Real estate waivers
11. Landlord's waiver
12. Corporate Resolution to Lease
13. Purchase Orders - characteristics, parties involved
14. Fixture Filings - how filed and recorded; potential problems
15. UCC forms
16. Additional Collateral
17. Typical events of default
18. Notice Requirements after Default
19. "Commercially reasonable" sale of repossessed equipment
20. Expressed or Implied Warranties
21. Anti-Deficiency Laws



22. Deeds of Trust as they pertain to lease documentation
23. Tax Indemnity
24. Qualifying as a foreign corporation

Leasing Law & Documentation section of the exam is designed to test a candidate's general knowledge of lease law and documentation. Questions address such issues as passage and perfection of title to personal property, disclaimers, waivers of liability, and the purpose, content and effectiveness of various documents and document provisions. The candidate should have general knowledge of the events and remedies of default as well as the complement of documentation required when entering into various types of lease transactions.

Sample Questions

1. An "after acquired" clause is of concern to the Lessor in regards to:
 - a. Title to the equipment
 - b. Modifications to the equipment
 - c. Ongoing vendor relationships
2. An agreement where equipment is purchased by a Lessor from the company presently owning and using it, and in which the Lessor then becomes the owner of the equipment and leases it back to the former owner who continues to use it, is called:
3. Specify and explain the document, which verifies the satisfactory shipment of the equipment to the lessee.

Collections

Candidates should be able to answer questions about:

1. Collection Department responsibilities
2. Signs of potential collection problems
3. Essentials for effective collection efforts
4. Questions to ask when lessee advises no more payments
5. Liabilities of self-help repossession
6. Alternative ways of contacting delinquent lessees
7. Date of Filing of Petition
8. Creditor's Committee
9. Proof of Claim
10. Automatic Stay/Relief from Stay
11. Declaration of acceleration

Candidates should have knowledge of Chapters 7, 11 and 13 of the Bankruptcy Code and debtor and creditor rights there under, the functions of a collection department in a leasing company and debtor/creditor rights and remedies under the Uniform Commercial Code.

Sample Questions

1. You have repossessed equipment from a delinquent lessee. List the steps that must be taken in order to sell the equipment.



2. Explain the advantages of having an Arbitration Clause in your lease document.
3. What must a Creditor do if they wish to receive funds from the bankrupt estate?

PART III

Sources of Financing for a Leasing Company

Candidates should be able to answer questions about:

1. Sources of funds
2. Common Funding Methods
3. Equity and Debt
4. Portfolio Sales
5. Public Debt Offerings
6. Limited Partnerships
7. Asset Securitization

Sample Questions

1. In discounting, the obligation of checking and accepting credit is with?
2. The benefits of funding transactions through _____ are low volume requirements, minimal risk and upfront revenue.
3. What form of funding relies primarily on the financial strength of the originator?
4. Which party in a discounting relationship holds title to the leased equipment?

Financial & Tax Accounting

Candidates should be able to and answer questions about:

1. How to account for payments on an operating lease
2. How to prepare balance sheets for operating and capital leases
3. Differences of information found on Financial Statements and Tax Returns
4. The effects of lease payments and security deposits on Lessor's financial statement
5. Tests to qualify for investment tax credits; Alternatives when not available
6. Present Worth and Internal Rate of Return methods of evaluation
7. Incremental Borrowing Rate
8. Alternative Minimum Tax
9. Different depreciation conventions
10. General understanding of sales taxes, property taxes as they pertain to equipment leasing.

Financial & Tax Accounting includes questions that test whether you know the difference between financial reporting for tax purposes and financial statement purposes as well as operating leases versus capital leases. You will need to understand the concepts of present value and incremental borrowing rates.

Sample Questions

1. Describe various methods used in analyzing financial statements.
2. How does one account for a security deposit?
3. How AMT affects leasing?



Lease Pricing

Candidates should be able to answer questions about:

1. Selling at discount
2. Yield considerations calculations
3. Determining if a set of terms meets yield requirements
4. Paybacks on yields
5. Calculations of Lease Stream payments
6. Present value problems
7. Calculating/quoting factors to brokers
8. Computing monthly gross lease payments based on a set of assumptions
9. Define the terms "yield" and "Internal Rate of Return" from a Lessor's point of view

Lease Pricing includes questions test whether you understand the concepts of present value, and discounting. You will also need to know how to use a financial calculator or TValue.

