

The Advantage

SuperTRUMP... Bringing You the Advantage in the Leasing Industry.



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EXTRA! EXTRA!

SuperTRUMP Version 7.9

(Please refer to the article on page 4 for more details)

FEATURE ARTICLES

- * *The History and Progression of Structuring*
- * *Creating Templates*
- * *Periodic vs. Monthly Yields*
- * *SuperTRUMP Certification and Training Seminar*

An Unmistakable Progression

By Accident or By Design?

In the early days, leasing did not involve structuring. It was just a new way to make the same payments as in a loan while getting a greater economic benefit. The twist was in the way that payments were treated for taxes, not in the structuring of the payments themselves. The novelty was that the lessor and lessee could both take advantage of their respective tax situations. The lessor would take the depreciation benefit and full taxation on the rents, and the lessee would get fully deductible rent payments.

From all-arrears structures, financiers reasoned that they could make the sharing of benefits even more efficient by using an all-advance structure when the lessor's time value of money was higher than that of the lessee. This was because the earlier rents helped the lessor's yield more than they hurt the lessee's rent PV. In return for the advance rents, the lessor would lower the amount of the rents slightly.

The next progression was to allow these two types of rent to be mixed (sometimes referred to as split rent), meaning that each period's rent had two components: one arrears and one advance. This opened up new possibilities because advance rents were taxed on a cash basis (upon payment), whereas arrears rents were taxed on an

accrual basis. A variation of this was the flip, in which initial rents were paid in arrears and subsequent rents in advance, with the selection of the flip date being a point of careful analysis.

Also during the 70's and 80's, many experiments were carried out in the area of variable rents. Along with the flexibility in timing came sawtooth rents, allowing for each rent to take the mathematically optimal amount, squeezing every last basis point out of the potential economic benefit. Much of this work had to do with the IRS true lease tests and the uneven rent test. In general, this test constrained each year's accrued rent to fall within 10% of the average annual rent.

One characteristic that all of these structures share is the payment of every (cash) rent at either the start or the end of each rental period. This latest point has changed dramatically by the 1.467 regulation. Currently, in the so-called prepaid/deferred structure made possible by the revision, rents are not even tied to the beginning or the end of an accrual period. They can be scheduled before, during or after the period. A certain period's accrued rent doesn't even have to be paid at one time... it can be spread across any number of dates.

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Letter from the Editor

The new year at Ivory Consulting is already starting off with a bang (totally unrelated to the fireworks Eileen tried to light off on the cake for Chris' January 1st birthday)!

SuperTRUMP Version 7.9, filled with all sorts of great stuff, is just awaiting the final touches before its release to the general public. You should be receiving it shortly. (In programming terms... "it's in the mail.")

Due to the incredible enthusiasm for and participation in our last training seminar, we

will be holding another in March. Please refer to the article and insert inside this newsletter for more information and to hear about the fun you'll be missing if you don't sign up.

We have much more planned for the year 2001... to keep you in suspense (and so you'll keep reading the newsletters), I'll save the rest for later. For now, to our customers, partners, friends and fans, I would like to wish you all a very Happy New Year!

Lisa M. Lohrey



Basic Tech Tip - FAQ

Creating Templates

Q: I use the same tax, yield and fee structures all the time, and it's a pain to re-enter the information EVERY DARN TIME I do a deal. What can I do?

A: This is what SuperTRUMP templates are for. To create your first template, it's a good idea to go to the File menu and choose Initialize. This sets SuperTRUMP back to Ivory's base assumptions. Now, put in your tax, yield and fee information. Go to File/File Management/Save as Template... and give your template a name that will help you remember what it's all about, like "Snoogums" or "polybrominated biphenyl" or "Tax Lease Template."

You can use your new template over and over. When you want to price a new deal, push the "New" button on the Toolbar:



Above: Use the New button at the far left of the Toolbar to price a new deal with an existing template.

This will bring up a "New" dialog box:



Above: A New Template dialog box.

Saving your parameters won't overwrite the template. Think of them as being ".dot" files in Word. Only "Save as Template" will change a template, and you can use that to create new templates from the original. Create as many templates as you need – perhaps one for every type of deal you do. Got a question for Dr. TRUMP? You can send it to joseph@ivorycc.com. We'll pass it around the office, gently chuckling and shaking our heads. No, really – we'd be happy to answer.

