



**AMEMBAL**  
CAPITAL CORPORATION

# WINNING

WITH LEASING

Spring 2001

*The Newsletter for Successful Community Bankers*

Volume 2, No. 2

[www.amembalcapital.com](http://www.amembalcapital.com)

*By Jason Smith, ACC Community Banking Group Relationship Manager*

## "I KNOW WHAT YOU DID (OR DIDN'T DO) LAST SUMMER... DOES LEASING SCARE YOU?"

I have been following up with several bankers that I met at the 2001 ICBA Annual Conference in Las Vegas. And, I am getting the feeling that leasing scares people - especially bankers who have not been involved in the leasing industry. For many financial professionals, leasing is thought of as the redheaded stepchild of the finance industry. I often visualize a banker thinking, "If I offer a lease to my customers, I am going to do them a disservice". However, as a young business professional who is glad to have avoided employment in the dotcom world, I am on a mission to prove that leasing is effective and necessary for community bankers and their customers.

I rarely have the chance to deal with many young people in the banking world because there are very few 28-year-old bank presidents or senior loan officers (my primary contacts). However, I recently met a young gentleman from the Midwest who was looking to increase his commercial business and believes fee income based programs can compliment the bank's growth. As we chatted, he asked me, "What makes leasing a good finance tool?" As my brain hit the brakes and the years of leasing experience that I have under my belt withered away, I

did a poor job of explaining it to him simply because of the vast amount of reasons that leasing is a valuable financial instrument for both lessees and lessors. So here is my big chance to tell him, and you, a few reasons why banks and their clients can benefit with leasing, which many believe is the reason that bank leasing is the fastest growing and most profitable segment of the leasing industry:

**1. Cash flow and liquidity.** As the market slips into "dotcom" woes and a credit crunch, companies around the country are looking to free up assets, increase liquidity, and put cash back into the piggy bank, in the event that the market continues its downward trend. I remember in high school asking my father at the end of the day, "what do they mean by Black Monday"? My father is a stockbroker. I think cash flow was on his mind that day. Outsourcing leasing provides your client with 100% financing, you can benefit by receiving the fee income, and you don't have to fund the transaction. Your client views you as the lessor and you retain the business and preserve your and your client's liquidity.

**2. Covenants and restrictions?** "What do you mean, Mr. Banker- I can't have any more money?" Upon

reviewing their year-end statements, it may be frustrating to find that your clients have been entering into operating and capital leases. Rather than having your customer get off-balance-sheet financing behind your back, help them find alternative forms of financing, and also generate fee income for your bank. Your clients have merchant bankers, vendors, leasing companies, brokers, venture capital companies and large banks calling on them offering a myriad of financing options and winning your customers' business. Granted, your clients may be keeping much of their business with you, but for how long. You have the relationship now. Leverage the relationships and keep the lease income at the bank.

**3. Opportunity doesn't always knock.** Do you ever think, "I never get requests for leasing"? Do you know why? When you want something you go to the place that has it: nobody is going to the drug store anymore for malts; malts are sold everywhere else. Sad but true. Fast food restaurants sell malts (or milkshakes) because a burger, fries and malt compliment each other. The leasing product, like the milkshake, has found its way into many distribution points. The leasing community became very aggressive at selling its products when the 1986 Tax

*continued on page 3*

*By John Walsh, Community Banking Group Manager*

## FAQ: DEAR COMMUNITY BANKING GROUP...

*Q: How do you suggest we compensate our relationship officers for the referral of leases under your program? Also, we don't want to compensate our lenders for taking additional risk.*

**A:** First, Amemba Capital Corporation believes strongly that to create a successful program, your officers should be compensated to seek leasing and loan opportunities. Obviously, within the discipline of sales management, you will be discovering your client's needs on a routine basis and providing several solutions to the equipment acquisition process.

Traditional community bank compensation programs offer very little upside for sales professionals, especially relative to the salesperson's counterparts in other financial services fields. Bank executives have told us that they are concerned that this practice will lead to a relaxation of credit underwriting standards, as many relationship managers have significant credit approval authority. Further, as banks offer additional products to compete with large banks and non-bank financial institutions, the success of those programs will depend in large part on how each program fits within the corporate strategy. Once that strategy is defined, the compensation program can be designed.

