EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye On The Future

Hispanic Latin American

Discovering Success in Equipment Finance

The Foundation is the only research organization dedicated solely to the equipment finance industry.

The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

The Foundation research is independent, predictive and peer-reviewed by industry experts. The Foundation is funded solely through contributions. Contributions to the Foundation are tax deductible.

Equipment Leasing & Finance Foundation
1825 K Street • Suite 900
Washington, DC 20006
www.leasefoundation.org
202-238-3426
Lisa A. Levine, Executive Director, CAE

Hispanic Latin American:

Discovering Success in Equipment Finance

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye On The Future

Preface

US equipment financiers have exhibited an ever increasing interest in the international expansion of their business. Although the established business and cultural links between the US and Europe naturally represented the US equipment leasing and financing industry's first foray into international expansion, Hispanic America is drawing increasing attention. One of the reasons for this attention is that the economies of the Hispanic American countries are growing faster than the US economy, which is creating business opportunities for US equipment leasing and financing companies.

Given this interest, the Equipment Leasing & Finance Foundation has identified the need for significantly better information about the equipment financing industry and practices in Hispanic America. Leveraging on the success of its White Papers on China, Brazil, and Mexico, the Equipment Leasing & Finance Foundation has commissioned a White Paper on the Hispanic American equipment leasing and financing market. Armed with data regarding the environment, regulatory framework, unique risks, and how others have entered the market, lessors can make more informed decisions as to how, or if, they should pursue this opportunity.

Principals of The Alta Group, from our offices throughout the world, particularly the Latin American Region, participated in the research and analysis for this White Paper. Lessors with experience in Hispanic America also provided valuable assistance. It is hoped that this information will assist lessors in gaining an important "first-mover" advantage into this rapidly developing market.

John C. Deane
Managing Principal

The Alta Group℠

PO Box 372, Glenbrook, NV 89413
775-749-1028
www.thealtagroup.com

Table of Contents

Acknowledgements

The Equipment Leasing & Finance Foundation would like to gratefully acknowledge the assistance, time, and knowledge of to those ELFA member companies that added to the quality of information in this report by generously giving of their time, experience, and insights. These companies, for business and other reasons, wish to remain anonymous.

Executive Summary

Hispanic America, as it is defined in this report, is a market for equipment leasing and financing companies that represents both potential and significant risk.

On the plus side, these countries (including the largest – Chile, Colombia, Peru and Argentina – and the smaller countries of Ecuador, Venezuela, Costa Rica, Honduras, Panama, Bolivia and the Dominican Republic) have over 264 million people with an average purchasing power of US$6,560. The region has a strong focus on capital investment. Leasing is well-established; the first leasing companies were established in the early 1970s, and the collective leasing portfolios of Hispanic American leasing and finance companies total approximately US$20 billion. The industry grew more than 38% in 2007.

However, the risks of equipment financing in the region are many and varied. Among them:

- International Accounting Standards are not universally recognized in Hispanic America; for example, several countries prohibit the capitalization of leases by lessees;
- The availability of US-style credit information is almost non-existent in the region, although some useful credit bureaus exist in the larger countries;
- Repossession and recourse are extremely time-consuming and often expensive, and public, UCC-like asset registration does not exist;
- The used equipment market is largely undeveloped or non-existent in most countries, other than for automobiles;
- Regulations and license requirements vary widely by country, and must be understood clearly by applicants and license-holders.

Prior to the credit crisis of 2008-09, funding generally was available in most countries via bank loans and, in the larger countries, via the commercial paper and securitization markets. This is no longer the case, and, as in most countries, funding availability remains an issue for the foreseeable future. Lessors planning expansion into Hispanic America should complete thorough due diligence in each country to understand fully their prospective risks.

Introduction

There are several traditional reasons why United States lessors seek to establish an international presence. Some follow their vendors or customers overseas, while others do so to support parent products. There also have been lessors, though few, which have done so as part of a market expansion strategy. This latter motivation is becoming more prevalent because of today's highly competitive US leasing market and the growing global economy.

While it is true the US leads the world in the volume of equipment leased[1], the US equipment leasing and finance industry also is very mature. This maturity includes product commoditization, slowing growth, shrinking margins, and static market share. Given this maturity, many US lessors are seeking opportunities in new markets and channels to sustain asset growth and maintain profitability. The Hispanic American leasing and finance market is being viewed as one of these opportunities.

For purposes of this paper, the term Hispanic America is used to describe all the countries of Latin America except Brazil and Mexico (although culturally speaking, Mexico is part of Hispanic America, its equipment leasing and finance industry is addressed in a separate Equipment Leasing & Finance Foundation White Paper). The countries comprising Hispanic America are, in order of the importance of their equipment leasing and financing industries:

- Chile
- Colombia
- Peru
- Argentina
- Ecuador
- Venezuela
- Costa Rica
- Honduras
- Panama
- Bolivia
- Dominican Republic

This paper emphasizes the four largest Hispanic American equipment and financing industries, which also happen to correspond to the largest Latin American economies after Brazil and Mexico. In order to remain efficient, Panama, Costa Rica, Honduras, and the Dominican Republic are grouped into what is referred to as the Central American Region. The countries of Hispanic America are highlighted in the map contained in **Exhibit One**.

Exhibit One

Region Map

Source: Wikipedia Maps, with edits by Santiago Castillo

In general terms, the Hispanic America (as defined) consists of 264 million consumers, with an average per capita purchasing power of US$6,560. These numbers imply an economic growth potential of 6.7 times this market's current GDP just to catch up with the US standard of living. The growth potential in Hispanic America is especially important for the equipment and financing industry, because the engine of economic growth in these countries is capital investment, particularly investment in equipment. The equipment leasing and financing industries will play a vital role in this growth. Indeed, these economies already are delivering high returns to the region's equipment leasing and financing companies.

[1]US originates 34.75% of the global leasing volume worldwide, according to the World Leasing Yearbook 2008.

Establishing leasing operations outside the US

Financial success is a challenge even in one's own country – the task becomes even greater in another jurisdiction, especially when it is compounded by different cultures, such as in Hispanic America. On the positive side, time zones and relative proximities play a positive role in this region. There still remain many structural, legal, accounting, tax, and cultural differences that must be addressed, however.

Beyond these factors, US leasing and finance companies seeking to establish an international presence also must consider the developmental stage of the leasing industry it is entering. Many emerging leasing industries, for instance, follow similar developmental patterns. They start out small and then grow very rapidly, as multiple lessors enter the market. After a relatively short period of growth and prosperity, however, there is an economic adjustment, usually in the form of a major contraction or, in some cases, a collapse.

A combination of government regulation and more rational business practices generally result in a subsequent period of slow growth, followed by a stabilization of the industry. This phenomenon has occurred in countries such as Colombia, Ecuador, and Venezuela. It is at this point that the emerging leasing industry, strengthened by its trials, is poised to continue its development. The Indian, Korean, and Indonesian leasing industries, for example, followed similar patterns. By understanding this pattern, a US investor can avoid losing hard-earned traction in that industry.

Key differences

On a more granular level, US leasing and finance companies must make decisions such as whether to act on a cross-border basis or establish a permanent presence in the target market. Although a permanent presence generally proves to be the best formula for a sustainable strategy, due to its operational flexibility, there are many issues that need to be assessed in order to define the right structure. As this paper shows, many of the countries of Hispanic America have friendly regulations for cross-border leasing.

It goes without saying that an equipment leasing and finance company operating internationally will face differing tax, accounting, and legal rules and regulations. These differences can be reduced to a set of common differences. As an example, although legal systems differ between countries, they generally may be classified as either common law or civil law systems. Common law systems are present in all former British colonies and protectorates such as Canada, India, and Australia. Civil law systems, on the other hand, are present in countries colonized or influenced by continental European cultures, e.g., Spain, Portugal, France, and Germany. Not surprisingly, all Hispanic American countries have civil law systems.

Accounting regulations are always an issue in any international expansion, but there is not much divergence in the accounting for leases between countries. Many countries now follow International Accounting Standard No. 17 (IAS 17) or a local lease accounting standard based either on IAS 17 or FASB 13. Even so, although accounting systems still may be different, in line with the local legal systems and business cultures, there is a continuing trend towards convergence of accounting standards on a global basis.

The tax systems amongst the various countries of the world also share common threads. The particulars will differ, but each country has a tax on income, some form of cost recovery/depreciation, and a tax on consumption. US leasing and finance companies must still be cognizant of the differences in application of the tax laws, nonetheless.

Cultural differences also must be assessed and then addressed if the enterprise is to be successful. Special attention needs to be paid to languages, technological and physical environment, social organization, labor issues, country history, the concept of authority and political organization, religion, and even the prevailing business and social approach towards time. The many things that are taken for granted in the US business environment now become critical factors for success in an international environment.

In Hispanic America, for example emphasis is put on relationships rather than formal contracts. Other differences include relaxed time schedules, and a more balanced approach to life, work, family, and entertainment, as opposed to the time-driven, workaholic attitudes more prevalent in the US.

Regulatory guidance

The numbers and nature of the regulations and rules in foreign jurisdictions represent a major difference between the US and other equipment leasing and financing industries. Most countries in Hispanic America consider equipment leasing and financing as financial activities, so they regulate such activities with the aim of ensuring transparency, professional reliability, and minimum damage to the public interest. Consequently, regulatory agencies, those that generally supervise banks and insurance companies (Superintendencias[2] or Bancos Centrales), also have oversight of leasing and finance companies.

In most of the Hispanic American countries, finance leasing and equipment financing are reserved for certain financial institutions that must meet licensing requirements set forth by law. This is the case in countries such as Colombia, Peru, Ecuador, Bolivia, Venezuela, and some Central American countries. In these countries, the government restricts the right to conduct equipment leasing business to leasing companies that are part of the financial system regulated by either the Central Bank or the Superintendencia.

In general, licenses are granted to those companies that can prove experience, skills, reliability, and capital enough to operate the equipment leasing and financing business. Other countries, such as Costa Rica and Chile, allow a coexistence between bank affiliated companies (government supervised) and independent leasing companies (free from any regulatory control).

Risk management

As previously mentioned, being a successful leasing and finance company is a challenge even in one's own country and even more so internationally. An international expansion strategy, therefore, must be supported by a very solid risk management culture and organization. The strategy also must assess unique market risks, including country, operating, currency, and funding risks. Lastly, a prudent financier will analyze and define a sound exit strategy.

Managing the risks of doing business in Hispanic America are discussed in more detail later in the study. While most of the countries in the study share common elements, as, over the long-term, the risk profile of all the countries tend to look similar, their short-term risk profile is different. These short-term differences are examined in greater detail further on in the paper.

