

## **Request for Proposal June 2009**

### **Research Topic: Credit Markets and Equipment Finance Portfolio Characteristics**

#### **Problem Statement:**

The current credit crunch is imposing severe constraints on the ability of most finance companies to raise new debt capital. But some asset classes are seeing a greater loss of investor appetite than are others. Leases are viewed by many credit investors as a particularly risky asset class because of uncertainty regarding the performance of lease residuals.

Have the uncertainties regarding lease residual performance decreased over time, as finance companies have employed more sophisticated underwriting technology and as secondary markets for equipment have become more efficient, with the possibility that these two factors together are producing more predictive outcomes? Is there a case to be made that debt investors (banks, bonds, securitizations, etc.) should have greater confidence in the performance characteristics of leases, and therefore be more open to providing debt capital to leasing companies?

#### **Potential Analytical Framework:**

- Begin with an overview of developments in underwriting technologies and the functioning of secondary equipment markets, focusing on improvements designed to enhance efficiency and predictability of performance.
- Select three prominent asset classes as a test basis for studying the hypothesis. Selection criteria TBD, but for the sake of audience appeal and relevance, should include classes with significant levels of historic volume, importance to economy and industry, reputation, etc. Also, the focus should be on commercial leases (not consumer leases).
- Leverage research already conducted by others where possible and available to establish secondary equipment market baseline performance trends and expectations.
- Study results should be appropriately forward-looking.
- Research should address the question: “Should historic credit market assumptions regarding the performance and risk characteristics of true leases (and residuals) be affirmed or revised?”

**Other Issues to Consider/Study:**

- How does volatility in the secondary market for off-lease equipment help or hurt leasing as a financing alternative, now and in the future? If more or less important in the future, why?
- Are lessors today better at setting residuals (managing volatility)? If so, what has contributed to this – greater equipment market stability, improved management technologies or lessors’ better understanding of the drivers of volatility?
- What have notable historic episodes of shortfalls in residual realization (aircraft post 9/11, autos, etc.) taught about how to effectively identify and manage the risk of catastrophic volatility in equipment values? Do results over the past few years demonstrate lessons learned?

**About the Equipment Leasing & Finance Foundation**

The Foundation strives to be the “Eye On The Future” through development of future focused research, studies and articles regarding the equipment financing industry. Since its formation, the Foundation has commissioned and endowed over \$1.3 million of research projects. This has literally DOUBLED the body of knowledge available to equipment finance organizations and those that work with these financing organizations. There is no other medium which independently seeks to study key issues facing the industry with a view on where it could be in 3 - 5 - 10 years from now.

The Foundation is a sister organization to ELFA (Equipment Leasing and Finance Association), a trade association established in 1961 to represent the equipment finance industry. ELFA members are the primary users of research developed by the Foundation. Its members represent financial services companies and manufacturers engaged in financing the utilization and investment of/in capital goods. With a broad array of more than 750 members, ELFA member companies include Fortune 100 financial services companies, captive manufacturer finance subsidiaries as well as small and mid-sized independents and service providers engaged in financing commercial equipment and software. ELFA members are the driving force behind the growth in the commercial equipment finance market and contribute to capital formation in the U.S. and abroad.

Foundation Budget: \$1.6 million for fiscal year ending December 31.

IRS Classification – 501 (c)(3)

Staff – 2

Website: [www.Leasefoundation.org](http://www.Leasefoundation.org)

**Required Deliverables**

It is the expectation of the Foundation that the final study will be delivered in no more than four months from contract date.

Specific include:

1. All deliverables should be written for the lay reader.
2. Monthly progress reports submitted via email to Executive Director.
3. Each Foundation project is assigned a Steering Committee comprised of industry experts, to serve as a resource and reviewers of the findings and draft reports.
4. Research Study Paper- Final study provided in Microsoft Word and PDF version. Charts and graphs will be provided in PDF and Excel, to include the source data. All graphics must be provided in high-resolution and low-resolution quality. Study Page Count variable: 30-150 pages.
5. Article - *Journal of Equipment Lease Financing* article – approximately 2,000 words. Author guidelines may be found at <http://www.leasefoundation.org/JELF/>
6. An abstract (approximately 250 words) of project results must be submitted at the conclusion of the original or amended project funding period. The abstract will be used to report the study to a general audience. The abstract must be written for the lay reader.
7. Upon request by the Foundation, be available to present findings live and/or via web seminars.

### **Timeline and Contract Terms**

Please contact the Foundation for specific deadlines.

### **Selection Criteria**

1. Experience in similar assignments
2. Resources/capacity to perform the required work
3. Experience with associations
4. Qualifications of the individuals who will perform the work
5. Knowledge of the equipment finance industry
6. Quality of the proposed study design
7. Price
8. References
9. Intangibles

### **Response Details**

Submit your electronic response to Lisa Levine at [llevine@elfaonline.org](mailto:llevine@elfaonline.org).

### **Information Required**

1. Researcher (or Firm's) history and background
2. Experience/knowledge with lease finance research
3. Experience with non profit associations
4. Overview of the study design
5. Credentials and qualifications of staff to be assigned the project
6. References/client list, with written permission to contact
7. Description of similar studies performed by the researcher
8. If appropriate, description of how staff time and other costs are billed

**Staff Contact:**

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