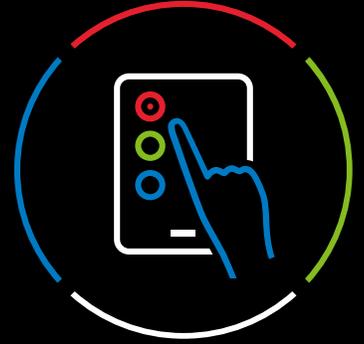




Digital adoption made simple

A guide for equipment leasing and finance

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Introduction: Equipment lease and finance overview

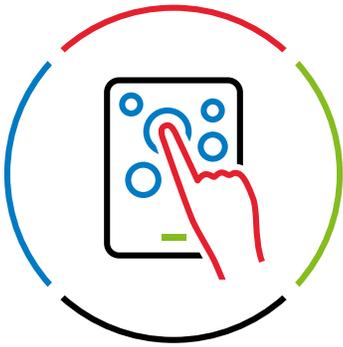
As equipment lease and finance business practices continue to evolve, the need for a digital financial transaction solution that supports electronic leasing (eLeasing) has never been more essential. A fully digital transaction management solution provides greater benefits for firms in the equipment lease and finance space. It enables improved customer user experience, enhances operational efficiencies, and eliminates paper-related transaction costs.

Organizations that do not embrace digital processes that are seamless, end-to-end, and that enhance the customer experience, will not improve efficiency, lower costs, or reduce errors. Additionally, post-signature business may be plagued with legal issues and risks. Business partners for these opportunities may hesitate to sign up for an investment that is not fully compliant. In today's markets, chances are that some will not survive.

Industry visionaries saw this trend coming many years ago. Today, those who took early action already possess a fully digital transaction management solution. But, there is a long way to go. ELFA's 2022 Survey of Equipment Finance Activity (SEFA) found that over 80% of businesses are now using electronic documents to fund their operations — a dramatic increase from just 52% in 2019.¹

At this point, it's frankly hard to see why these numbers are so low. Equipment lease and finance customers experience greater efficiency and ease-of-use when digitally enabled. Soon, all leasing clients and funders will expect nothing less than a fully digital lending experience, from pre-loan to signature to transfer to third-parties.

Due to gains in efficiency, increasing confidence, and speed to capital, there is a growing digital ecosystem of originators, funders, and investors. As a result, there is also a greater expectation to conduct business digitally, and lenders who do not, run the risk of being left behind.



Your guide to eChattel and digital technology: The business imperative

An important first payoff from digital enablement remains reduced transaction costs. Moving to digital from paper cuts the cost of origination and extends through the management of an asset across its lifecycle. Finally, greater operational efficiencies allow us to identify errors before closing and streamline the entire leasing operation.

What is eChattel paper?

eChattel paper simply means that equipment leasing companies use digital electronic documents during the lending and post-signature processes rather than paper. There are laws and regulations that govern the use of eChattel while managing electronic leases and contracts. It is important to implement a digital transaction management and electronic vaulting (eVaulting) solution with the technical requirements for both transactions and post-closing documentation. This will ensure that everything you do is better aligned with an enhanced customer experience. It will also ensure your process is as compliant and efficient as possible for post-signature funding opportunities.

Why is eChattel important?

Within the equipment leasing sector, companies that have adopted electronic documents experience:



Simplified loan origination processes and faster and more efficient pooled contracts



Significantly reduced sales cycles



An enhanced customer experience



The ability to digitally sign and manage loans and leases from financing through to the secondary markets



Accelerated funding cycles and increased real-time transparency into the funding process

As eChattel becomes more prevalent, it will emerge as the preferred way of doing business. From a securitization standpoint, this capital liquidity will keep the equipment lease and finance industry competitive, legal, and compliant.