Core Market Research

A full understanding of the competitive landscape and unique challenges of a new market is the key to any successful expansion strategy. The balance of this paper addresses the factors to be considered and analyses to be performed by US leasing and finance companies contemplating conducting business in Hispanic America.

Equipment leasing and financing in Hispanic America

The four primary leasing and financing countries in Hispanic America are discussed in this section.

Chile

Chile is a relatively small country with 16 million inhabitants, but it has the strongest economy in Latin America, including Mexico and Brazil. Chile's per capita purchasing power of US$13,083 is higher than that of both Mexico and Brazil. Chile is rated A by the three major credit rating agencies, making it the best rated of all Latin American countries as well.

Equipment financing started in the form of equipment leasing in Chile in 1977 with the incorporation of Leasing Andino SA. This company was created through an initiative of a Spanish leasing company, Leasing Bancaya, a then subsidiary of

[2]A special government agency that has responsibility for regulating financial institutions.

Banco Viscaya (which eventually merged into the Banco Bilbao Viscaya Argentaria, or BBVA). Leasing Andino was acquired by Banco de Chile in 1999 and now operates under the brand BanChile Leasing.

As can be seen in **Table I**, provided by the Chilean Leasing Association (ACHEL), the leasing industry in Chile has been evolving ever since, showing sustained growth each year other than the period between 1982 and 1984, when Latin America experienced a financial crisis. Chile successfully emerged from this crisis by enacting financial reforms, including social security reforms, that created a robust Chilean capital market.

The period between 1998 and 2002 was marked by legal reforms that enabled banks to book leases through wholly owned subsidiaries. This action weakened non-bank affiliated lessors and forced some of them to exit the market, resulting in many customers sourcing equipment investment through loans rather than leases. That trend was reversed after 2003 and, today, the growth of the equipment leasing industry in Chile is quite strong, in spite of the fact that Chile lacks a leasing law. Bank subsidiaries coexist in the Chilean marketplace with independent leasing companies, although the portfolio size of a bank leasing affiliate typically is several times larger than that of an independent lessor.

According to ACHEL, real estate leases represent 43.1% of the total leasing portfolio in Chile. Motor vehicles and transportation equipment represent 17.3% and 9.3%, respectively, while information technology equipment only represents 3.5% of the total leased portfolio. Real estate leasing has grown exponentially since the early 1990s, first with commercial real estate leases and then through a very aggressive origination process of household leases (leasing habitacional), which in some cases, included government subsidies.

Table One

Leasing Portfolio Growth in Chile

Colombia

Colombia has the third largest Latin American population and the fifth largest Latin American economy in terms of GDP. A country located in the northernmost part of South America, it has approximately 44 million inhabitants and, after Chile, the strongest Latin American middle class.

Equipment financing in the form of leasing started in Colombia in 1973 when Citibank created a subsidiary for that purpose. However, since the legal, accounting, and tax systems were not favorable, and the local entrepreneurs did not understand the merits of leasing, the industry performance was not notable during this period. By 1975, through the actions of Grupo Grancolombiano, an indigenous financial group that has since disappeared, two companies[3] were created with foreign capital and technology. At the same time, the tax law was reformed, introducing provisions for depreciation as well as rental deductions, making leasing one of the most attractive means for financing capital equipment.

By 1978, the International Finance Corporation (IFC) had established its first affiliate in Colombia[4] and the growth of the system soon followed with the creation at that time of more than 40 companies. In 1982, Colombia experienced, as did the rest of Latin America, the most notable financial crisis of the last 50 years, which led to the government-forced liquidation of several banks and financial entities. As a result of these events, the leasing industry was tar-

[3]These companies were Leasing de Colombia, SA and Leasing Grancolombiana, SA.
[4]Leasing Bolivar, SA

geted for rigorous regulatory intervention. Aspects of this regulation included a special prohibition against raising funds from the public[5] and a new value added tax regime that imposed value added tax on leasing rentals[6].

The Colombian Leasing Association, or Fedeleasing, was created in 1984 in response to these measures. Up to that date, regulation of the leasing industry was not clear, nor was there any dialogue between the practitioners and the regulators. Since then, the regulatory system for the leasing industry has been developed through a consensus between the government and the private sector.

Until 1990, the only barrier to entering the leasing industry was the need for a license from the Superintendent of Companies[7], making leasing companies subject to the general corporate law. In 1990, the control of leasing companies was passed to the banking regulators (Superintendencia Financiera). Minimum capital requirements were established for incorporating a leasing company and all existing leasing companies were required to apply for a license at the Superintendencia. (Only 37 companies out of 100 eventually obtained licenses. The others were wound down.) Tax regulations[8] at that time favored the development of leasing in Colombia to the point that the Colombian leasing industry became, after Brazil, the second largest in Latin America.

In 1993, a new law transformed leasing companies into finance companies, thereby subjecting them to the same capital requirements and restrictions of finance companies. These restrictions included leverage requirements, limits on risk concentration, and strict supervision[9], although leasing companies were authorized to raise funds from the public.

This "blessing" eventually became one of the reasons[10] for the downturn in the Colombian leasing industry from 1997 to 2003. The elimination of the tax deduction on rentals for large lessees, mostly multinationals, reduced the demand for leasing, and led to a gradual deterioration in Colombian lessors' portfolios. This development affected the lessors' image vis-à-vis their depositors. As a result, the system experienced a gradual lack of liquidity and some leasing companies disappeared from the marketplace.

The Colombian leasing industry prepared a study[11] in 2003 outlining how a favorable tax system for equipment leasing would lead to economic growth. The Colombian government agreed with the suggestions of Fedeleasing and a bonus depreciation system was established. Since then, the Colombian equipment leasing and financing industry has been growing at over a 70% rate and the economy, fueled by capital investment, is achieving an annual growth rate of 7%.

Currently, 20 out of 23 licensed finance companies hold leasing portfolios. These companies enjoy a regulatory profile similar to that of industrial banks in the US.

Argentina

Argentina is a country with over 40 million inhabitants, the world's 23rd largest economy, and the third largest economy in Latin America after Brazil and Mexico. Argentina always has had a strong economy and, in fact, at the beginning of the 20th century, as the world's second largest economy, was known as the "bread basket of the world." During the decade of the 1980s, however, the Argentinian economy was hampered by chronic hyperinflation.

In response, the government, in 1991, enacted the Convertibility Law, establishing a new parity of one-to-one between the Argentinean peso and the US dollar. The money supply was deemed fully backed by the Central Bank's foreign currency and gold reserves. As a result, inflation fell and the 1990s saw substantial economic growth. The Foreign Investment Law of 1993, together with the Convertibility

[5]Presidential Economic Emergency Decree 2920, 1982.
[6]Presidential Extraordinary Tax Decree 3541, 1993
[7]Law 44, 1981, and Decree 2059, 1981
[8]Law 49, 1990, established some tax benefits for leasing activities, in particular cross-border leasing. Law 6, 1992, eliminated IVA, or value added tax, on rentals, and matched equipment depreciation periods for lessors to the term of the lease. This created a double tax benefit for lessees (if not triple, due to exemption from the Inflation Adjustment requirements), since they could accelerate depreciation by leasing equipment and avoid the additional taxation associated with inflation adjustments. In addition, the IVA paid in conjunction with the acquisition of the equipment operated as an investment tax credit.
[9]Law 35, 1993
[10]Another was elimination of the tax deduction for rentals in a finance lease, pursuant to Law 223, 1995.
[11]This study was prepared by the Alta Group on behalf of Fedeleasing.

Plan, Argentina's role in MERCOSUR, and the government's privatization program, provided free access to the income of foreign capital in the country, which enhanced market growth.

Leasing arrived in Argentina at around the same time as in most of the Latin American countries, but its development was extremely poor until 1994[12]. Some possible explanations for this slow growth include the fact that Argentina was less prone to the influence of US businesses, that hyperinflation impaired the development and expansion of financial leasing, and that the underlying culture favored ownership over the use of capital goods.

In 1995, Law 24,441, a leasing statute, was enacted. The aim of this law was to overcome some of the confusion in judiciary civil precedents and in the tax treatment of leasing. Although this law contributed to the stabilization of the industry and established new players, its impact has not been substantial. This is the reason why, in April 1999, the Economy Ministry submitted to the Congress a reform bill for the leasing industry.

These proposed reforms eventually became Law 25.248, which has been in force since June 14, 2000. The most recent law, concerning the organization of leasing companies, has created an interesting result. For instance, under the prior law, lessors could be (i) a financial institution, (ii) a specialized leasing company, or (iii) even a manufacturer or importer of capital goods[13]. However, the new law, without substituting any new provisions, wiped out the section of the law that established this regulation. As a consequence, there is no formal barrier to organizing a leasing company in Argentina, so banks and independent leasing companies alike compete in the Argentinean leasing market.

The leasing industry suffered a tremendous setback in 2002, when the Argentine authorities declared a public emergency, abrogated the Convertibility Law, reneged on the payment of its sovereign debt, and attacked the interests of foreign investors in the country. These actions triggered more than 30 arbitration claims under the Bilateral Investment Treaties, of which Argentina is a party. It was not until after 2004 that the leasing industry began a resurgence. Argentina has over 41 players in the leasing business, most of which are banks and independents.

Peru

With 28.6 million inhabitants, Peru has the 47th largest economy worldwide, and the seventh largest in Latin America. A country very rich in natural resources, especially mining resources, Peru's economic performance in the last 10 years has been outstanding to the point that it now is first in line to be upgraded to an investment grade country after Brazil was upgraded.

Leasing started in Peru around the end of the 1970s. The most prominent lessor was Sogewiese, a joint venture between Société Générale de Banque and the Peruvian Bank Wiese. Currently, the Peruvian leasing industry ranks 6th in Latin America with total leased assets of US$1.97 billion, which is 6% of the total reported Latin American leased assets. The industry grew 34.8% between 2005 and 2006.

In 1984, a leasing law was enacted under Legislative Decree 299 that defines finance leases based upon form rather than substance. Finance lessors must be financial institutions licensed by the regulator, which is the Superintendencia de Banca y Seguros. There are currently 15 active lessors in Peru.

Market size

According to data gathered from official numbers of the central banks, the leasing associations, and The Alta Group's Latin American Region (LAR) 100 report, the leasing portfolio of leasing and finance companies in Hispanic America (excluding Brazil and Mexico) is approaching US$20 billion. The complete list is shown in **Table II**. The Latin American region overall had a portfolio value of US$61.4 billion in 2007.