The most successful programs provide incentives to all customer-facing employees; a teller may get \$5 for referring a consumer to the commercial loan department, and \$10 if a loan gets funded. Likewise, a mortgage officer may get \$100 for a referral to the consumer deposit group. The level of compensation for cross selling must meet the goals of the bank as a whole, and officers with credit authority have to be accountable for the downside on their transactions, as well as sharing in the upside. Lastly, the bank must re-visit its compensation plan yearly to ensure that it directs employees along the path that the bank strategy dictates.

Incentive compensation plans must also assure that product incentives are non-discriminating. That is, an officer should not hard-sell a lease versus a loan or vice-versa because of his/her compensation plan. We recommend that officers get a piece of each referral fee on a routine basis and the balance be set aside for quarterly or annual performance. Finally, the risk of underwriting a product that has high incentive opportunity is mitigated when the bank does not fund the asset or there is a separation of approval authority within the bank. We have the ability to fund the transaction

for you lowering asset risk, retaining the client, and generating the fee income.

*Q: We have several opportunities to "outsource" products to our client and prospect base. Why is leasing so attractive?*

**A:** With past and continual deregulation of the banking industry, competitive pressures mount and new opportunities emerge to expand product offerings, open statewide branches and expand across state lines. Community banks have found themselves with too many products to offer. They simply cannot afford to retain the necessary talent and maintain significant investments to grow several different product lines. Everyone knows that this leads directly to the establishment of niche products. We know a bank in the southwest desert which supplies the majority of "private label" ATMs around the country- an interesting niche. More familiar is the bank that specializes in factoring, equipment leasing, international trade or receivables financing. For better or worse, today's community bank needs to offer products that set it apart from other community banks and, just as importantly, the national banks and non-bank financial institutions. Bankers must leverage their status as agents of fiduciary trust within the community and focus on niche products that meet the needs of their constituents. Leasing can be both. As a niche product, it sets you apart from non relationship-based competitors. As a mainstream banking and financial tool, your clients and prospects are using leasing more than ever. And they should be working through you - their bank.

*Q: What are the parameters of a small ticket lease?*

**A:** ACC offers small ticket leases within \$15,000 to \$100,000 equipment size range on an application-only basis. Personal guarantees are required on all "application-only" transactions. ACC will need a complete equipment description along with names and addresses of all vendors. We require first and last month's rent in advance and a documentation fee of \$200. For this program, the following equipment and industries are generally excluded: restaurants, small retail, owner-operator trucks, vending, gaming, environment-hazardous equipment, ATMs, tanning, and software-only. A small ticket lease solution will ensure you can meet all aspects of your business customers' needs.

By Randy S. Cameron, EVP

## ICBA CONFERENCE 2001: THANKS FOR YOUR INPUT!

This was the first year that Amembal Capital Corporation participated as a sponsor at the annual ICBA conference. We thoroughly enjoyed meeting with the leaders from hundreds of community banks. As we talked to you, we asked several questions about leasing. You gave us your thoughts and opinions:

**"Leasing has been an existing product or emerging need in our bank..."**

- ...we just need to market it better
- ...our existing "out-sourced" partner has let us down or has not lived up to our expectations
- ...we would like to do more to increase our percentage of fee income to net interest income
- ...how do you make money at the ends of leases, and are there additional risks to the bank?
- ...however, we find that vendors and other banks continue to lease to our best clients
- ...the compensation to officers for generating the fees/referrals is undetermined and therefore the product gets less attention than tra-

ditional products."