Legal and compliance considerations for an eLeasing transition

The laws for eChattel have been around for two decades. The federal Electronic Signatures in Global and National Commerce Act (“ESIGN”) was passed in 2000. In 2001, the state-enacted Uniform Electronic Transactions Act (“UETA”) and various other laws and regulations laid the groundwork for using electronic signatures and records to meet the writing, signature, and disclosure requirements. The Uniform Commercial Code (UCC) amendments that allowed for eChattel paper also began in 2001. Most other verticals (i.e., commercial lenders and student loan originators) have been using electronic documents for years. According to [Morgan Stanley Investment Management](#), 98 trillion dollars of securitizations are out there worldwide.ⁱⁱ Yet, as discussed, although the legal and regulatory guardrails are in place, the equipment financing sector still lags behind.

Under [Article 2A of the UCC](#), many equipment leases must be in writing and signed to be enforceable. The laws of most states, and some federal laws, also require that each lease be accompanied by certain disclosures to the lessee, especially in the case of leasing to consumers. These laws apply to a broad array of transactions.

As stated by Dominic Liberatore in an [article](#) published in EL&F Magazine, “There have been no directly adverse decisions whatsoever. None. No news is often good news, and no bad news can be great news. This demonstrates the (1) admissibility and enforceability of electronic leases and (2) control (the electronic equivalent of having possession of the original) issues have not been reported as legal issues in all these years.”ⁱⁱⁱ



Possession is the corollary for control

Leases (records that evidence a monetary obligation and a security interest in specific goods) that exist electronically are called eChattel, rather than Chattel paper. The [UCC Revised Article Section 9-105](#) establishes control over eChattel, or who has “possession” (now termed “control”) of the single authoritative copy. The originator, seller, or borrower must demonstrate this control. It’s easier to do so if you’ve got an electronic documentation process with indemnity provided by both the software and the airtight processes in your organization. There is, at this point, no increased incidences of delinquencies or case law challenges related to eChattel in nearly any industry. As outlined by [Liberatore](#), “There is no basis in the case law to justify slow adoption. It’s time to move forward. The future is now.”^{iv} This shows that the laws in place are working to lock in acceptable risk profiles and avoid costly litigation.

Compliance, costs, and oversight

Concerns about setting up compliant eVaults for equipment lessors and their business partners are often raised considering the costs and oversight that instituting technical solutions require. However, modern eChattel software have built-in safeguards to address these concerns. In addition, proven processes across the decades-long evolution toward digital transaction management and eVaulting amongst other industries already assure accelerated ROI.

Below are the requirements necessary to meet compliance and security requirements for loan documents:

- 1 **Authoritative copy:** Assurance that they are viewing the authoritative copy of the document
- 2 **No alteration:** A guarantee that the document has not been changed
- 3 **Access reports:** Granular details about anyone, including any third-parties, that has been granted access or contractual rights; it also needs to show who has accessed the document
- 4 **Verification:** Proof and verification of the final disposition of the document, whether it has been transferred or compliantly been destroyed



Digital transaction management operations and technology

How can an equipment lease organization institute operational changes and complete the technical groundwork to adopt electronic document management with as little business disruption as possible?

The right team, the right talk

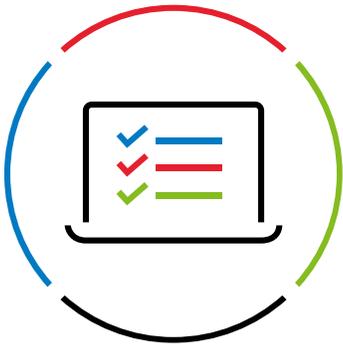
Ensure the right people are in the room by assembling an organization assessment team to evaluate your systems. This will include leadership personnel from across departments within your organization.

Team members could include the following:

	Information Technology		Compliance
	Legal		Information Security
	Marketing		Customer Service
	Business Development		

To help you formulate criteria for what type of solution your organization should adopt, here are some questions to consider for each of your individual business areas:

- What will you need to do with your document's post-signature?
- How will you ensure legal enforceability of your electronic documents?
- What type of information will your records/documents contain?
- What type of document security and compliance will need to be maintained once records are electronic?
- Who will need to have access to these documents pre- and post-signature?



