

Sales + Accounting = Success

How an accountant can help get some truck finance deals done

By: Bill Bosco, Leasing 101

For the first half of my career in leasing at Citicorp I was an accountant and then I switched to the business end of the business taking on a role of product development and sales support. Some jokingly said I finally passed the literacy test. The objective of my job was to help the business in getting deals done in areas of accounting, tax, structuring, pricing and providing technical support on joint customer calls. The product development role was to keep on top of new accounting and tax rules and developments in the industry and business environment so that our business would have cutting edge products and new sources of revenue. The sales support role included training sales people, developing marketing materials and proposal letters and then working on the deal team to provide technical support to execute transactions. We had both direct and indirect (vendor and dealer) businesses. I should say I had the good fortune to have some talented people work for me over the years – Dave Wilson, Suresh Makam, Paul Benjamin, Howard Lynn and Gail Jackson to name a few, Our business model was consultative selling (as opposed to product pushing) which worked well in the direct businesses. In the indirect businesses the consultative selling took place mostly in working with the dealers and vendors on larger deals.

Truck Finance Successes

For this article I interviewed Phil Hirsch who was responsible for our truck leasing business at Citicorp when we worked together. Phil is a truck/trailer leasing industry veteran having worked mostly in the full service truck/trailer leasing segment and with truck manufacturers' captive finance companies so when he came to Citi he did not have experience with other truck lease products. Citi hired him to get into the truck/trailer finance business as it represents one of the largest segments of US capital expenditures with several million high cost vehicles being turned over each year. Because of the TRAC lease product and its variations, vehicle leasing in the US allows for the most product options compared to any other asset type. See my website at www.leasing-101.com and the Monitor archives for information and articles on the subject of TRAC leases and truck fleet finance alternatives.

What he used me for

I asked Phil what he used me for and he said it was to learn how to structure deals. He said he never had to use structuring to win business in his leasing jobs as his employers only offered FMV/full maintenance/no option to buy leases. The world of bank owned leasing companies was new territory and he realized there were new opportunities. He just needed to get the new knowledge on structuring to meet financial objectives including tax and accounting issues. Citi offered a large array of finance and leasing products that he said can't be learned from a college course. He also said he learned how to solve customer problems with the bank leasing products where he never had options with "product focused" full maintenance lessors. The products and product options that he learned about included synthetic leases, split TRACs and FMV leases with EBOs. Citi was interested primarily in the financing and leasing revenue while the model for full maintenance lessors was to "buy it right, maintain it right and sell it right" making profits from points in their transactions where a bank owned leasing company can't play.

What value I provided

Phil said he often not only met with the fleet managers but also with the CFO and or Treasurer. The financial people, who were part of the decision making process, often did not know much about truck finance (they understood the financial, accounting and tax for their company's main business very well). As a strategy he tried to educate the financial people so as they did not feel embarrassed in dealing with truck finance. His goal was to help guide them to make the right product choice for the business. The typical fleet manger is motivated merely to choose the deal with the lowest rent payment. Rent expense is all that shows up in his budget or P&L and he gets no credit for a deal that helps the company's tax position. The CFO and treasurer are interested in the lowest after tax financing and operating cost and best financial accounting presentation which may lead to a product choice that has higher rents but a better tax result or a lower cost to buyout the equipment from the lease. Phil is a master at reading situations and people. In his new environment of offering many products he had to understand the accounting, financial and tax attributes of each product option, the impact of the product on the financial and tax positions of the customer which product might be the most beneficial. He said he never worked for a company that had the sales support that Citi gave him.

Success stories

Phil told me of a customer he had that "hated" its full maintenance lessor for a litany of reasons but he could not get out of the relationship as the lessor marked up its termination values so high that he could never get another full service lessor to buy him out. At this point Phil was working for a company that did the maintenance on trucks/trailers. Phil showed them how get out of the relationship and amortize the penalty over two replacement cycles (trucks are under full maintenance agreements generally turned over every 36 months). He advised him to get the manufacturer of the new trucks he was going to order to buyout the existing leases in the full maintenance leases at the premiums built into the TV schedule and lease them back to him under a synthetic lease with the "premium" rolled into the cost the new lease was based on, followed by another synthetic with any remaining premium rolled in for the replacement trucks and to implement a Like Kind Exchange process to defer tax on gains as the lessee. All of these ideas were learned in our training and brainstorming sessions. He also offered maintenance under separate contract. The net result was spreading the buyout penalty cost over 6 years but more importantly lowering the after tax cost of financing, maintain control of the value in the trucks and keeping the leases off balance sheet.

In another case he met customer in a relatively small business who did not know there were options to buy maintenance from one provider and get financing from another. Phil offered him a service contract and gave him advice on the financing options available in the marketplace.

Truck Fleet Financing Options

In 2002 Phil asked me to co present with him at a National Private Truck Council Advanced Fleet Management Seminar on the subject of Truck Fleet Finance Alternatives. Together we developed a comprehensive comparison of the product options available for financing the use of trucks/trailers. The options include shareholders' equity/cash, debt/capital lease, TRAC Lease, Spilt TRAC, Synthetic Lease, FMV Operating Lease or FMV Lease with an EBO. The analysis considers the elements of control of the value of the truck, tax impact, the liquidity, the impact on financial ratios/measures, the after tax cost of the financing, and the ease of execution. Most of the attendees were small and medium sized company truck fleet managers and full maintenance truck lessors who were the prime lessor in the market. Phil

said the presentation was a great success and was beneficial to the truck fleet managers in the audience. It made the full service lessors squirm in their chairs as it explained aspects of leasing they wished to keep from their customers. Phil described his dinner that night with one of the food company truck fleet managers as one where he had no time to eat as he had to answer so many questions that the presentation prompted.

About the Author:

Bill Bosco is the Principal of Leasing 101, a lease consulting company. Bill has over 37 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 since 1988 and was chairman for 10 years. He is a frequent author and speaker on leasing topics. He has been selected to the FASB/IASB Lease Project working group. He can be reached at wbleasing101@aol.com, www.leasing-101.com or 914-522-3233.