The Hispanic American leasing market has been growing at a rapid pace in the last three years. Interestingly, much of this growth has come from multinational leasing companies, as their presence in the

[12]A good description of the Argentinean leasing industry can be found in an article written by Paul Iribarren, former President of the Argentinean Leasing Association, published in *World Leasing Yearbook 2000*, a Euromoney Institutional Investor Publication, London, ISBN 185564 733 8

[13]Section 27, Law 24.441.

region has expanded to the point where, today, they represent almost half (47.2%) of the portfolio value in the region. **Table III** shows the primary multinational lessors active in Hispanic America today.

Lease taxation

Tax systems in Hispanic America are very similar, although, at times, more complex than in the US. Some countries, such as Argentina, are organized as federal states, and the federal tax system coexists with a state or provincial tax system. All other countries have a centralized government system, in which taxes generally are set by the central legislative power, e.g., the national Congress or Assembly of Deputies, even if such taxes are applied at a state, provincial, or municipal level. The following taxes directly or indirectly affect leasing and financing transactions in Hispanic America:

- Corporate income taxes
- Withholding taxes
- Value added tax (VAT or IVA)
- Stamp duties
- State and local taxes

Table Two

Hispanic American Portfolios (US$000's)

Country	2006	2007	Growth rate	Market share
Chile	4,796,802.05	6,471,979.28	34.9%	10.54%
Colombia	3,681,652.23	5,606,658.02	52.3%	9.14%
Peru	1,967,394.00	3,019,188.45	53.5%	4.92%
Puerto Rico	2,106,460.00	2,299,726.00	9.2%	3.75%
Argentina	737,829.26	1,005,928.96	36.3%	1.64%
Venezuela	283,983.63	487,542.62	71.7%	0.79%
Ecuador	419,340.00	385,858.19	-8.0%	0.63%
Costa Rica	186,317.12	354,961.33	90.5%	0.58%
Honduras	127,383.08	140,545.63	10.3%	0.23%
Guatemala		49,770.61	-	0.08%
Dominican Republic	30,063.37	36,705.76	22.1%	0.06%
Nicaragua		24,999.94	-	0.04%
El Salvador		23,308.61	-	0.04%
Bolivia	23,881.69	23,734.00	-0.6%	0.04%
Panama	66,725.00	0		0
Total	$ 14,427,831.43	$19,930,907.40	38.1%	

Source: The Alta LAR 100

Corporate income taxes

Corporate income taxes in Hispanic America are based on the same principles as US tax law, i.e., taxable income is computed (revenues less allowable expenses) and then taxes are determined by multiplying taxable income by the applicable rate. Income tax returns usually are due between March and June of the following year. **Table IV** illustrates the various tax rates currently in effect in the region.

The taxation of equipment leases in Hispanic America is based on whether the country follows a form or a substance approach. Under the form approach, the lessor always is considered the tax owner in any equipment financing structured as a lease. The treatment in the tax return follows that of the US.

Lessees: Rentals under equipment leases are fully deductible as either costs or operating expenses. The lessee is not allowed to depreciate the equipment for tax purposes.

Lessors: Lease rents are taxable revenues.Depreciation allowances are permitted over the term according to the applicable country's tax law. In some countries, the depreciable life is the useful life as defined by statute while, in others, the depreciable life is the term of the lease.

Table Three

Multinational Portfolios

Rank	Company	2007	2006	2005	Growth
1	Itau	$ 15,738,927	$ 743,605	$ 384,153	2017%
2	Santander	4,922,399	1,763,497	1,296,187	179%
3	BBVA	1,566,069	1,294,046	784,986	21%
4	HSBC	1,391,374	473,160	258,418	194%
5	GMAC	984,871	64,555	30,935	1426%
6	IBM	820,299	497,948	457,629	65%
7	Caterpillar Financial	783,613	394,249	351,222	99%
8	CIT	645,415	423,860	323,751	52%
9	HP Financial Services	626,867	188,183	190,209	233%
10	Scotiabank	493,623	322,128	52,945	53%
11	CSI	391,229	263,691	111,093	48%
12	Citibank	261,124	684,483	360,337	-62%
13	GE Commercial Finance	254,140	256,786	229,907	-1%
14	John Deere Credit Co.	116,387	102,004	99,303	14%
15	ABN AMRO (Merged into Santander)	-	537,618	354,522	-100%
	Total Multinationals	$28,998,344	$ 8,011,818	$ 5,285,598	

Source: The Alta LAR 100

All other equipment financing structures are treated as loans for tax purposes. The borrower deducts interest paid and depreciates the asset over the statutory useful life. The lender, on the other hand, records interest income and reduces its receivables by the amount of principal paid. Argentina, Bolivia, Chile, Venezuela and most of the Central American countries follow the form approach to lease taxation.

Table Four

Income Tax Rates

Country	Rate
Argentina	35%
Chile	17%, plus an additional tax upon dividend distributions
Colombia	33%
Dominican Republic	25%
Ecuador	25%, reduced to 15% if earnings are reinvested
Guatemala	31%
Paraguay	10%
Peru	30%
Uruguay	25%
Venezuela	34%

Under the substance approach to taxation, the lessor is considered the tax owner in an equipment lease only if it retains substantial risks and rewards of ownership. If it does not retain these risks and rewards, then the lessee is treated as the tax owner. This is the premise behind the US tax treatment of leases and. In fact, most of the countries that follow the substance approach have used Revenue Ruling 55-540 as a model.

If the lease is treated as a true tax lease (the lessor is the owner) the taxes are calculated as described. If the lease is determined to be a conditional sale, then the lessor records interest income and reduces its receivables by the amount of principal paid. The lessee deducts interest paid and depreciates the asset. Normally, the asset is depreciated over the useful life. In certain countries such as Peru, however, the depreciation can be taken over the term of the lease.

Countries such as Colombia, Ecuador, Peru, and Costa Rica follow the substance approach to lease taxation.

Withholding Taxes

Withholding taxes are levied on the payment, credit, or remittance of interest or capital gains to a person/legal entity domiciled abroad. The applicable rates are indicated in **Table V**.

Table Five

Withholding Rates

Country	General Rate	Financial Institution Rate
Argentina	35% (a)	15.05% (b)
Chile	35%	4%
Colombia	0% (c)	0%
Dominican Republic	25%	10%
Ecuador	25% (d)	25.00%
Guatemala	10%	10%
Mexico	28%	4.90%
Paraguay	15%	6%
Peru	30%	4.99% (e)
Uruguay	12%	3%
Venezuela	32.3% (f)	4.95%

(a) This rate may be reduced to 12% if the lessor is a national of a country party to a double taxation treaty with Argentina
(b) It also applies to securities placed in countries with BIT in force with Argentina
(c) Specific to leasing and financing of investments for economic development
(d) Reduced under double taxation treaties
(e) Foreign lessors must be registered with the Superintendencia and the spread over the benchmark rate must not be higher than 300 bps.
(f) Also subject to reduction under double taxation treaties

All the above rates are applicable to cross-border leases. Due to the complexities associated with the application of withholding taxes, it is highly encouraged to consult with competent local attorneys.

Value Added Tax (VAT or IVA)

While sales tax in the US is assessed on the last link of the supply chain, i.e., the sale to the consumer, in Hispanic America the value added tax is imposed on all links of the supply chain (manufacturer-to distributor-to wholesaler-to retailer-to consumer). The value added tax is known as the IVA (Impuesto al Valor Agregado) in Hispanic America. The IVA represents more than 45% of the total government revenues in Hispanic America.

The practical effect of the IVA is that the consumer pays the whole tax, while each merchant collecting the tax is allowed a credit against IVA paid. For example, assume that a merchant buys from its supplier an item for $80 and sells it to the end consumer for $100. If IVA is 15%, the end consumer pays the merchant $115 ($100 for the item plus $15 IVA). The merchant then pays the supplier $92 ($80 for the item plus $12 IVA)

The merchant collected IVA of $15 and applies a tax credit of $12 for the IVA paid to the supplier. The net amount of $3 is the IVA that the merchant pays to the government when it files its tax return. The supplier must pay the remaining $12 to the government, assuming that this amount represents the value it added to the original goods (times the IVA rate of 15%, of course).

Whenever a lessor purchases equipment from a vendor in Hispanic America it has become involved in the supply chain of capital goods and, therefore, is subject to IVA. The vendor invoices the lessor for the equipment together with the corresponding IVA, which is then paid by the lessor. This result is not significantly different than the treatment of sales tax in the US. In Hispanic America, IVA is subject to the following rates:

Country	Rate
Argentina	21%
Chile	19%
Colombia	16%
Dominican Republic	16%
Ecuador	12%
Guatemala	12%
Paraguay	10%
Peru	19%
Uruguay	22%
Venezuela	9%

Leasing (both finance and operating) legally are considered as services which, in almost all Hispanic American countries, is a service subject to IVA. In Colombia, finance leasing is exempt from IVA, but operating leasing is subject thereto. Therefore, with the aforementioned exception, Hispanic American lessees must pay the periodic payment plus the corresponding IVA. Reciprocally, lessors are subject to the formal obligations to issue and submit to the lessee a periodic invoice including the applicable IVA. Lessors then act as collection agents for the IVA paid by the lessees.

The above obligations create a chain of cash flows between lessors, lessees, and the applicable revenue services, which adds some administrative burden to the practice of leasing. In Hispanic America these chains of cash flows fall into one of the following four scenarios:

Scenario 1: IVA applies both to the purchase of assets as well as to leasing as a service. In this scenario, the lessor may claim a credit for the amount of the IVA paid on the purchase of the asset against the IVA being collected from the lessee together with the rentals. The end result of this scenario is high financial costs and inefficiencies. This is the case in Bolivia, Costa Rica, and the majority of countries with a nascent leasing industry.

Scenario 2: IVA applies to the purchase of equipment, but leasing as a service is exempt from IVA. There are 2 variations in this scenario:

- The lessor records IVA as part of the equipment cost and applies depreciation to the increased cost basis
- IVA is transferred to the lessee in a way that the lessee claims the IVA in the same manner as it would if the lessee had purchased the equipment.

Scenario 3: The same as Scenario 1, but in this case the lessor has the right to claim for reimbursement the excess payment of IVA beyond its current IVA liability, upon expiration of a certain time period. The end result here is a high likelihood for corruption, bureaucracy, availability of funds in the public treasury, etc. This is the case in Chile.

Scenario 4: IVA applies both to the equipment purchase as well as to leasing services. The lessor transfers the IVA to the lessee for all legal purposes. This is the case in Argentina, through a common contractual stipulation.

Stamp duties

Most of the countries apply a stamp duty that is assessed on the amount of the corresponding contracts, i.e., the whole stream of payments. The Colombian stamp duty, which is destined to phase out in 2010, is 1% and the rate in Chile is 1.2%, although it is debatable if stamp duty applies to leases, since the core regulation applies to cash loans. The stamp duty is 1% in Argentina, although it depends on the province where the contract is executed, in which case it can be reduced to 0.5%. Paraguay has a 1% stamp duty.

