



AMEMBAL
CAPITAL CORPORATION

WINNING

WITH LEASING

Winter 2001

The Newsletter for Successful Community Bankers

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By Loni L. Lowder, President & CEO

VALUES IN LEASING: FEE INCOME

In the Summer 2000 Newsletter, we described some of the benefits a leasing program offers to a community bank. High among the benefits is the fee income that may be generated from several steps in the lease origination process. Rather than just pay the bank a "referral" fee, Amembal Capital Corporation shares in what we refer to as the potential "pots of profit" in a transaction. Following is an example of an actual transaction that was completed:

Mr. Phil Johnson, President of First National Bank was meeting with his client, Alta Manufacturing, Inc. Alta recently renewed and increased its \$800,000 line of credit with the bank. Combined with its existing term loans, the net credit exposure to Alta is now at the bank's internal lending limit and approaching its legal lending limit.

However, Jerry Sloan, President

of Alta began to tell Phil about the opportunity to expand through the purchase of two new pieces of machinery. "These will not only expand capacity, but they will reduce existing labor costs and improve product quality." Phil reviewed Alta's financial statements and knew that the company had the pro-forma capacity to service the debt regardless of increased rev-

enues or reduced costs. Alta has always relied on First National to find a solution to their growth needs, and the bank has never let them down. Phil had a choice: to tell Jerry that the bank is at its lending limit with Alta, originate the loan as a term loan and participate in the credit exposure with a correspondent bank, or to refer the opportunity to Amembal

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Did You Know?

- 8 out of 10 of your commercial customers lease.
- The average commercial customer acquires \$200,000 in new equipment every year
- The average customer leases \$82,500 in new equipment per year.
- 50 such customers acquiring \$4,125,000 in equipment, equals \$130,000 in potential fee income.

Most importantly, how much business are you losing if 1 in 8 of those customers leaves your bank because it is introduced to another bank through leasing?

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Capital under a new partnership agreement for leasing.

Phil did not want to say "no" to one of the bank's best customers. He was also wary of participating the credit and accepting a low servicing fee for the participation. So he discussed the benefits of leasing with Jerry. Jerry was impressed that the bank could offer a low cost program for the acquisition of the equipment - - and at 100% of the cost of the equipment. That was particularly important because Jerry wanted to preserve working capital for the company's growth. Phil gathered the company's financial information and specifics of the equipment and forwarded it to Amembal who processed the lease in the bank's name, but funded it outside of the bank, thus not affecting the bank's lending limits. (In this case, the bank had entered into a "private label" finance program with Amembal. Under a private

label program, the lessor is the bank, but Amembal provides the services and syndication.) The structure of the transaction and results of the profit to the bank were as follows:

Term: 5 years

Equipment Cost: \$500,000.00

Equipment Description: Vertical Boring and Lathing Machinery. Installation will take approximately two months.

Alta Needs: Progress Payments¹ of \$250,000.00 For 2 Months

Interim Rent² For 15 Days

Lease Rate Factor³: 1.97244%

Cost of Funds⁴: 8.25%

End of Term Structure⁵: lessee pays 20% or FMV, whichever is greater

"POTS" OF PROFIT TO THE BANK

The Bank and Amembal have agreed to enter into a 40% payout of profit for this type of relationship transaction.

(1) PROGRESS RENTS

\$4,931* x 2 MONTHS	=\$9,862
(\$250,000 x 1.97244%)*	<u>(\$4,375) Interest Cost</u>
	=\$5,487 times 40% = \$2,194

(2) INTERIM RENT (15 days)

\$9,862/2=\$4,931.10	
(\$2,187) Interest Cost	
	=\$2,743 times 40% = \$1,097

(3) PV OF RENTS⁶ @4% x \$500,000

=\$20,000 x 40%	= \$8,000
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(4) RESIDUAL⁷ 26% - 20%

=\$30,000 x 40%	= \$12,000
	Total Profit to Bank = \$23,921

¹ Progress payments are the payments made as monies are disbursed for the payment of equipment and before the lease has commenced.

² Interim rent is paid for that period between the closing of a lease schedule and the first scheduled payment.

³ The Lease Rate Factor (LRF) is the percentage of the equipment cost that will be paid each period over the life of the lease.

⁴ The actual cost of funds is the discount rate that is used to determine the net present value of lease payments (or profit) created from a "sold/assigned" lease.

⁵ End of Term refers to the lessee's economic options or requirements as the lease matures. In this case, the lessor (bank) has assumed a minimum 20% residual.

⁶ The PV of the rents is the discounted value of the stream of payments less the original cost of the equipment (PV is 4% greater).

⁷ In this case, the FMV was 26% of original cost and the lessor realized a 6% gain.

Frequently Asked Questions

Several of our clients have asked us to include a Frequently Asked Questions (FAQ) section in our newsletter. These questions involve general leasing, lease accounting, underwriting, documentation and other product and industry issues. We value these questions from you and will address them in future newsletters and compile them on our web site. In this issue we address the methods in which the bank purchases and books the leases it refers to us.