Sample Questions

1. List the three variables that must be known to solve for present value.
2. If the yield is the same, which of the following will lower the lessee's monthly payment the most:
 - a. Increase the advance rentals by one
 - b. Take a 10% security deposit
 - c. Increase the residual from 1% to 10%
3. Calculate the monthly payment required to achieve the following conditions:

Yield	14.5%
Equipment cost	\$75,000.00
Advance rentals	First & Last
Term	60 months
Residual value	10%
Refundable security deposit	\$5,000

PART IV of the exam consists of eight sections of which the exam Candidate must select three sections. Each section is equally weighted with a 50-point maximum. Candidates have sixty minutes to complete the three sections of their choice.

Lease Company Management

Candidates should be able to answer questions about:

1. Key management responsibilities
2. Financial management - budgeting
3. Financial Statements
4. Cost of Capital
5. Administration & outsourcing



Lease Company Management You will be required to know the basic responsibilities of running a leasing company, from managing finances to employee relations.

Sample Questions

1. List two major expenses to a leasing company other than Cost of Capital.
2. What are necessary costs of doing business for any lender?
3. When do you outsource?

Portfolio Management

Candidates should be able to answer questions about:

1. Debt to Worth Ratio
2. Reserves for Bad Debt
3. Compensating Balance
4. Increasing Recourse Lines of Credit
5. Advance payments, security deposits and yield
6. Concentration in one industry or equipment
7. Variables (business concerns) in Portfolio Management
8. Quality of a Portfolio
9. Compare and contrast Recourse/Non-Recourse Financing
10. Compare and contrast floating vs. fixed lease rates
11. Compare and contrast floating vs. fixed loan rates
12. Cash Flow as it pertains to Portfolio Management

Portfolio Management candidates should understand the advantages and disadvantages of fixed vs. floating rate borrowing, the impact of portfolio concentrations, recourse vs. non-recourse borrowings and Lessor financial statements.

Sample Questions

1. List the positives and negatives about equipment concentrations in a lease portfolio.
2. You are applying to a new funding source for a non-recourse line of credit. What should you include in your application package?
3. Why should you be concerned about a cash budget when you already provided your banker with financial statement projections?

Sales & Lease vs. Buy

Candidates should be able to answer questions about:

1. The selling process.
2. The structure of the sales organization.
3. Important knowledge needed by a sales person.
4. Different lease structures.
5. Present value.
6. ROE.



Sales & Lease vs. Buy candidates should be familiar with the entire selling process. They should understand the concept of present value and be able to read financials and know sales tax.

Government Leasing

Candidates should be able to answer questions about:

1. Essential documents for leasing to government entities
2. Tax reporting requirements for municipal leases (based on 1986 TRA)
3. UCC filing requirements for municipal leases
4. Differences between municipal leases and federal leases
5. Bank Qualification Letter as it pertains to governmental leasing
6. Non-Appropriation clause
7. Non-substitution clause
8. Leases likely to receive federal income tax-exempt treatment

Government Leasing candidates should understand leasing to the federal government and to state and local governments as it relates to taxes, yields, documentation and early termination.

Sample Questions

1. Explain the need for a "Certificate of Essential Use"
2. Explain the documentation on a lease to the federal government
3. What is required to substantiate that a local governmental agency has tax-exempt status?

Marketing

The candidate should be able to answer questions about:

1. Selling the benefits of Leasing vs. Bank Loans
2. What sales people should know about credit, financial statements?
3. Elements of a proposal letter
4. Floating rate leases
5. Seasonal skip and high-low payments
6. The Pros and Cons of Salaried vs. Commissioned Sales Reps
7. Discuss point of view regarding rebates, cash discounts, and kickbacks to vendors
8. Treatment and Benefits of refundable security deposits

Candidates will be expected to know the benefits of various lease structures from the Lessor and/or lessee prospective. Strategies for developing business are explored and general industry practices are discussed. Knowing the advantages of leasing and how you can use these advantages to develop referral business is helpful in this section.



Sample Questions

1. How might you structure a lease for snowmaking equipment to be used by a ski resort?
2. Your credit manager is “on the fence” about approving a transaction you have submitted. How might you structure the deal to satisfy both your lessee and your credit manager?
3. How can sales representatives use their knowledge in the area of credit evaluation and yield enhancements to their benefit?