Lease accounting

In terms of accounting requirements, not all Hispanic America follows the rules and standards of the International Accounting Standards Board. Since all these countries are based upon civil law principles, in which form prevails over substance, the accounting is based upon who has title to the asset, rather than on criteria setting forth the risks and rewards inherent to ownership.

The debate over capitalization versus non-capitalization of leases in Hispanic America is still open. The problem with the adoption of mandatory standards is that they may go against the formalities of legal title on personal property. Capitalization of leases by lessees carries legal implications that may result in the practical neutralization of lessors' remedies to repossess. For example, it can be argued that, if the lessee records the leased equipment in its books, then it should be deemed the legal owner of the property. In this case, the lessor would be left with no remedies to repossess the equipment.

Globalization of capital markets and the increasing tendency of Hispanic American enterprises to seek financing in global money centers such as New York have led to the movement towards application of the International Financing Reporting Standards (IFRS) to such countries. Domestic law and regulations certainly will need to be amended in order to accommodate the application of IFRS in all countries. Before this conversion can take place, however, the players in the equipment financing arena must be aware of the accounting gap that exists between domestic GAAP and international GAAP.

Countries prohibiting the application of IFRS, such as Argentina and Colombia, require lessors to capitalize all leases in their balance sheet and prevent lessees from doing so. Uruguay currently is eliminating the prohibition against applying IFRS. **Table VI** summarizes how IFRS is being applied in Hispanic America.

Leasing associations

The Latin American Leasing Association (Felalease) is the umbrella organization for all the domestic leasing associations in Hispanic America. These associations include:

- Amsofac-México.
- Ameap-México.
- Asociación de Leasing de Argentina (ALA).
- ABEL – Associação Brasileira das Empresas de Leasing.
- Asociación Chilena de Leasing.
- Federación Colombiana de Compañías de Leasing.
- Leasing BanColombia.
- Sociedad Costarricense de Arrendadoras.
- El Salvador, C.A..
- Grupo Casa – Guatemala.
- Finarca – Nicaragua.
- Asociación Peruana de Empresas de Leasing.

Current Developments

As was shown in **Table II,** leasing in the Hispanic American region grew tremendously in 2007 with a weighted average growth rate of 38.1%. It is interesting to observe the extraordinary growth in Costa Rica (90%), for instance, where the main players are Scotiabank, Interfin, CSI, BAC San Jose, and Improsa. The two largest lessors are multinationals and have been very actively diversifying their portfolio.

Venezuela also shows remarkable growth. This growth is parallel to that of consumer and mortgage financing during 2007, which have benefited from

Table Six

Application of IFRS

	Domestic Listed Companies			Domestic Unlisted Companies
Country	IFRS not permitted	IFRS permitted	IFRS required for all	Use of IFRS by unlisted companies
Argentina	X			IFRS not permitted
Bolivia		X		
Chile			X (2009)	IFRS required starting 2009.
Colombia	X			IFRS not permitted
Costa Rica			X	IFRS required for all
Dominican Republic			X	IFRS required for all
Ecuador			X	
El Salvador		X		
Guatemala			X	IFRS required for all
Honduras			X	IFRS required for all
Nicaragua			X	IFRS required for all
Panama			X	IFRS required for all. However the law requiring IFRS is under legal challenge.
Paraguay		X		IFRS permitted
Peru			X	
Uruguay	X			
Venezuela			X	IFRS required for all

the domestic negative real interest rate, and the exchange controls that decoupled domestic rates from foreign interest rates. In general terms, the Venezuelan financial system grew substantially and the leasing industry did the same.

Peru and Colombia both carry more sustainable growth. Colombia has very sophisticated companies that have begun to become international. The industry is growing not only in volumes but also in diversity of financing products and equipment financing portfolios.

Argentina, on the other hand, has a very favorable legal environment for equipment leasing and financing. Unfortunately, this contrasts with the prevailing macroeconomic environment. In spite of this, the growth of the equipment financing industry appears to be sustainable, since equipment vendors keep finding market niches that translate into opportunities for equipment lessors and financiers.

Establishing a Leasing Company in Hispanic America

The rules and procedures for establishing a leasing company in Hispanic America vary by country. Some of these rules are discussed in this section.

Argentina

The law in Argentina concerning the organization of leasing companies, Law 25.248, has been in force since June 14, 2000. There is some confusion in this regard, however, since, under prior law, lessors could only be a financial institution, a specialized leasing company, or even a manufacturer or importer of capital goods. The new law, without making any provision regarding this issue, wiped out the section of the law that established this regulation.

It would seem, therefore, that there is no formal barrier to organizing a leasing company in Argentina, i.e., any type of person, either physical or juridical, may operate as a lessor under Argentine law. This interpretation seems to be shared by the majority of the practitioners in Argentina.

Accordingly, the general rules of corporate law in Argentina apply to leasing companies. It is important to mention that, in such respects, the Argentine regulations require foreign investors to file a registration at the public registry under the Inspección General de Justicia (IGJ). Every foreign investor in an Argentine leasing company, however, must appoint an attorney to represent it before the IGJ, and to renew its registration on an annual basis.

Bolivia

Pursuant to the Bank and Financial Entities Statute, Law No.1488 of 1993, banks can either directly undertake leasing transactions or create a wholly owned subsidiary, namely, a Finance Leasing Company. In any event, both entities are subject to the Superintendencia de Bancos y Entidades Financieras (SBEF), so their operations must comply with the same regulations applicable to banks. Consequently, only banks and companies having licenses granted by SBEF may act as lessors within Bolivia. At present, there is only one Finance Leasing Company licensed in Bolivia, which is Bisa Leasing, SA.

Leasing companies are subject to the same incorporation procedures as a new bank in Bolivia.. According to Decree 2297, issued by the Central Bank in 2001, the minimum capital required to form a leasing company is DEG275,000 (approximately US$363,000), which is roughly half of what it used to be. Other Bolivian regulations require a bank participating in a leasing company to hold not less than 51% of the total outstanding shares of that company. This restriction does not exist for independent lessors. As a result, manufacturing or trading companies or groups can incorporate a lessor without that restriction, as long as they file for the corresponding license at the SBEF.

Foreign investors are allowed to hold up to 100% of a leasing company's outstanding shares. In addition, foreign investments in Bolivia may be insured, through the Overseas Private Insurance Corporation, and through MIGA. On a prospective basis, the IFC, with the support of the Swiss Government, is currently working on the draft of a leasing law.

Chile

Leasing companies can be organized in Chile under one of two options. One of these is to incorporate the leasing company as a bank subsidiary, which will be subject to the supervision of the government. The second option is to incorporate as an independent leasing company. Independent leasing companies are not subject to any government supervision.

If the lessor chooses to establish a bank subsidiary, it will be subject to the provisions of the general banking law. Bank lessors must obtain a license from the regulatory body. In order to be granted a license, the bank lessor must comply with the following:

a. Currently, the minimum capital and equity requirements state that the minimum consolidated capital of the bank or financial instituition should not be less than 3% of total assets and equity should not be less than 8% of total assets. In no event can the minimum equity be less than 800,000 UF[14], that is, approximately US$33.2 million.

b. The bank lessor must be qualified in categories I or II of the solvency level required by the Superintendencia. In practical terms, this means having equity of not less than 8% of total assets

c. The bank lessor must submit a feasibility study for the new leasing company and/or the results of the due diligence for the acquisition of an existing company. Along with the feasibility study, applicants must provide additional supporting information to establish a subsidiary. This information includes the percentage equity participation of the parent bank in the subsidiary, the background of shareholders with more than 10% of the equity, the bylaws and anticipated organizational structure of the company, and the form in which the parent bank anticipates directing and controlling the management of its subsidiary.

The applicant also must provide an analysis of the main risks of the business and its operations, an explanation of the internal controls for risk assessment and management, and the equipment and services to run the company. In order to acquire an existing company as a subsidiary, the bank must provide the same information mentioned above, plus audited financial statements for the last three years, comprehensive information about risk and audits made by the organization or external professionals, the results of the due diligence conducted by the applicant, and the valuation criteria for the investment.

The license for a bank-affiliated leasing company should be granted in a maximum of 90 days. This period may be extended to a maximum of 120 days if the regulators ask for additional information. The bank leasing companies are not allowed to raise deposits from the public. Furthermore, the banks may also file for a license to enter into leasing transactions with a value up to 20% of the bank's total assets, provided that their individual exposure does not go over 5% of total capital, and that all the same requirements set forth for the participation in a subsidiary are met.

From an independent lessor's perspective, both leasing companies incorporated by foreign banks and by other national or foreign investors (including without limitation, equipment vendors), may be incorporated pursuant to the general rules for commercial companies. There are no particular requirements for the incorporation of these independent companies. They may bear the form of limited liability companies or corporations (Sociedades Anónimas).

Independent leasing companies, however, are not allowed to raise funds from the public, so they must obtain funding elsewhere. According to a recent survey made by the Chilean Leasing Association, 53% of leasing company funding comes from banks and 17% from the placement of bonds. Since the average equity of the leasing companies is 15%, the remaining 15% is provided by vendors and other sources.

Foreign investors in Chilean independent leasing companies enjoy special protections. Pursuant to Decree 600, 1974, foreign investment in commercial companies is welcome in Chile, and for that purpose, the foreign investor is entitled to enter into a Foreign Investment Contract with the Government of Chile. These contracts guarantee that the Government, even if it subsequently passes a law, cannot unilaterally modify the terms of the contract. This system reinforces Chile's commitment to keep unchanged the legal and, specifically, tax framework of the foreign investor who has entered into a Foreign Investment Contract. Based on these contracts,

[14] The Unidad de Fomento (UF) is a unit of account that is used in Chile. The exchange rate between the UF and the Chilean peso is constantly adjusted to inflation so that the value of the UF remains constant. It was created on January 20, 1967, for use in determining principal and interest in international secured loans for development, subject to revaluation for inflation. Afterwards it was extended to all types of bank loans, private or special financing, purchases or investments on installments, contracts, and some special situations. The UF also is used in legal standards such as the par value of stock/capitalization of companies, fines, etc. It has become the preferred and predominant measure for determining the cost of construction, value of housing, and any secured loan, either private or of the Chilean government. Individual payments are made in Chilean pesos, according to the daily value of the UF. For historical and current values of the Chilean UF, see www.uf.cl . As of the date of this report, the UF=Ch$20,084.30 and the exchange rate of the US dollar vis-avis the Chilean peso is US$1=Ch$483.17, therefore one UF is equal to US$41.56.

a foreign investor is guaranteed nondiscrimination in business aspects such as access to public procurement contracts, licensing requirements, and repatriation of profits and principal, not to mention import stability privileges. Most of the leasing companies operating in Chile have foreign investment due to these favorable conditions.