Q: Could you please clarify the process in which the bank purchases (or funds) a lease that it has referred to Amembal and describe the documentation process?

A: The bank's options are a function of the type of lease that has been originated. For example, a simple capital lease is essentially a secured transaction (see figure 1). If the lease is originated with Amembal as the lessor (a referral where the bank wants to fund the lease), the lease payment streams are assigned to the bank along with the collateral. Amembal provides the bank with a nonrecourse promissory note with terms that match the lease payment stream. The bank books a loan; Amembal, as a borrower, is not included in the legal lending limit of the bank, but the lessee's credit is.

If the lease that is originated is an operating lease and the bank wants to fund the lease, the bank may participate in one of two ways (see figure 2). It can simply fund the contractual payment stream with a nonrecourse promissory note as in the case above and book a loan. Or, the bank can book a capital lease directly, or through an assignment. Amembal will provide the bank with the accounting for a capital lease. This accounting includes the beginning asset values, the monthly income, and amortization of the lease. In both cases, the bank may participate in enhancing its yield through having a fair market value option at the end of the term of the lease.

The bank may also participate in a true lease. In this case, the bank makes an investment in the asset and is the legal owner. The bank receives the tax benefits of asset ownership (due to depreciation amounts and timing) and the rental stream is a source of income to the bank. Amembal will provide the accounting to the bank and will remarket the asset for the bank at the end of term if it is returned. The bank and Amembal will split the income on the residual gain based on the predetermined agreement.

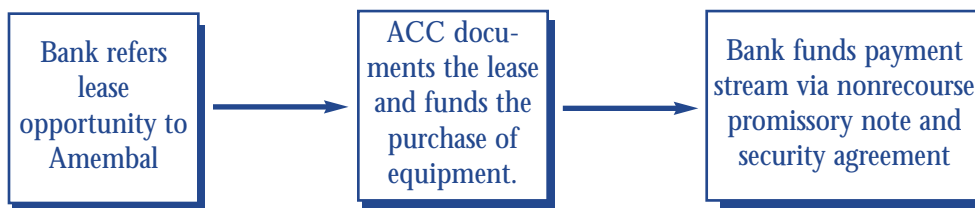


Figure 1

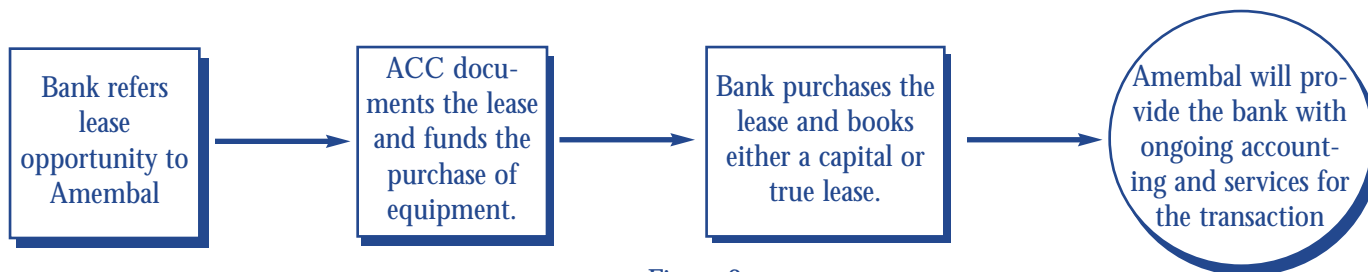


Figure 2

Amembal Capital Corporation's Community Bank Team

John R. Walsh - Community Bank Relationship Manager

John recently joined Amembal Capital and brings over 5 years of experience in the leasing industry to our team. Prior to joining ACC, John spent more than two years with Comdisco, Inc., one of the world leading technology equipment lessors where he managed the Utah, Nevada and Idaho territories. He previously held numerous positions in sales and services management in the chemical and specialty outdoor retailer industries. He was raised in Northern California and has resided in Utah for the last 7 years. John has a BA in Economics from Gonzaga University in Spokane, WA.

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Randy S. Cameron - Executive Vice President

Randy Cameron oversees the marketing, sales management, and e-commerce activities of the company. Directly, he also oversees the strategic alliance, community banking and vendor services groups. He combines extensive senior management experience with a strong analytical background. This has enabled him, during a 20-year career in commercial banking, to generate a significant relationship base of commercial clients. Among other disciplines, Randy specialized in lending to leasing companies and was instrumental in developing some of the first warehouse lines of credit designed to precede asset securitizations. He graduated from the University of Utah with MBA, Accounting and Finance degrees; and also holds a MS in Finance from the University of Delaware's Stonier Graduate School of Banking.



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Amembal Capital is a premier provider of leasing and financing to American businesses.

The professionals at Amembal Capital, led by Sudhir Amembal and Loni Lowder, have unparalleled expertise and experience in the equipment leasing industry. They have overseen the training of 50,000 lease professionals in over 35 countries. Mr. Amembal has co-authored 14 leasing publications, including the industry bestseller, *The Handbook of Equipment Leasing*. We work with community banks to create programs that provide leasing alternatives for the bank's prospective and existing clients.

