

***BALANCING KNOWN  
FACTORS WITH  
UNCERTAINTY IN  
CONDUCTING DUE DILIGENCE***

7<sup>th</sup> Annual Investors Conference on  
Equipment Finance

March 11, 2008

IMN – ELFA Investor Conference

# ***Presenters . . . .***

- **Michael Fleming, Moderator**

Principal – The Alta Group

- **Scott C. Calahan**

President – Boston Portfolio Advisors, Inc.

- **Joseph Nachbin**

Principal – The Alta Group

- **Todd R. Plotner**

Partner – Chapman and Cutler, LLP

# ***Focus Today . . .***

A lot has happened in the Capital Markets in the past Eight Months!

## **Lessons Learned:**

- **Changes to underwriting**
- **Metrics used**
- **Corrective actions**
- **Know with whom you are dealing**
- **Do what you say you do**
- **Measure what you do**

# ***Uncertain Elements***

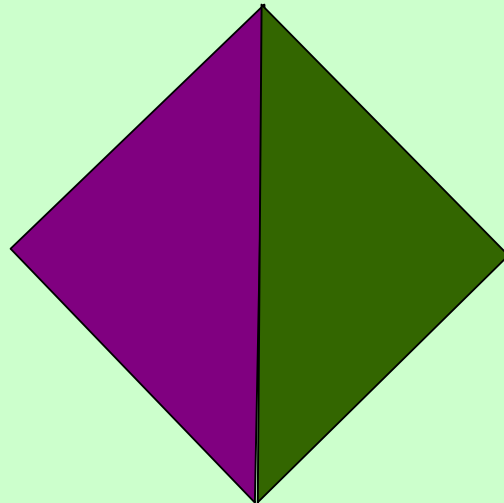
- **Economy**
- **Technology**
- **Bus Model**
- **Product**
- **Customer**
- **Competition**
- **Investors**
- **Suppliers**
- **Regulation**
- **Liquidity**