Colombia

In order to organize an equipment finance and leasing company in Colombia, a license must be obtained from the Superintendencia Financiera. As in all other Latin American countries, operating leasing companies do not require a license. But, in Colombia Finance lessors in Colombia, similar to Brazil and other countries like Mexico, Venezuela, and Ecuador. are subject to the supervision of the banking regulator, or the Superintendencia Financiera.

In order to obtain a license from the Superintendencia, the following requirements must be fulfilled:

a. The company must have the form of a corporation (Sociedad Anónima). Pursuant to Colombian corporate law, a corporation must have a minimum of five shareholders[15]. This is a unique requirement in Latin America. In most other countries, the minimum required shareholders or partners is two.

The interested parties shall file an application to the Superintendencia including a draft of the corporation's bylaws, the authorized[16], subscribed[17] and paid-in capital[18], provided that the latter must not be less than Col$9.92 billion,[19] (approximately US$5 million). The resumes of the applicants and future managers, together with all other information that may establish data about their reliability, character, and economic solvency must be included.

b. A feasibility study that demonstrates the viability of the business, indicating the management and technological infrastructure, internal control mechanisms, risk assessment and management plan, among other things.

c. All information that enables the Superintendencia to verify the moral stability and economic solvency of the applicants. Persons responsible for crimes related to narco-trafficking, corruption, and mismanagement of financial institutions must not be admitted as shareholders or managers of financial institutions[20]. Economic solvency is determined by examining the financial statements and tax returns of the applicants. The criteria for economic capacity are similar to Brazil's, i.e., the net equity of the applicant exceeds 1:3 times its contribution to the new leasing company, and that no more than $1 out of every $3 of equity contribution is borrowed[21].

Five working days after receipt of the application, the Superintendencial authorizes a public notice in a national circulating newspaper about the intention to incorporate the leasing company. The advertising notice must be published twice, with an interval of no more than seven days, in order to give third parties a chance to express, within the next 10 working days, their opposition to the application[22]. Once all the above steps are fulfilled, the Superintendencia has six months from the date of the application to grant the License. The Superintendencia represents, however, that it shall take no longer than 40 days[23].

Once the Superintendencia authorizes the incorporation of the company, the incorporation must occur within the term set forth by the corresponding resolution. This incorporation is legalized by executing a public deed before a Public Notary[24].

[15]Article 374 of the Code of Commerce.
[16]Pursuant to Article 376 of the Code of Commerce, authorized capital is the amount that registers the target of the contributions that shareholders want to reach within a reasonable timeframe.
[17]By virtue of the same Article 376, subscribed capital is the amount of the total contributions that the initial shareholders are committed to make in a term of no more than one year.
[18]Paid capital is the total contributions that effectively form the assets of the corporation at its inception, or at the date of incorporation, pursuant to the same Article 376.
[19]Article 1, Law 510, 1999 reforming Article 80 of the Financial System Organic Statute, stated the original amount as Col$8.5 billion and ordered the first adjustment in January 1st, 2000 by means of Decree 2323, 1999.
[20]Article 53, Financial System Organic Statute.
[21]Article 53 as reformed by Law 510, 1999.
[22]Article 53, num.4, Financial System Organic Statute.
[23]This information can be obtained by visiting the "Superintendencia Financiera"'s web site at www.superfinanciera.gov.co/tramites/constitucion.html.
[24]Article 110, Code of Commerce.

Furthermore, in order to prove the incorporation of the company, a copy of the public deed of incorporation must be registered at the Mercantile Public Record.[25] Along with a copy of the public deed and the certificate issued by the Chamber of Commerce, the applicants must file the final petition for the license, enclosing the proof of payment of capital, the existence of the technical and operating infrastructure, and registration at the Deposit Guarantee Fund. The license must be granted within the next 5 working days after filing of the final petition.

Approvals and time required

In general, the time necessary to obtain a license from any of the authorities in the Hispanic American countries that require licenses can take between 6 to 9 months, according to the experience of the market participants interviewed for this paper.

Partnership considerations

Currently, it is not mandatory to have a domestic partner in the Hispanic American countries. In the absence of indigenous partners from the target countries, however, it is strongly suggested that foreign investors in equipment financing and leasing companies do their homework and utilize reliable advisors with the following skills:

- **Local market knowledge** – Familiarity with local businesses, credit histories, and the reputations of local business leaders and their companies.

- **Existing business relationships** – Good local supporting advisors may bring business relationships necessary to build a portfolio.

- **Staffing** – Beginning leasing and financing operations with an experienced staff can make an important difference in Hispanic America. Although there is no shortage of talent in the finance industry in Hispanic America, finding senior employees with the appropriate experience, and at a competitive cost, is a challenge.

- **Familiarity with the domestic legal system** – All the countries of Hispanic America are based upon civil law systems that allow the possibility of contradictory court decisions. Having strong, local advisors helps to anticipate the outcome of litigation in certain environments and to assist in achieving better outcomes.

- **Speed to market** – An experienced local advisor or consultant can save time through its knowledge of what leasing products are most popular, what marketing and advertising media are effective, which companies may be the best potential customers, and how to get approvals and credit information faster and more effectively.

- **Language** – This is a particularly important issue in Hispanic America. Although bilingual education is available, there are not many bilingual business executives. Knowledge of the Spanish language, naturally, is highly desirable for any expatriate employees.

Funding and currency considerations

Funding options available to leasing and finance companies in Hispanic America are evolving. In general terms, the funding sources for leasing and finance companies include domestic bank loans, cross-border loans (subject to foreign exchange restrictions of the corresponding central bank), and commercial paper, debentures, or securitizations that are placed in the domestic capital markets. There are, however, potential obstacles of which lessors need to be aware.

Argentina[26] and Colombia[27], for example, require that a cash reserve be deposited at the Central Bank together with the filing of cross-border loans. Although this requirement makes the effective cost of

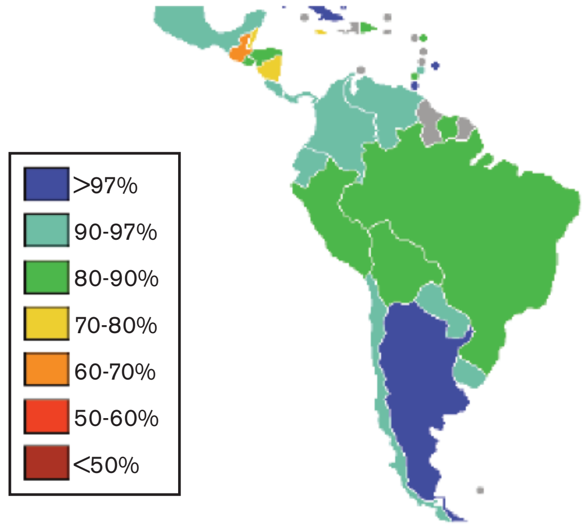
[25]Article 117, Code of Commerce.
[26]The amount of the deposit is 30%, pursuant to Comunicación A 435 of the Central Bank of the Argentine Republic, effective October 6, 2005.
[27]The amount of the deposit in Colombia is 40%, pursuant to Resolution 8/2000 of the Board of Directors of the Banco de la Republica, as amended in 2007.

cross-border loans more expensive than its original terms, these countries have good domestic capital market conditions for funding leasing companies. In Argentina, securitization is the preferred vehicle for funding leases. Argentine lessors tend to establish equipment leasing trusts and issue securities or paper out of such trusts. Colombian companies use the commercial paper, medium term notes, and bond markets extensively.

Chile has, without a doubt, the most developed capital markets amongst all the Hispanic American countries. The pension and securities reforms of the 1970s generated one of the largest capital markets in Latin America. Chilean pension funds are very important investors and they have enormous potential to funnel funding into leasing and equipment financing companies[28].

Exhibit Two

Literacy Rates



Source: UN Human Development Report 2000/2008

Staffing

The populations of all the Hispanic American countries are hard-working. Furthermore, despite the numerous problems and internal conflicts that they suffer, their culture reflects the general understanding that continuous education and hard work represent keys to success. On average, the literacy rate of Hispanic America is above 85%, as shown in the map of **Exhibit Two**, with the highest literacy rates in Argentina, followed by Colombia, Chile, Costa Rica, Panama, Ecuador, and Venezuela. Experience indicates that some of the best trained professionals in the leasing and financing industry come from Argentina and Colombia.

The above notwithstanding, staffing still represents one of the biggest challenges for leasing and finance companies in Hispanic America, particularly as it relates to work performance. Planning and budgeting is another area that requires continuous education, although the Hispanic American professionals are very creative and resourceful.

The employment system in Hispanic America is very complex and, overall, highly protected and rigid, so leasing and finance companies must be cognizant of the domestic picture, including statutes, case law, and prevailing practices. Most of the employment contracts in the region are subject to minimum statutory benefits. Chile and Nicaragua appear to be more manageable in terms of freedom to hire and to fire employees than the rest of the Hispanic American countries, with Venezuela and Bolivia being among the worst.

Bolivia, for example, does not allow termination of contracts due to redundancy and imposes the obligation to retain full time employees. The same applies for Venezuela. Therefore, reducing operating expenses or headcount in these countries is legally impossible. Nicaragua and Chile on the contrary, allow termination by redundancy and offer flexibility in hiring employees.

Other countries, such as Colombia and Argentina, provide more flexibility than Bolivia and Venezuela to dismiss redundant employees, but are less flexible in terms of hourly compensation of employees. Managing staff in Hispanic America is another area that requires solid local advice. Staff training is certainly one of the most important functions in these countries.

[28]Further details about the capital markets in Chile can be found in the study "Capital markets in Chile: from financial repression to financial deepening," available at http://www.bis.org/publ/bppdf/bispap11g.pdf and in the Capital Markets Reform paper posted in www.buyusa.gov/chile/en/capital_market_reforms.pdf

Systems and service providers

The lease service provider market in Hispanic America is less advanced than in developed countries but it has been catching up rapidly. There are some IT leasing systems in the marketplace that are well-developed and tailored to the local environment.

In addition, there are many lease servicing/collections firms and some onshore asset management specialists, although the large concentration in motor vehicles presents a challenge for other equipment items such as IT and industrial equipment. Tax, accounting, legal, and consulting services are available from the larger global consultants, but there also are local professionals that specialize in leasing.