**"We don't see leasing as a significant opportunity in our bank . . ."**

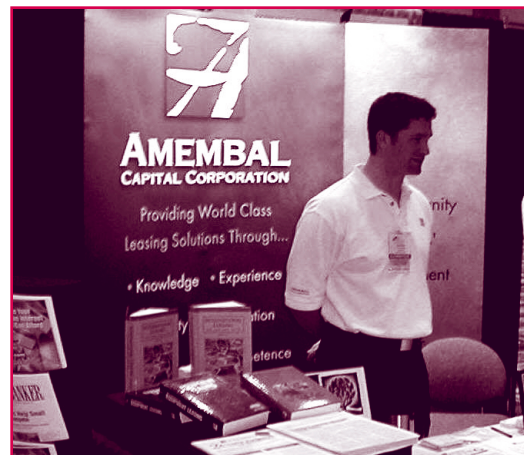
- ...our client base is mostly consumer and mortgage
- ...our officers are too busy with existing business
- ...leasing is highly complex"

**"We recognize that leasing is something we need, but . . ."**

- ...it competes with loans; and we know loan management well
- ...leasing is overly complex to manage
- ...our clients are satisfied with our current products
- ...it brings additional risk to the bank
- ...we have too many business initiatives now
- ...the accounting and servicing issues are concerning
- ...we would prefer not to fund the leases"

These are some of the comments we discussed. They are all legitimate concerns

for today's growing community bank. However, the professionals at Amembal Capital can demonstrate how a company like ours can easily solve each of these business issues, generating substantial opportunity for you. Partnering with a true community bank leasing professional will be easier than you think.



Jason Smith, Community Banking Group Relationship Manager at ICBA Conference in Las Vegas

Retain clients. Attract new clients. Generate additional fee income. Manage your asset risk. Let's talk again.

-continued from page 1

Act eliminated the benefits derived by the investment tax credit. Prior to that, lessors had an extremely valuable ability to manage pricing. Following the 1986 Tax Act, the industry established itself as much a "sales-driven" culture as a "credit-driven" one. Thus, while leasing is a valuable tool, its marketing is intense outside of the bank environment - and your clients are the primary targets of the nonbank leasing providers. Fortunately, the Community Banking Group partners with you to protect and grow your market. First of all, Amembal Capital Corporation is not a bank and is not affiliated with a bank. All we have to offer to your customer is leasing through your bank. We will work with your customer to structure a lease and let you dictate how close we work with your cus-

tomers. What happens when your customer calls me in a few years and wants another lease? I still pay your bank the commission. Why? Well... if you find out otherwise (and you will), you will never send me another transaction again. And because I am 28 (remember?) --I have another 30 years of work ahead of me. So I cannot afford to ruin even one relationship (*I hope that you are not saying it's going to be a tough road for this kid.*)

If you have not guessed by now, I have tried in a downright simple language to explain a few reasons why you should offer lease financing to your customers. I hope that I have done it well. This program is very simple and works much like fee income based credit card and insur-

ance programs that you are already offering. I know that if you embrace this program, it, too, will generate relationships, help you manage your asset risks, and provide fee income to support shareholder expectations. Most important, providing another tool gives your clients the security that they are dealing with a bank that meets their every financial need.

Thank you for taking the time to read this article and I welcome your questions and remarks.

**P.S.** Keep in mind that we pay 20% to 40% of gross profit of a transaction to the referring bank at the time of final funding - not at the end or the middle, but on Day 1 of the lease.

# ACC Program Highlights:

## Agreements:

- Referral Agreement: Our most convenient program to use, the bank refers potential lease transactions to Amembal Capital Corporation (ACC), and ACC shares the profit on the transaction with the Bank.
- Private Label Agreement: This program utilizes ACC documentation, but under the name of the bank, providing the customer a seamless leasing experience.
- Bank Funded or Bank Owned Transactions: These two programs allow the bank to take part in the underwriting of debt and equipment ownership.

## Reciprocal Referrals:

- ACC may offer the bank an opportunity to underwrite leases that we have originated internally at ACC, thus adding to the asset and customer base of the bank.
- ACC may refer other transactions such as real estate or SBA loans to the bank

## Marketing and Education:

ACC provides training of bank staff. Focus on the tax and accounting benefits of leasing, pre and after-tax lease vs. loan/cash analysis tools, residual risk factors, pricing and the nuances of lease structuring and sales. ACC provides a complete Bank Representative Sales Kit and operational support for marketing efforts.

For more details about the program, please contact our representatives.

**John Walsh** - Community Banking Group Manager  
(801) 530-7774  
jrwalsh@amembalcapital.com