THIS MONTH IN HISTORY

- 436 BC** Pericles shames the Athenians into building the Acropolis by offering to pay for it himself. He prudently arranged build-to-lease financing, just in case.
- 410 AD** Alaric, King of the Visigoths, sacks Rome. Humbled lessors add "Acts of War" disclaimer to all standard lease agreements.
- 1775 AD** Boston patriots throw tea and punitive English lease terms into harbor. More equitable and mutually beneficial structures result.
- 1906 AD** Russians begin kicking themselves for grossly underestimating the FMV of Alaska.
- 1978 AD** Election officials in Florida, dismissing criticism by pointing out "C'mon - Who cares what kind of voting machines you use?" decide to purchase cheap voting machines rather than lease more upscale models.

And the rest, as they say, is history...

Advanced Tech Tip

Periodic vs. Monthly Yields

Q: Why did a change to my deal cause the periodic yield to change but not the monthly yield?

A: The change you made probably affected the timing of cash flows within the month, i.e., payments were moved earlier or later in the month, but not over the month's boundaries. A monthly yield aggregates all cash flows within a month; they are assumed

to occur on the same day (the end of each month). A periodic (daily) yield takes into account the day on which cash flows occur.

Some years ago, when yields were calculated on an HP12C, yields could only be calculated monthly. Today we use computers. Indeed, a monthly yield is probably unrealistic, inasmuch as current cash flow management practices call for daily collection and deposit of available funds.

Computing a deal using the monthly yield methodology would be like your CFO waiting until the end of the month to deposit a rent check received on the 1st. Would you want to compute the yield that way?

SUPERTRUMP TRAINING SEMINAR
SEPTEMBER, 2000

Joseph wondering if anyone is going to show up or if he can really play FreeCell all day on \$15,000 worth of new projection equipment.



Eat, Play and Be Certified!

September's SuperTRUMP Training & Certification Seminar

What happens when you get a bunch of Ivory's clients and business partners together with the Ivory staff for a week of intensive training? Hilarity ensues!

Seriously, people trekked into Walnut Creek from as far away as New York to take advantage of the latest series of Ivory certification seminars - Lease Finance Boot Camp, SuperTRUMP Boot Camp, Advanced SuperTRUMP Seminar and SuperTRUMP Integration Seminar. Despite all the hard work (just ask any attendee to explain how the FASB and IRS classifications figure into pricing - go ahead, I dare you!) we managed to squeeze in a little fun.

Daily lunches were either devoured at the Marriott's grill or catered in. After class on Tuesday we ate at Max's Opera Cafe while listening to (mostly) decent singing. Wednesday night held a road trip to San Francisco to eat real North Beach

Italian food and catch *Beach Blanket Babylon*, a Baghdad-by-the-Bay theater tradition. If nothing else, everyone was well fed and they sure laughed a lot!



Ann from KBC, Chris from Zions and David from Ivory discussing the many wonders of optimization.

"I learned things I did not know [SuperTRUMP] could perform and was able to see the logic of the program. It was an enjoyable three days and the Ivory team made us feel like we were part of the family. The most beneficial part of the class is that I am a more educated leasing professional. I hope to return for the Advanced Super Trump classes that I was unable to attend," says Chris Baucio of Zions Credit Corporation. (And we didn't even have to pay him!)

Ivory is offering certification training here in beautiful Walnut Creek, California several times a year (with the promise of lots more food and fun). The next seminar is scheduled for March 6 - 9, 2001. Please see the enclosed brochure and contact: Lisa Lohrey (925) 926-1100 x112; or E-mail lisa@ivorycc.com for more information.

IVORY AT YOUR SERVICE

Top 5 Hot Tips for Selling a Lease

While few if any of us here at Ivory have ever had to sell a lease for a living, mere ignorance and inexperience aren't going to stop us from suggesting how you do your job. Here are some time-tested, helpful hints that we just made up:

5. Explain how the equipment has a slight tendency to explode into large and photogenic mushroom clouds - if that happened, wouldn't any customer rather say they were "just leasing?"
4. "Any rube can get a loan - only an obviously brilliant person such as yourself would think to lease."
3. Offer to include a stipulated loss schedule, suitable for framing.
2. "If you've got enough cash to buy, why the heck are you here in this dumpy office and not on the beach in the Cayman Islands?"
1. Explain to them that "All the other kids are doing it."

No thanks needed - we're here to help.