Risk Considerations

Any equipment leasing and finance company seeking to establish a presence outside the US must carefully consider the unique risks inherent in that jurisdiction. Although the analysis may not be much different than one performs in entering a new market in the US, it is important to remember that the differences in culture, economy, time, and distance magnify the risks, concerns, and operating issues.

Market entry risk

Sovereign risk is a prime example of the type of unique risks that US lessors may face internationally but do not have to contend with at home. This risk can be considered from two different perspectives. One is political risk, which is the likelihood that a given country will subject foreign and/or domestic investors to measures that impair the security of enjoyment of life, freedom, and property. In concrete terms, such political events are political violence and revolution, expropriation, and other factors such as government breach of contracts.

In Hispanic America such risks are currently very high in Venezuela, Nicaragua, Ecuador, and Bolivia. Venezuela, for example, has launched a wave of expropriations that have created economic uncertainty, one of the most notorious of these being the nationalization of the Banco de Venezuela (from the Spanish Grupo Santander), the largest lessor in Venezuela. Ecuador, Bolivia, and Nicaragua have followed the same path. The good news is that neither Ecuador, Bolivia, nor Nicaragua have considerable leasing portfolios that would be at risk.

There are some protections against expropriation. Some of the Hispanic American countries are bound by bilateral or multilateral investment protection treaties, which means that foreign investors may have remedies in international arbitration tribunals. The most relevant case is Venezuela, which has a bilateral investment treaty in place with the US.

The second sovereign risk relates to the ability and willingness of governments to pay their debts. Of all the countries in Latin America, Colombia is the only one that has not defaulted since the 1930s. Argentina has a persistent pattern of defaults every decade, positioning it as the worst sovereign risk in the long run. Table VII shows the current sovereign ratings by Standard and Poor's.

Regulatory

Regulatory risks are indirectly linked to the political risks of the country. Countries such as Bolivia, Ecuador, Nicaragua, and Venezuela (and, to an extent, Argentina) have opted to move away from a market economy, so their regulatory risk is quite unpredictable. Countries with more solid economic policies aimed at creating conditions for sustainable competitiveness in a global economy bear more predictable regulatory risks.

The regulatory risk is much lower in countries such as Chile, Colombia, Costa Rica, Panama, Peru, El Salvador, Uruguay, Paraguay, and Honduras, regulatory risk is much lower. This lower regulatory risk is a function of adjustments by the financial regulators to reflect best practices such as Basel II and strong corporate governance guidelines. Whether or not countries welcome and/or respect foreign investors is another measure of the potential regulatory risk a lessor may face. Again, having local or regional advisors to prevent, mitigate, and control regulatory risk is highly suggested.

Table Seven

Sovereign Ratings

Entity	Local Currency	Foreign Currency
Chile (Republic of)	AA/Stable/A-1+	A+/Stable/A-1
Peru (Republic of)	BBB+/Stable/A-2	BBB-/Stable/A-3
Panama (Republic of)	BB+/Stable/B	BB+/Stable/B
El Salvador (Republic of)	BB+/Stable/B	BB+/Stable/B
Colombia (Republic of)	BBB+/Stable/A-2	BB+/Stable/B
Venezuela (Bolivarian Republic of)	BB-/Stable/B	BB-/Stable/B
Uruguay (Oriental Republic of)	BB-/Stable/B	BB-/Stable/B
Guatemala (Republic of)	BB+/Positive/B	BB/Positive/B
Costa Rica (Republic of)	BB+/Positive/B	BB/Positive/B
Dominican Republic	B+/Negative/B	B+/Negative/B
Ecuador (Republic of)	B-/Stable/C	B-/Stable/C
Bolivia (Republic of)	B-/Stable/C	B-/Stable/C
Paraguay (Republic of)	B/Stable/B	B/Stable/B
Argentina (Republic of)	B/Stable/B	B/Stable/B

Source: Standard & Poor's

Operational risk

Operational risks also must be considered when entering the Hispanic American markets as they have a direct impact on the day-to-day business of the lessor and, hence, its profitability.

Market

Market risks are a fact of life for any business whether it is in the US or Hispanic America. The most notable market risks are low market potential and equipment availability. Low market potential usually exists in small economies, which may not generate enough volume to reward investments and risks undertaken by foreign lessors. In this area, the filter criteria should be based upon demographics such as the combination of population and Gross Domestic Product. The following tables indicate and rank the demographic potential of Hispanic American countries. Table VIII, for instance, ranks each of the Hispanic American countries by population.

Table IX lists the market potential of the various countries in terms of GDP and GDP per capita, which is based on population.

The other factor that impacts market risk for lessors is the availability of equipment in the economy that can be leased. Except for motor vehicle assembly plants in countries such as Colombia and Argentina, most capital equipment utilized in Hispanic America is imported. What this means, in practical terms, is that the market potential of a given country in this region can be measured by the level of capital equipment imported into the country. **Table X** provides an overview of the market potential of the Hispanic American countries based on the amount of equipment imported.

Table Eight

Regional Populations

Country	Population
Colombia	44,379,598
Argentina	40,301,927
Peru	28,674,757
Venezuela	26,023,528
Chile	16,284,741
Ecuador	13,755,680
Guatemala	12,728,111
Dominican Republic	9,365,818
Bolivia	9,119,152
Honduras	7,483,763
El Salvador	6,948,073
Paraguay	6,669,086
Nicaragua	5,675,356
Costa Rica	4,133,884
Uruguay	3,460,607
Panama	3,242,173
Total	238,246,254

Source: World Bank

Table Nine

GDP per Capita

Country	Total GDP (2006)	GDP per capita
Argentina	214,241,198,080	11,985
Venezuela	181,861,842,944	11,060
Colombia	153,405,210,624	6,378
Chile	145,843,142,656	13,030
Peru	92,415,557,632	7,092
Ecuador	41,401,843,712	7,145
Guatemala	35,325,210,624	5,175
Dominican Republic	31,846,035,456	5,866
Costa Rica	22,229,250,048	9,564
Uruguay	19,307,681,792	10,203
El Salvador	18,653,599,744	5,765
Panama	17,097,100,288	9,255
Bolivia	11,162,329,088	3,937
Paraguay	9,275,148,288	4,034
Honduras	9,234,891,776	3,543
Nicaragua	5,300,791,296	2,789

Source: World Bank

Funding

The funding risks to be faced in Hispanic America are the same as those in the US, with the addition of currency risk, depending on how the lessor's transactions are denominated. Nowadays, most of the Hispanic American currencies have been gaining value vis-à-vis the US dollar and, therefore, funding in US dollars is becoming less expensive than in the past.

Table Ten

Capital Equipment Imports

Rank	Country	Import value	% of total imports	% of world imports
0	World	1,557,913,825	12.7543	
41	Argentina	5,941,641	17.3935	0.3814
47	Chile	4,673,600	13.4583	0.3
50	Venezuela	4,340,449	14.2035	0.2786
53	Colombia	3,617,741	13.828	0.2322
62	Peru	2,172,418	14.1881	0.1394
74	Paraguay	1,296,268	22.05	0.0832
77	Ecuador	1,229,025	10.1459	0.0789
81	Costa Rica	1,007,881	9.1042	0.0647
83	Guatemala	881,599	9.2413	0.0566
89	Dominican Republic	746,827	7.3375	0.0479
98	El Salvador	509,899	8.5774	0.0327
101	Panama	486,943	10.0853	0.0313
103	Bolivia	460,063	16.2898	0.0295
106	Honduras	440,966	8.44	0.0283
108	Uruguay	388,617	8.1388	0.0249
134	Nicaragua	187,255	6.8325	0.012

Source: UNCTAD/WTO (Data in US$ thousands)

Due to economic policy issues, domestic interest rates in Hispanic America are tending to rise, in order to control and prevent inflation. This situation is creating a funding challenge, namely, making funds in the local currency extremely expensive, with gaps between domestic and international rates of several basis points.

Another funding risk is liquidity risk, i.e., the risk that at a certain point cash and short term assets may not be enough to cover short term liabilities. This is a risk that may happen more or less probably depending on the corresponding capital markets development and regulations. Liquidity risks are less likely to occur in countries such as Chile, Peru, or Colombia, which have relatively strong capital markets and in the case of the latter two, because regulators are aware of such risk and demand certain discipline of equipment lessors.

Credit

Credit risk always is of primary concern whenever a leasing and finance company enters a new market. When doing business with listed companies (which, generally, are only the larger companies in Hispanic America) the best source of information is a firm's filings with the corresponding stock exchange.

Credit reporting agencies, such as Veraz in Argentina or Datacredito in Colombia, have existed for many years. The information provided by these agencies is not yet comparable with what is available in the US, as the coverage is not very comprehensive, both in terms of quantity as well as in quality. The data gathered by the World Bank shown in **Table XI** indicates the coverage of credit bureaus in the main countries of Hispanic America.

On the other hand, due to legal restrictions, private credit bureaus are not allowed to disclose, prima facie, negative information about debtors, and the process of reporting to the credit bureaus may be challenged by constitutional injunctions. In addition, information that tracks the payment habits of customers for more than two years is not readily available.

Credit performance, in many cases, also is specific to each industry segment. Currently, delinquency rates are very low in Hispanic America, although the credit loss indicators are not consistent depending on the market niche of the lessor.

The captives have advantages in this regard because they know their customers very well due to their dealer networks and time in the market. Independent lessors wishing to lease to the small/medium business segment will need to invest a significant amount of time studying the local market, and, more importantly, developing personal customer relationships.

Residuals

Residual management is somewhat developed in the motor vehicle markets of Hispanic America. In addition to the operating leases offered for motor vehicles, some construction equipment dealers operate in the rental (alquiler) marketplace. The foregoing notwithstanding, residual management is very poor in other areas of equipment leasing.

Table Eleven

Credit Bureau Coverage

Region or Economy	Credit Information Index[29]	Public registry coverage (% adults)	Private bureau coverage (% adults)
Argentina	6	25.5	100.0
Nicaragua	5	14.8	100.0
Uruguay	6	14.1	93.8
El Salvador	6	17.2	74.6
Honduras	6	12.7	58.0
Costa Rica	5	6.1	52.7
Paraguay	6	11.0	48.7
Ecuador	5	37.9	44.1
Panama	6	0.0	41.6
Colombia	5	0.0	39.9
Dominican Republic	6	13.3	35.4
Chile	5	26.2	33.5
Peru	6	20.7	33.0
Latin America	3.4	8.1	32.1
Bolivia	5	12.1	22.6
Guatemala	5	20.7	13.1
Venezuela	0	0.0	0.0

Structuring

Many multinationals doing business in Hispanic America demand creative lease structures. A number of companies, for instance, need to allocate operating expense budgets to their use of capital goods, while others seek finance lease structures. This represents an opportunity for those lessors that have structuring capabilities and can get comfortable with lessees' credit positions.