**Managing Risk**  
***KNOWN***

**Managing Uncertainty**  
***UNKNOWN***

- Risk Management
- Traditional due diligence steps
- Historical Metrics

- ‘What if’ scenarios
- Anticipate events and conditions
- Recovery plans



**2005**

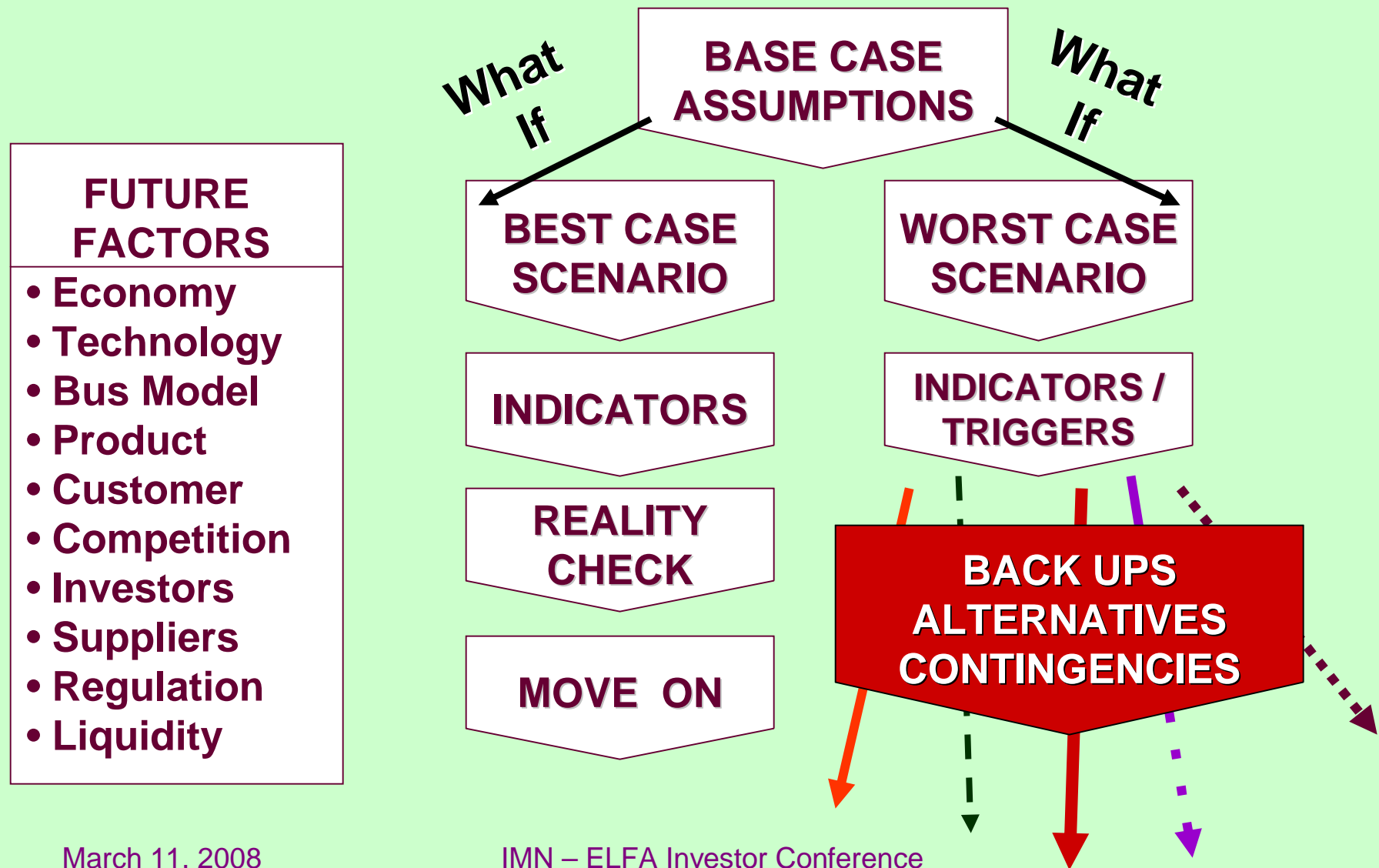
**Growing Level of Uncertainty**

**2009**

March 11, 2008

IMN – ELFA Investor Conference

# THE FUTURE: *Managing Uncertainty*



March 11, 2008

IMN – ELFA Investor Conference

**ORIGINATION and  
UNDERWRITING**

**DOCUMENTATION**

**FUNDING and  
PORTFOLIO MGT**

March 11, 2008

IMN – ELFA Investor Conference

# ***Origination***

- **Compatibility with Buyer Objectives**
- **Review Origination Model**
- **Is Model Scalable**
- **Are Cultures of Buyer and Seller Compatible**
- **Are Originations Sales Person or Institutional Centric**
- **Value add of Seller Compared to Competition**
- **Efficiency of Origination with Competition/ Industry Best Practices**
- **Evaluate Compensation Plan related to performance**

# ***Origination***

- **How are originations sourced?  
Vendors/Brokers/Trade Shows/Internet?**
- **Terms of arrangements/agreements with  
Vendors, Brokers and other sources?**
- **Review litigation history - any allegations  
regarding origination practices?**
- **Permits/Licensing/Tax in place in all states?  
In all states with heavy concentrations?**

# *Origination*

- Concentrations/Length of relationship
- History of performance by source
- Profitability by source
  - Requires a robust MIS system
- Relative advantage
  - Why are you winning (price, service, scarcity)?

# ***Underwriting***

- **What is Customer Profile**
- **Do Underwriting Policies coincide with Customer Profile**
- **How important is Turnaround Time to success**
- **Review Credit Scoring Models for predictability accuracy**
- **Determine quality of staff/ proper staffing level**
- **Evaluate Compensation Plan related to performance**
- **Compare Underwriting Policies with Competition/Industry Best Practices**

# ***Underwriting***

- **Are credit guidelines written? Are there guidelines for both vendors/brokers and obligors?**
- **What is process/history on exceptions and overrides?**
- **How often are they changed and why?**
- **How is credit score determined?**
- **Do they deliver fair credit notices and obtain consents from individual obligors/guarantors?**

# ***Documentation***

- **Review Policies ability to reflect Borrower profiles and Vendors**
- **Review Quality of Staff/ proper staffing level**
- **Compare practices with competition/industry best practices**
- **Determine if there are unusual requirements specific to business segment being financed**
- **Review Fraud detection practices**

# ***Documentation***

- **What types of products are financed? Titled vehicles? Software? Any bundled services or supplies? What percentage soft costs?**
- **Any consumer transactions?**
- **Legal review of standard forms against checklist of key terms; what is history/practice regarding deviation from standard forms?**

# ***Documentation***

- **Are third party forms used? What is process for vetting vs standard forms?**
- **Adequacy of lien creation and perfection? What are policies on filing UCCs and re-titling/lien notations?**
- **Are documents scanned/indexed and readily available?**

# ***Documentation***

- **Review Policies ability to reflect Borrower profiles and Vendors**
- **Review Quality of Staff/ proper staffing level**
- **Compare practices with competition/industry best practices**
- **Determine if there are unusual requirements specific to business segment being financed**
- **Review Fraud detection practices**

# ***Documentation***

- **What types of products are financed? Titled vehicles? Software? Any bundled services or supplies? What percentage soft costs?**
- **Any consumer transactions?**
- **Legal review of standard forms against checklist of key terms; what is history/practice regarding deviation from standard forms?**

# ***Documentation***

- **Are third party forms used? What is process for vetting v standard forms?**
- **Adequacy of lien creation and perfection? What are policies on filing UCC's and re-titling/lien notations?**
- **Are documents scanned/indexed and readily available?**

# *Funding*

- Highly volatile and illiquid market conditions
- Old rules of thumb - working well in current environment
- Diversified funding sources across critical dimensions
- Remember asset / liability management?
- Can you have too much equity and sub debt?

# ***Funding***

- **Review current funding programs/sources**
- **Can buyer add value to reduce funding costs**
- **Do funding agreements have change in control restrictions**
- **Evaluate staff capabilities related to obtaining best funding pricing/conditions**
- **Determine Capacity available currently and ability of current sources to fund projected growth**

# ***Funding***

- **Has obligor's acceptance of equipment been verified? How/when?**
- **Has insurance been verified? How/when?**
- **How/when are brokers/vendors paid?**
- **What are policies on receipt/retention of original signatures?**

# ***Portfolio Management***

- Obligor payment patterns – some old, some new ...
- Asset collection and liquidation
- Asset performance tracking
- Analytics
- Valuation