Pawnee goes digital

“E-documents have increased our funding efficiencies by a very measurable amount. The speed in which we fund transactions has been a nice improvement to our customers, their equipment sellers, and us. It’s also been very convenient to not have to overnight original documents back and forth from us to our client.”

Nathan Bourne
Hampton Ridge Financial
Broker of Pawnee Leasing Corporation



Best practice processes

Be sure to create a roadmap for all your processes. Take a look at some of these areas to address:

- Origination checkpoints include error-prone manual processes and hard copy transfer times and storage
- Post-signatory challenges might include costly third-party surety contracts and document management for hard copy processes
- Executive, legal, financial, and IT stakeholder communications and buy-in
- Potential implementation barriers you expect to confront and planning for these challenges, both from a change management and technology integration perspective

Delineating the appropriate project team and then asking the right questions about your process and operational needs will take you a long way. However, your internal project team for the RFP process amongst several, prospective technical partners will need more than that. For more on vendor review, check out our white paper, [Going Paperless: Your 5-Point Checklist for Digital Success](#).

Let’s now look at how one leading company went paperless, delighting internal teams, funders, and customers alike.

Leading equipment leasing company goes digital

Leading equipment leasing company, [Pawnee Leasing](#), implemented an advanced end-to-end digital transaction management solution that accelerated time to funding that led to faster speed to revenue, lowered costs, decreased document errors, and provided better customer and broker experiences.

When they worked to automate their processes, Pawnee wanted three outcomes:

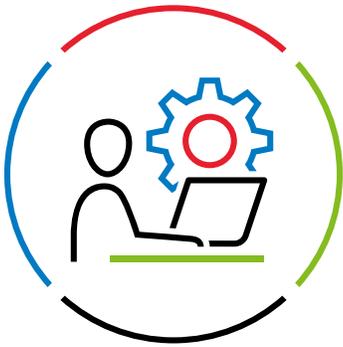
- 1 Allow Pawnee’s brokers to seamlessly originate and execute contracts within minutes
- 2 Securely store their post-signature original documents
- 3 Mitigate their risk throughout the entire lifecycle of their financial assets

The team at Pawnee Leasing was utilizing AppTrak, a lease contract submission tracking tool based on a platform developed by Vision Commerce. It allows brokers the ability to generate their contracts as PDFs and forward them to their customers by printing and mailing via FedEx.

When changes occurred to the leasing contract, whether due to negotiations or errors within the document, the process would have to be repeated; resulting in unnecessary expenses for the broker and lessee, as well as a delay in funding.

Once the documents were originated and executed, the financial asset documents were bundled together, then transported to and stored within a secured warehouse, requiring a significant amount of secured physical storage space, as well as facility costs. Now, during the post-signature life of the contracts, the financial assets are electronically vaulted in a secure location with easy access to the audit trail and the authoritative copy of the original documents.

The Wolters Kluwer’s eOriginal® solution provides Pawnee Leasing Corporation with the ability to find, audit, pool, collateralize, securitize, or transfer original contracts 100 percent electronically. To learn more, click [here](#).



Technical requirements and integration needs

Many organizations that adopt eLeasing require customized integration with existing systems. Whatever your requirements, when your IT and business teams are trying to come up with technical guiderails and integration plans, most next generation eLeasing will have the capability to handle them. For example, Pawnee followed this common structure and integrated easily with its AppTrak software through an Application Programming Interface (API):

- Email sent out asking the end user to enter into lessor's/creditor's electronic contract service company's origination website
- Authentication of signer (various security levels are possible, per lessor's/creditor's process)
- Consent of end user to contract electronically (often done separately from the lease/loan)
- Review of electronic contract by end user
- Electronic signing of electronic contract with intent to be bound
- Electronic contract automatically transferred to third-party electronic vault
- Copies of completed electronic contract documents provided automatically by email
- Ideally, once you've chosen a vendor, you will be able to ensure that your eLeasing transformation contains a similar roadmap with the technical features that deliver hard and soft ROI; paper-to-digital transaction management hand-off requirements; training and implementation resource requirements; and more

eLeasing process flow





The impact of eLeasing on funders and originations

Implementing eLeasing

Top five things to know:^v

- 1 Know the law and compliance requirements
- 2 Require the highest level of security in your document ecosystem
- 3 Understand electronic chattel paper
- 4 Understand and expand your digital ecosystem for lenders and investors
- 5 Implement best practices