Legal/documentation

Several issues rooted in the civil law system still make it highly advisable to rely upon competent, local legal counsel. First and foremost, there is not a reliable, publicly available recording system for personal property such as exists in the US. Moreover, out of the Hispanic American countries, only Colombia and Panama have ratified the Cape Town Convention[30], therefore, public on-line registration of equipment is not part of the day-to-day practices of leasing and finance companies.

Peru, however, has adopted a Security Interests Law (Law 28.677) that enables public filing of a creditor's security interest in financed equipment and other countries are considering enacting similar regulations. Countries such as Chile that do not have a leasing or equipment financing statute, may face risks of adverse judicial interpretation against the basic principles of creditors rights. This has not yet been the case, but the risk does exist. This risk does not exist in countries that have a legal statute for leasing such as Argentina, Colombia, Peru, or even Venezuela.

Collections

Collections are certainly a challenge in Hispanic America just as in the US. However, the system and its infrastructure have evolved in a favorable manner. The risk of collections in Hispanic America must be minimized by gathering reliable information about lessees, their industries, and their cash flows. Again, relationships with and, in particular, knowledge of, customers play an important role in this area.

Repossession and recourse

The enforceability of lease agreements is recognized in certain countries of Hispanic America, such as Argentina, Bolivia, Chile, Colombia, and Peru, although the system is far from efficient. The components necessary to enforce leasing transactions include the rule of law, the efficiency of the legal system, and a corruption-free environment. The

[29]The credit information index measures the scope, accessibility, and quality of credit information available. It ranges from 0 to 6, with higher values indicating the availability of more credit information.

[30]The Cape Town Convention on International Interests in Mobile Equipment and the Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment, together usually referred to as the Cape Town Treaty, is an international treaty intended to standardize transactions involving movable property, particularly aircraft and aircraft engines. The Luxembourg Protocol extended its scope to railway equipment. The treaty creates international standards for registration of ownership, security interests (liens), leases and conditional sales contracts, and various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws.

first component, the rule of law, refers to the overall likelihood of prompt payments and voluntary repossessions, and is based on past practices and recognition of the legal obligation to make payments.

The second factor to be considered is the efficiency of the court systems in Hispanic America, particularly in connection with collection and repossession risks. If negotiations do not succeed, for whatever reason, going to court must be an effective alternative if lessors are to have confidence in the system. Unfortunately, going to court in Hispanic America is not necessarily an efficient alternative for enforcing the lessor's rights, particularly in smaller cities and locales.

Table XII shows the efficiency of the courts in Hispanic America, based on World Bank data.

Table Twelve

Judicial Efficiency

Region or Economy	Procedures (number)	Duration (days)	Cost (% of claim)
Latin America & Caribbean	39.3	699.9	30.7
Dominican Republic	34	460	40.9
Peru	41	468	35.7
Chile	36	480	28.6
Honduras	45	480	30.4
Ecuador	39	498	20.8
Venezuela	29	510	43.7
Nicaragua	35	540	26.8
Argentina	36	590	16.5
Bolivia	37	591	33.2
Paraguay	38	591	30
Panama	31	686	50
Uruguay	40	720	16.2
El Salvador	30	786	19.2
Costa Rica	40	877	24.3
Colombia	34	1,346	52.6
Guatemala	28	1,459	26.5

The propensity for corruption in Hispanic America can be seen in **Table XIII**, which is published by Transparency International.

Competition

The competitive environment In Hispanic America is wide-ranging and diverse, and the market is still quite open, as is market entry. Cash currently is the primary competition, although banks also represent formidable competition, especially for large companies that have access to inexpensive bank loans. Competition amongst lessors is widespread and there are dominant players in the marketplace. **Table XIV** shows the 30 largest finance lessors in Hispanic America.

Table Thirteen

Corruption Index

Country Rank	Regional Country Rank	Country /Territory	CPI Score 2007	Confidence Intervals	Surveys Used
9	1	Canada	8.7	8.3 - 9.1	6
20	2	USA	7.2	6.5 - 7.6	8
22	3	Chile	7.0	6.5 - 7.4	7
23	4	Barbados	6.9	6.6 - 7.1	4
24	5	Saint Lucia	6.8	6.1 - 7.1	3
25	6	Uruguay	6.7	6.4 - 7.0	5
30	7	Saint Vincent and the Grenadines	6.1	4.0 - 7.1	3
37	8	Dominica	5.6	4.0 - 6.1	3
46	9	Costa Rica	5.0	4.7 - 5.3	5
61	10	Cuba	4.2	3.5 - 4.7	4
67	11	El Salvador	4.0	3.2 - 4.6	5
68	12	Colombia	3.8	3.4 - 4.3	7
72	13	Suriname	3.5	3.0 - 3.9	4
72	13	Mexico	3.5	3.3 - 3.8	7
72	13	Peru	3.5	3.4 - 3.7	5
72	13	Brazil	3.5	3.2 - 4.0	7
79	17	Grenada	3.4	2.0 - 4.1	3
79	17	Trinidad and Tobago	3.4	2.7 - 3.9	4
84	19	Jamaica	3.3	3.1 - 3.4	5
94	20	Panama	3.2	2.8 - 3.4	5

Financial risk

The leasing and financing business, by definition, has a high degree of risk associated with it. Understanding those risks, in the context of the Hispanic American market, is an essential element of expanding into this leasing and finance market.

Interest rates

Interest rates are subject to continuous fluctuations. At present, this risk is very high in Hispanic America, since the central banks of the region use their benchmark rates as a tool to fight inflation. Such interventions, coupled with the previously mentioned deposits required on foreign indebtedness in certain countries such as Argentina and Colombia, contribute to the volatility of interest rates in the region.

There are no formal hedge markets for this risk, as in Brazil and Mexico. Therefore, investors dealing with countries of Hispanic America must establish their own contingency plans.

Currency

Lessors and equipment financiers face currency risk not only in their ongoing operations if the rentals are denominated in local currency, but also at end of lease. At the time of liquidation, for example, they will need to convert the proceeds in local

Table Fourteen

Thirty Largest Lessors (US$ 000's)

2006	2007	Company	2006	2007	Country
6	8	Leasing BanColombia C.F.C	1,414,452	2,117,893	Colombia
5	9	Banco Santander Chile	1,430,324	1,761,999	Chile
8	11	Banco de Chile	1,008,880	1,305,331	Chile
10	14	Leasing de Occidente C.F.C.	679,100	1,050,093	Colombia
18	16	BBVA-Banco Continental	457,276	801,017	Peru
13	18	Leasing de Credito C.F.C.	499,105	736,393	Colombia
21	19	Banco Credito del Peru	415,538	727,592	Peru
17	23	BCI- Credito e Inversiones	469,479	628,959	Chile
20	25	Corpbanca	423,995	515,022	Chile
30	27	Banco Estado	259,889	418,018	Chile
28	31	Scotiabank Sudamericano	33,985	356,984	Chile
29	33	Credileasing	268,484	329,049	Peru
36	35	BBVA Chile	270,964	319,841	Chile
33	37	Scotiabank	247,953	300,283	Peru
49	40	Interbank	151,466	293,253	Peru
40	41	Leasing Bolivar C.F.C.	195,676	292,312	Colombia
38	43	Banco de Desarrollo	214,887	286,642	Chile
35	44	Leasing Corficolombiana C.F.C.	223,021	272,017	Colombia
42	48	Banco Bice	191,700	251,180	Chile
51	51	Banco Security	199,951	239,931	Chile
66	53	Banco Itau Chile	141,760	227,106	Chile
59	56	Renting Colombia S.A.	95,597	214,076	Colombia
60	62	Finandina C.F.C.	95,257	157,908	Colombia
56	64	America Leasing	117,747	143,022	Peru
74	66	Inversora Pichincha C.F.C.	68,509	136,140	Colombia
86	67	BBVA-Banco Provincial	53,068	134,510	Venezuela
69	68	Banco Interamericano de Fin.	73,533	132,969	Peru
54	69	Produbanco	122,392	126,858	Ecuador
78	72	HSBC Argentina	91,531	103,191	Argentina
76	73	Banco de Galicia y B.A.	67,180	103,156	Argentina

Source: The Alta LAR 100

currency into a hard currency such as US dollars or euros. Local hedges, however, are available through the banking system.

The United Nations Commission for Economic Development summarizes which countries are more subject than others to continuous or sudden currency fluctuations. **Table XV** shows the potential revaluation and devaluation of the Hispanic American currencies. Countries with bars to the left (loss in real effective exchange rates) are more likely to devalue their currency, while countries in the bars in the right side are more likely to revalue their currencies.[31]

Interest remittance, royalties, and profit repatriation

Interest, royalties, and profit remittance and repatriation in Hispanic America are dependent on central bank policy and the availability of foreign reserves in the domestic economy. Furthermore, these factors may be interlinked. In Venezuela, for example, interest and profit remittances are severely restricted by the Currency Board, or CADIVI. In other countries, restrictions on repatriation are more likely to be based on the foreign reserves position of the countries.

Tax

Capital gain remittances are subject to taxation in each of the countries, normally at the corporate income tax rate.

Capital investment

Repatriation of capital is not restricted, provided that all taxes have been paid. Repatriation of capital may come from either the proceeds of the liquidation of the company or the proceeds of the sale of the stock.

Exit strategy risk

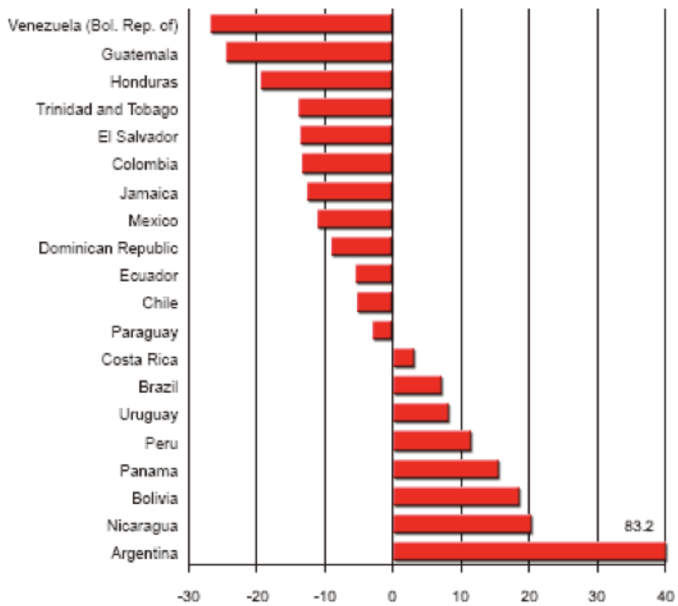
Hispanic America has made progress in creating the conditions for secondary markets and merger and acquisitions activities are becoming very common.