We offer:

- Transactions ranging from \$100,000 to in excess of \$10 million
- Flexible terms and conditions
- All equipment types and lease structures

Key benefits to community banks:

- Improved client retention
- New client opportunities
- Increased fee income
- Reduced portfolio risk

Key benefits to your customers:

- Enhanced cash flow and budgeting- up to 100% financing
- Flexibility, convenience and reduced risk
- Off balance sheet and tax effective financing

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ICBA's National Convention

Bellagio Hotel, Las Vegas

March 4-7, 2001

The following article is a reprint of the front article from our last newsletter that was incorrectly printed. Please accept our apologies for the inconvenience.

By Randy S. Cameron, EVP

RELATIONSHIP MARKETING AND LEASING: ANOTHER ARROW IN THE COMMUNITY BANKERS' QUIVER

Businesses today have many alternatives for any financial product or service that they may need. Moreover, these services are being delivered by bank, nonbank financial, and other commercial enterprises - - all vying for a share of your clients' financial needs. These competitors target your clients for individual transactions to their entire relationships. For example, your customers can now use Internet-based treasury management companies to handle all of their transaction and cash management needs. Many times, this leaves the bank as a depository only. A primary tool used by these organizations to generate a relationship with your existing client or prospect, is leading with transactions. And, leasing is a primary transaction that is being targeted at your customers and prospects, generally with the goal of eventually broadening the relationship.

Any given competitor of the community bank may provide a broad range of services across its organization. Some of these products may be marketed directly, or they may be masked as vendor financing, accounting, or application services providers (ASP). These nonbank businesses find a seam to enter your clients door, sell the product, and then seek to deepen and

broaden the relationship. Unfortunately, the community bank cannot feasibly provide all the services and the products offered by these large predatory institutions and product specialists. What the community banker does offer is face-to-face service and local knowledge of the business and its owners.

By acting as a "relationship manager," the banker takes a more generalized role in delivering the services to his or her client. The traditional role of underwriting credit, providing transactional demand and investment services, and handling the needs of a business owner is taxing in itself. When considering one's abilities to monitor each customer's uniqueness, recognize and deliver new banking services and expanded banking products, the banker needs product specialists, and banks need product partners to grow and retain relationships.

Figure 1 illustrates the role a relationship manager plays in a large regional or national bank. The national banker has no more generalized knowledge of a company than does a community banker. What the national banker does have are dozens of arrows in his or her quiver that represent almost every conceivable product a company may need over its life cycle, includ-

ing products for the company owners to keep them tied to the bank. Relationship managers at large institutions spend their time delivering the products, maintaining knowledge of the company and coordinating the various units that work with their clients. What these bankers generally can't control are the delivery methods, pricing, structures, and many times personal touch of the community banker. One such example is a large national bank that requires customers with revenues under a certain dollar amount to communicate via the Internet or through an 800 number for their operations questions.

Based on literature and personal experience, all things being equal, people prefer dealing with individuals who know their businesses and can deliver locally. The national and super-regional banks are marketing the concept to your clients that they "provide local management and people, with the power of a national institution (they out-local the locals)," then they turn around to the national companies and claim that they "out-national the locals." As a community bank, you have the ability to deliver superior products locally using the relationship model as illustrated in Figure 1, but instead of using product specialists from remote corners of the organization

whose people come and go as fast as its changes in product delivery, today's successful community banks form non-traditional alliances and partnerships. These partnerships help the local community bank relationship manager deliver world-class products, while competing to maintain broad offerings for their clients.

One such partnership is the leasing alternative. As a community banker, you work with the outside partner to cooperatively develop your program, not vice-versa. You have the ability to measure the benefits of the product partnership and its impact on customer profitability and retention. Moreover, the partner's motivation to serve your needs is very intense. By combining the best outside product partnerships and delivering these through the community bank, as in the relationship model, the banker competes admirably. Following is the summary of the benefits of using a relationship partnering delivery model:

- ✓ The partners should bring educational training capabilities to your staff. These benefits will allow your bank to quickly differentiate itself from those banks that are looking just at referral fees. Your clients will respect the professionalism.
- ✓ No need to hire, train, and retain product special-

ists. These people work for you from the outside. This brings immediate expertise and the ability to deliver quickly.

- ✓ Redundancy in the sales force - - you "leverage" your sales force.
- ✓ Relationship Profitability: This improves because many times the revenues have been going or would have gone elsewhere. Also, the risk is off your balance sheet, leaving marginal fee income.
- ✓ The partnership may provide for an eventual transition into an internal product line.
- ✓ Your leasing partner may bring relationships to your bank that did not exist.

These are just a few of the ways a relationship delivery model using a partnering strategy is beneficial to the community bank. Your Amembal Capital community bank representative will be glad to discuss these in detail via a web-based presentation. In the next quarterly newsletter, we will discuss the need to cross-sell the leasing alternative to defend against competitors, generate more profitable business, lessen your credit risk, and benefit the client.