An Unmistakable Progression

Continued from Front Page

Cash and accrual structures are not completely disassociated, however (not yet, anyway!). The cumulative cash is not allowed to get more than a year ahead of or behind the cumulative accruals. This is achieved by tracking the cash payments and the accrual amounts each calendar year. At the end of the year the cumulative cash may not exceed the cumulative accrual from the preceding year-end. Similarly, the cumulative accrual amount may not exceed the cumulative cash from the preceding year-end. And of course, the accrued amounts are still subject to the IRS uneven rent test. Indeed, the accrued amounts are the ones used for tax purposes by both the lessor and lessee (i.e., as income for the lessor and deductions for the lessee).

What we have witnessed is an unmistakable progression in payment flexibility, from a tight association of cash rents with their accrual period, to today's shifted structures allowed by 1.467, where there is very little association. Some financiers are happy to have a new toy to structure with, perhaps somewhat making up for

the demise of the LILOs. Others are shaking their heads over its complexity and lack of systematic logic. Still others wonder whether the IRS actually meant to do what they've done. Viewed from a long-term perspective, this progression, unplanned as it might seem, could appear a product of design and not an accident born of trial and error.

SUPERTRUMP TRAINING SEMINAR SEPTEMBER, 2000



Doreen from DCX closing a huge deal over the phone during a break. Well, that's her story, anyway.



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**SUPERTRUMP TRAINING SEMINAR
SEPTEMBER, 2000**

Jim from Ivory, Rick from ThoughtWorks, and Rich and Marsha from SBC contemplating the Tao of Termination Values (and what to order for lunch).

SuperTRUMP Version 7.9 is Here!

The programmers here at Ivory are driven by all the challenges that are put before them. They work hard and are truly dedicated to making SuperTRUMP even better (if that's possible). The 7.9 release includes many new updates and enhancements reflecting their hard work.

- * Our license management has been redesigned. Network installations of SuperTRUMP will now require only a single activation code.
- * "Effective cost" is now called "Full Term Rate" and "Implicit cost" is now "Base Term Rate." Also, users can now specify whether the "Full Term Rate" uses delivery dates (the default) or funding dates in the calculations.

- * There are now check-boxes in the cash-flow option screens and fee screens so you can toggle on or off the tax effect and cash effect of the screen.
- * A method for matching prepaid/deferred structures by entering annual accrued rent in the rent screen and cash rents in the miscellaneous external adjustments has been added.

A complete list of changes will be sent out with the new release later this quarter. (Also posted at: www.ivorycc.com/release.html.) We expect that you will find the 7.9 release to be even more powerful and effective than before... thanks to the tireless efforts of the Ivory programmers.

The Fine Print

The Advantage leasing newsletter is written and published by Ivory Consulting Corporation, home to chess fanatics, ATV dare-devils, gourmet cooks, and music aficionados. Oh yeah, and we write great leasing software.

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Attila the Hun	Joseph Moore

Want to put a face to the voice you hear when you call to reactivate? Curious what a real pricing programmer looks like? Check out the Ivory Staff up close and somewhat personal on our web site: www.ivorycc.com (there's other important stuff there too).

To be put on or taken off *The Advantage* mailing list, send an E-mail to: advantage@ivorycc.com, or call Lisa Lohrey: (925) 926-1100 x112. We want to hear from you (as long as you're not into complaining). Please forward all comments, questions, advice, gossip, great recipes, jokes and movie recommendations to Lisa directly. Have a question that would make a great Tech Tip? Send it our way! Ivory Consulting Corporation is not liable for any negative ramifications associated with this publication, but will gladly take credit for the good stuff.

Profiling the Ivory Staff



David Holmgren & Alistair Cooke - Separated at birth?

David has been at Ivory for the past 4 years, but before then? The similarities are eerie:

- Studied in Europe, then came to the US to stay
- Wears tweed with stylish abandon
- Vast reservoir of practical experience
- Often seen in a comfy leather chair
- Has groupies hanging on his every word

Sure, Alistair is a little bit better known than David, what with the TV shows and books. But can he optimize an advance/arrears rent structure with multi-tiered debt? I think not!

Other slight difficulties with this separated at birth theory are that David is half Alistair's age, has all his own hair and can roller blade like a fiend. For a more complete and perhaps accurate description of David (as well as the rest of the Ivory staff), see our web site: www.ivorycc.com.