[31]Average in the first ten months of 2007 compared to the 1990-1999 average. The calculation methodology for the Dominican Republic was different to that used for the other countries.

These conditions create the possibility to divest the leasing and finance company when the time comes, either to individual investors or, in some of the more sophisticated capital markets such as Chile, Argentina, Colombia, or Peru, through a public offering.

Table Fifteen

Real Effective Exchange Rates



Source: UN Economic Commission for Latin America and the Caribbean

The process of ceasing operations in Hispanic America is similar to that in most other countries. This process involves filing documents with the appropriate government authorities, submitting audited financial statements and bank records, settling with partners, and paying any debts and taxes due.

As mentioned, once the exit proceeds, either through a sale or liquidation of a company, are due, the repatriation process is quite simple, assuming prior compliance with the tax and foreign exchange requirements.

Conclusion

Equipment leasing and finance companies must be circumspect when deciding whether to establish operations in Hispanic American countries.

Although none of the countries studied in this paper have the industry infrastructure, nor the market development, found in Western Europe or the US, there are many examples of successful equipment financing companies in the region (particularly in the larger countries). The fact that Hispanic America has enjoyed robust industry growth for several years, and that the region's leasing portfolios totaled almost US$20 billion at the end of 2007, are evidence of this.

Based on the experiences of other lessors in the region, keys to successful market entry include:

- A well-defined client and/or vendor base in the region;
- A thorough understanding of the risks particular to each country;
- An understanding, and tolerance of, significant cultural differences from the United States;
- A realistic timeframe for obtaining a license and establishing an operating entity;
- Strong focus on attraction and retention of skilled resources, which are at a premium in all of the Hispanic American countries;
- A commitment to staying current with the tax, accounting, legal, political and financial environments in each country.

The case study that follows is an excellent example of how a US-based lessor can establish and succeed at equipment financing operations in Hispanic America.

Case Study

How a US-based multinational ventured into Hispanic America

Background

This US independent lessor bases its business model on vendor financing. Since this lessor had established multiple relationships with some of the top global equipment vendors, it realized that, in order to keep its vendor relationships, it needed to establish global capabilities. These capabilities included doing business and establishing a permanent presence in the countries of Hispanic America.

Demographics and economics required that this lessor establish a permanent business in, of course, Mexico and Brazil, but also, in order, Argentina, Chile, and Colombia. Argentina also provided the capability to expand from there into the trading partners of the MERCOSUR, i.e., besides Brazil, Uruguay and Paraguay. Operations in Colombia provided a springboard into its trading partners in the Andean Community, namely Venezuela, Ecuador, Peru, and Bolivia.

Central America was not considered as a target market at the time when the US lessor expanded into Hispanic America.

Description of Financing Operations in Hispanic America

- **Organization** – Considering that neither Argentina nor Chile require filing a license to incorporate a leasing company, the incorporation of the corresponding subsidiaries acting as lessors was, overall, a fast and efficient process. In Colombia, since the law requires that all finance lessors must get a license from the Superintendencia Financiera, the process of incorporation took six more months. In addition, as in Mexico and Brazil, a parallel nonregulated company was incorporated for the purpose of expanding the scope of financial services offered, beyond the limited scope of the licensed financial institution.

- **Cross border leases:** The US lessor also offered cross border leases for certain customers and types of equipment where the tax and other legal regulations permitted. This was certainly the case in Colombia, where the regulations to do so were the most favorable. Notwithstanding these benefits, the cross border leasing alternative began to be phased out as soon as the local companies were in operation.

- **Staff** – Finding well trained employees in Argentina, Chile and Colombia was not difficult. Argentina has a high level of educated professionals that are very adaptable to all processes and functions in the equipment financing business. Chile and Colombia, with more than three decades of leasing activities already have produced a wide array of educated professionals in equipment financing, including a very efficient combination of sales employees, credit and operations officers, finance, treasury, and accounting employees.

  A large percentage of the employees are bilingual and trained in dealing with US capital markets reporting and compliance (Sarbanes-Oxley, US GAAP reporting, etc.). While there are some legal restrictions to hiring and firing employees in these three countries, these restrictions can be economically factored and priced so that managing staff becomes almost as practical as in the US.

- **Business model** – A business model based upon vendor relationships brings the advantage of fueling originations in the most wide and diverse economic environments. This has enabled the origination of an equipment leasing and financing portfolio with the best possible clients in the subject countries. The equipment leased or financed, while controlled by good asset management practices, also is supported by the strategic allied vendors.

- **Credit** – Overall, credit decisions are compatible with the prevailing credit standards of the company's parent. Local management has credit authority of up to US$2 million and deals with larger exposures are submitted to the regional offices. Credit decisions over US$5 million must be approved by the parent. This credit authority organization has proven to be one of the most solid of any multinational doing business in the three countries.

- **Funding** – Funding is generally provided by the parent company. The parent has ample access to the US capital markets and can raise funds below the average cost of funds prevailing in the borrowing markets in the three countries. Notwithstanding, Chile has one of the most developed capital markets in the Western Hemisphere and can offer funding opportunities that have not been explored. Inflation concerns have, for the time being, led to domestic interest rates increases in the three countries. The financial crisis in the US also has threatened the ability of the parent to keep the same funding model in place. Local capital markets in the three countries remain as a valid alternative to funding.

Decision Process to Enter the Argentine, Chile and Colombian Leasing Market

- **Drivers** – The three countries represent the third, fourth, and fifth largest economies in Latin America on a long term basis. Occasionally, Venezuela takes over Colombia as the fourth largest Latin American economy, but that only happens when oil prices increase. Colombia has a much more diversified and sustainable economy than Venezuela. Chile has the largest GDP per capita, but also has a much lower population than the other two countries. These factors are drivers for the strategic vendors to utilize financial services attention in such countries.

Experience

- **Volumes** – While prior to 2002, Argentina used to be the largest market for originations, Chile and Colombia sustain volumes of between US$15 to 20 million annually. This is more the result of the strategic decision of the US lessor rather than the size of the potential market. As a matter of fact Chile and Colombia are the second and third largest leasing markets in Latin America, and the volumes of the competitors can reach individually more than US$1 billion per year in each country.

- **Bad debt and delinquencies** – Bad debt levels have been in general very low. The company keeps a permanent credit surveillance through its Latin American regional office, which controls the processes, manages problem solving and reports to the headquarters.

- **Political risk** – The company started to worry about political risk when in 2000, the credit rating agencies downgraded Colombia from its investment grade status. This led to a downsize in Colombian operations that proved to be unjustified since the country's economy since 2002, including the leasing industry, grew at an average of over 70% per annum.

  On the other hand, in Argentina, the company suffered losses caused by the economic emergency measures in 2002, which through unfair and ill-conceived regulations, reduced the value of the portfolio through the abrogation of the convertibility law. The company currently is litigating the compensation of damages before international tribunals. Finally, Chile has always been a very stable country from a political and macroeconomic standpoint.

- **Summary**: Hispanic America proved to be the most profitable region of this company on a global basis. The company combined the recruitment and continuous training of local talent with a very strict discipline in terms of credit risk and asset management. It also requires continuous reporting to the parent company with very clear standards of compliance of best practices, with good results. This experience has positioned the company as the best multinational player able to service vendor financing in the countries of Hispanic America. These results clearly went beyond the original plans, and nowadays support a strong global image of the company's vendor financing business.

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye On The Future

Future Focused Research for the Equipment Finance Industry

Presented by the Source for Independent, Unbiased and Reliable Study

The Equipment Leasing & Finance Foundation

The Equipment Leasing & Finance Foundation, established in 1989 by the Equipment Leasing Association, is dedicated to providing future-oriented, in-depth, independent research about and for the equipment finance industry. Information involving the markets, the future of the industry and the methods of successful organizations are researched to provide studies that include invaluable information for developing strategic direction within your organization.

Your Eye on the Future

The Foundation partners with corporate and individual sponsors, academic institutions and industry experts to develop comprehensive empirical research that brings the future into focus for industry members. The Foundation provides academic research, case studies and analyses for industry leaders, analysts and others interested in the equipment finance industry.

The Foundation's resources are available electronically or in hard copy, at no cost to Foundation donors and for a fee to non-donors. The Foundation website is updated weekly. For more information, please visit www.leasefoundation.org

Resources available from the Foundation include the following research and emerging issues (check the website for a complete listing):

Resources: Research Studies and White Papers

- US Equipment Finance Market Study
- Propensity to Finance Equipment – Characteristics of the Finance Decision
- Business Differentiation: What makes Select Leasing Companies Outperform Their Peers?
- Annual State of the Industry Report
- Evolution of the Paperless Transaction and its Impact on the Equipment Finance Industry
- Indicators for Success Study
- Credit Risk: Contract Characteristics for Success Study
- Study on Leasing Decisions of Small Firms

Resources: Identification of Emerging Issues

- Annual Industry Future Council Report
- Identifying Factors For Success In the China
- Renewable Energy Trends and the Impact on the Equipment Finance Market
- Long-Term Trends in Health Care and Implications for the Leasing Industry
- Why Diversity Ensures Success
- Forecasting Quality: An Executive Guide to Company Evaluation...and so much more!

Journal of Equipment Lease Financing

Published three times per year and distributed electronically, the Journal of Equipment Lease Financing is the only peer-reviewed publication in the equipment finance industry. Since its debut in 1980, the Journal features detailed technical articles authored by academics and industry experts and includes Foundation-commissioned research and articles. Journal articles are available for download through the Foundation website. Subscriptions are available at www.leasefoundation.org

Web Based Seminars

Many of the Foundation studies are also presented as web seminars to allow for direct interaction, in-depth conversation and question and answer sessions with the researchers and industry experts involved in the studies. Please visit the Foundation website for details on upcoming webinars at www.leasefoundation.org

Donor Support and Awards Program

The Foundation is funded entirely through corporate and individual donations. Corporate and individual donations provide the funds necessary to develop key resources and trend analyses necessary to meet daily business challenges. Corporate and individual donors are acknowledged publicly and in print. Major giving levels participate in a distinguished awards presentation. Giving levels range from $100 to $50,000+ per year. For information on becoming a donor and to see a list of current donors, please visit, www.leasefoundation.org/donors

1825 K Street NW • Suite 900 • Washington, DC 20006 • Phone: 202-238-3400 • Fax: 202-238-3401 • www.leasefoundation.org

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye On The Future

1825 K Street • Suite 900
Washington, DC 20006
www.leasefoundation.org
202-238-3426 - Phone
202-238-3401 - Fax