- [EL&F Magazine](#)

To continue its steady growth trajectory, equipment lease and finance leaders need to utilize eLeasing and digital transaction technology to enhance the funder experience from a post-closing perspective, including commercial lines of credit for funding partners that focus on payment streams. Some of the benefits of eLeasing to funders versus a traditional lending process include:

- 1 eLeasing shortens the cost and time of the revenue cycle and enables verifiable legal compliance
- 2 eLeases are accepted in secondary markets, both for securitization and as debt collateral
- 3 Implementation of eLeases can be accomplished with less effort and at a lower cost

What are you waiting for?

Objections to the eLeasing transformation in equipment financing are fading fast. This is true because there are plenty of demonstrable business benefits and great examples of solid results, complete with satisfied funders. In the past, funders and those running origination transactions in-house have told us they fear it will be too complicated for the resources they have fulfilling these business processes.

eLeasing does not complicate business operations. In the paper-world, originators click a button to create a PDF of their documents, then continue with a paper-based mailing process. With eLeasing, they click a button and send the documents electronically — much easier and more efficient.

We used to hear that originators and funders alike were wary when eLeases were generated and sent without viewing. However, today's eLeasing functionality includes a step to create a PDF prior to the execution of the e-signature. Also, the capability to customize the message that accompanies the document so customers and others might have contact information and any additional information immediately upon document receipt.

Authentication and out-of-wallet questions about the signature verification process have likewise been silenced, as eLease verification creates much more surety in the form of electronic contracts with intent to be bound. Companies may choose electronic signatures with mouse- or finger-signing, text-typing, voice, or other biometric signing options. In addition, electronic contracts that are automatically transferred to third-party electronic vaults demonstrate control and can be provided instantly to all interested (and authenticated) parties via email.

Start digital, stay digital



The equipment lease and finance industry has an urgent requirement to start and stay digital in respect to financial transactions. With the rapid advances in technology, rising customer experience expectations, the rise of FinTechs, and increased competition, the need to streamline the equipment financing experience is becoming more critical.

The 2022 Equipment Leasing & Finance Foundation report noted that many FinTechs are providing new ways of tackling old problems, such as how to make the equipment leasing process simpler and more efficient. This is done by utilizing technology to provide a smooth, hassle-free experience for customers. FinTechs use cloud computing, artificial intelligence (AI), machine learning (ML), big data analytics, and blockchain to streamline processes and operations.

FinTechs are also introducing new approaches to the equipment financing process, such as providing real-time access to credit decisions and alternative data sources to better understand and assess potential borrowers. This is allowing companies in the leasing and finance space to make more informed decisions about their customers, faster than ever before.

Ultimately, an effective and efficient digital approach to the equipment leasing process can help businesses in this sector remain competitive and even gain a competitive edge. By utilizing digital technologies, companies can provide customers with an improved experience while also saving time and money. It is therefore essential for companies in the space to start digital and stay digital.

Customer experience, funder surety, fraud prevention, and auditability remain some of the most compelling reasons to institute an eLeasing solution.

We hope this playbook has alleviated any remaining hesitation about your upcoming digital transformation. We've covered the legality of e-signatures, authentication, control, transparency, and some of the technical and change management requirements that will allow you to reap the benefits of an eChattel transition.

Once you've got the right partners and technology to ensure continued growth and profitability for years to come, we're sure you'll be a thriving part of the digital business ecosystem.

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Wolters Kluwer (EURONEXT: WKL) is a global leader in information, software, and services for professionals in healthcare, tax and accounting, financial and corporate compliance, legal and regulatory, and corporate performance and ESG. We help our customers make critical decisions every day by providing expert solutions that combine deep domain knowledge with specialized technology and services.

Wolters Kluwer reported 2022 annual revenues of €5.5 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 20,000 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

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