

Leasing can be a Funny Business

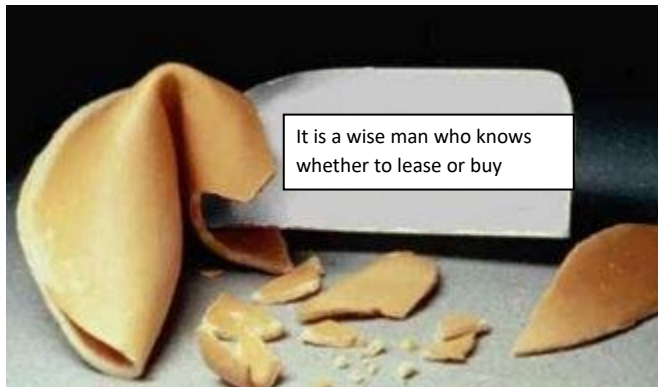
Some true and some not so true stories

By Bill Bosco, Leasing 101

When I started in the leasing business in 1974 I didn't even know how to spell ITC, lease payments were determined by looking them up in a book of financial tables and we used SOMD (sum-of-the-months'-digits) calculations for lessee payoff quotes. I wondered jokingly why we did not use all of the months' digits rather than just some of the months.

As I learned more about selling in the leasing business I appreciated the marketing gift Shakespeare gave us when he had Polonius say "neither a borrower nor a lender be" in Hamlet. Another reason for customers to lease?

As my career progressed, I ate at a Chinese restaurant once. I cracked open my fortune cookie and wouldn't you know it the saying was "It is a wise man who knows whether it is better to lease or buy". Knowing the complexities of the leasing business, I appreciated that cookie's advice fully.



Now a true story. Back in the days when big bank leasing businesses had annual sales conferences in nice warm places to play golf and tennis and do some business planning we had a 1990 kickoff conference. We were celebrating a successful 1989 and planning for a better 1990. In fact, the conference theme was targeting new markets and products for the 90's spearheaded by a new head of our leasing business. The new head was a middle market lender without much leasing experience. My responsibility in the business group was new product development and sales support. Since the synthetic lease product was emerging as a popular new product, I had my analyst develop an Excel spread sheet that our sales people could use in the field that would automatically structure a synthetic lease residual guarantee given the asset cost, the term, end position strike price or "TRAC" amount, and the deal's yield rate and assuming a present value of 89.90% of the asset cost. In looking for a name for the product my analyst suggested "the 89/90" product. I agreed it was a great name. My new product team had a session at the conference to present the 89/90 synthetic lease product structure and lessee benefits, training the staff on the accounting rules for operating lease classification and how to sell the product but also how to use the handy "89/90" Excel spreadsheet. The presentation was well received

by the sales staff and as it wrapped up I asked “any last questions?” One had went up in the back of the room – it was the new head of our group. I acknowledged him and he said “Bill, what will we call the 89/90 product next year (meaning in 1991). A hush fell over the crowd and then there was a little titter of laughter. I tried to answer politely that the name related to the targeted PV of the lease payments for operating lease classification and the name would still be appropriate next year.

In a similar vein, years ago, the then President of the ELFA, told me he called a contact at a large member asking if he could meet with his new boss to see what the ELFA could do for them. The contact (an old leasing pro), said ok to come but don’t bother to ask about issues. He explained that the new boss was parachuted in by the parent company as the new business head and he had no leasing experience so had no idea what issues the ELFA could help with. I guess it is a common problem in large organizations where the leasing business is just one of many businesses. I experienced quite a few new bosses parachuting in, not knowing the business and making damaging decisions. They are mostly all unemployed now but sadly so are the “little people” in the business, all good hard workers. Pogo Possum said “We have met the enemy and he is us!”

Here is my observation on a not so funny, ha, ha, but sad funny note. The leasing business is full of examples of well-oiled small ticket operations, small groups of highly experienced equipment experts or structuring experts, businesses built on a unique product or market, successful managed risk takers, business models that are unique – all innovations by someone in the past and strengthened by experience management & staff over time. Then the punchline – senior management puts in a new inexperienced boss/bosses and continues to pay them six figure bonuses yearly for results that they are not responsible for, in fact the new managers change what was working as noted above. My best bosses came up through the ranks and knew the details as well as the big picture.

We had a grumpy old ex-bank head of credit for our division. All large deals had to be approved by him. Naturally with my new product development role I often had to co-present new structures and types of deals to him with the sales and credit persons on the deal team. He once said to me “Bosco, next week I expect you will bring me a bowling alley lease to approve!” I replied “If a bank customer wants to finance a bowling alley I will!”

Here’s another true story. While working at a foreign bank leasing company, I pitched a leveraged lease to a client of the bank. It was a US sub of the foreign bank’s client. I went on the call with our Ex-Pat SVP and a junior guy who would translate my oral presentation as all but me spoke the foreign language of their country and they did not speak English well. We were presenting to the CEO of the US sub along with a junior guy on the customer’s staff who was furiously taking notes. I poured over the complex leveraged lease structure charts with all the boxes and arrows showing the lessee, the lessor, the leveraging debt, etc. As I presented the deal, the translator spoke alongside me. There was only one question that the CEO asked my SVP during whole the presentation and it was not translated for me. After we left my SVP, who had a good sense of humor, said “Bill, do you know what the only question the CEO asked was?” I said no. He said he asked “in this diagram who is the lessee?” He said he told him that he was the lessee.

Lastly, here is a joke but with some real people inserted in it that I turned into a leasing story. My Mom came from a small town near Scranton Pennsylvania. In the 1950’s three of her brothers started a roofing company with just them and a pick-up truck. It has now grown to be one of the largest roofing companies in northeastern Pennsylvania. I go there to visit whenever there are weddings and funerals – that is fairly often as the family is big. Once at a wedding I saw my favorite uncle – Uncle Leo, God rest his soul, and I asked him how he was doing. He said not so well. I asked what was wrong and he said

they were trying to sell an old pick-up truck with 250,000 miles on it and could not get anything for it. He said "Billy (he called my Billy till the day he died), you work for a big leasing outfit in New York City, right? You get lots of truck back off lease and then have to sell them. Can't you give me some advice to help sell our truck?" I said "Gee, I'm just an accountant and uh, uh, uh, the only thing I can think of is to roll back the odometer." The next wedding I saw him at I said "Hey, Uncle Leo, how are you doing? Did you sell that pick-up truck?" He said "Heck no- it's only got 50,000 miles on it!"

About the Author:

Bill Bosco is the Principal of Leasing 101, a lease consulting company. Bill has over 50 years' experience in the leasing industry. His areas of expertise are accounting, tax, financial analysis, structuring, pricing and training. He has been on the EFLA accounting committee from 1988 to 2017 and was chairman for 10 years. He is a frequent author and speaker on leasing topics. He can be reached at wbleasing101@aol.com.