

OVERVIEW
OF
LEASE MANAGEMENT

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INTRODUCTION

This document provides introduction to Concept of Leasing Business and the functionality overview of Oracle Lease Management in support to existing Leasing Business requirements.

TABLE OF CONTENTS

1. INTRODUCTION TO LEASE MANAGEMENT

1.1.WHAT IS LEASING.....	3
1.2.ORACLE LEASE MANAGEMENT OVERVIEW.....	5
1.3. LEASE LIFE CYCLE OVERVIEW.....	6

2. ORACLE LEASE MANAGEMENT PROCESS FLOW

2.1.OPPORTUNITY TO BOOKING.....	7
2.2.BILLING TO RECEIPT.....	11
2.3.QUOTE TO TERMINATION.....	13
2.4.ASSET RETURN TO DISPOSAL.....	19
2.5.PERIOD OPEN TO CLOSE.....	22
2.6.INQUIRY TO RESOLUTION.....	25

1. INTRODUCTION TO LEASE MANAGEMENT

1.1 WHAT IS LEASING

Leasing is a Contract whereby one party agrees to give on Lease an Asset to Other Party for the specified period on specific terms and conditions for the use of that Asset.

In technical terms, Lease is a contract in which one party conveys the use of an asset to another party for a specific period of time for a predetermined payment amount.

In leasing there is mainly involvement of three parties: Lessor, Lessee and Vendor.

Lessor: The person owning the Asset/Equipment which is being leased.

Lessee: The person to whom Lessor gives on Lease the Asset. Lessee is the user of equipment being leased.

Vendor: The person from whom the Lessor has acquired the Asset for the purpose of giving on Lease to Lessee.

From the practical business scenarios the Leasing deals can be of two types:

1. Rental/Operating Lease

2. Financial Lease

1. RENTAL/OPERATING LEASE

Under this deal the Lessor gives the asset to Lessee on Rent and all the risk and rewards incident to ownership of the asset kept with Lessor only. In practical terms, it is the deal where Lessee does not have option to buy the asset at the End of the Term of the Lease. In accounting terminology this kind of lease deal is also known as **OPERATING LEASE**.

Technically, Operating lease is a lease which does not satisfy any of the criteria of a Finance Lease under local accounting principles. This definition is as per Indian Accounting Standard-19 and also as per FASB 13.

2. FINANCIAL LEASE

This kind of deal is also known as **Credit Contract Deal**. Under this deal the Lessor gives the asset to Lessee on Rent and all the risk and rewards incident to ownership of the asset are being transferred to Lessee. In practical terms, it is the deal where Lessee has option to buy the asset at the End of the Term of the Lease and it is actually confirmed at the inception of lease that the Lessee will exercise that option. In Oracle it is termed as **Capital Lease or Direct Finance Lease**.

In practical business scenario, there may be involvement of fourth party in leasing deals. This fourth party is basically the Investor who helps the Lessor in arranging the fund to Book the Deal.

Examples

1. Lessor, Lessee and Vendor

Lessor buys the asset from Vendor amounted to 5000 USD and gives on lease to Lessee for the term of 3 years and lease rental has been fixed at 200 USD per month. In this example, Lessor will be entitled to get 200 USD p.m. as Rent and will take back the asset from Lessee after 3 years. Lessor will pay to Vendor 5000 USD.

2. Lessor, Lessee, Vendor and Investor

Referring to same example

Lessor buys the asset from Vendor amounted to 5000 USD. However, 50% of the amount contributed by Investor i.e. 2500 USD.

In this example, Lessor will be entitled to get 200 USD p.m. as Rent and will pass on the 50% rent i.e. 100 USD to Investor and will take back the asset from Lessee after 3 years.

On the expiry of term of lease, the Investor will be entitled to Share the Sale Proceeds of Asset depending on the Agreement with Lessor. If Lessee buys the Asset at the end of term on account of Finance Deal then Investor may be entitled for the share of Buy Out amount which again depends on the agreement with Lessor.

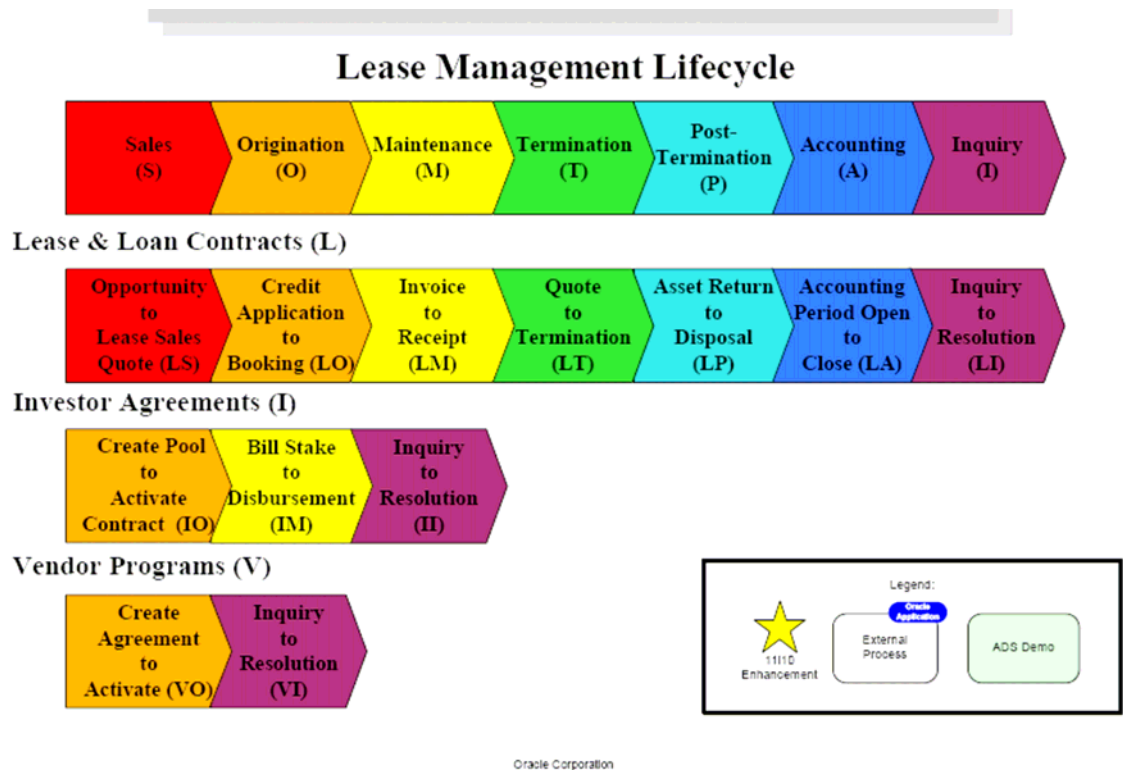
1.2 ORACLE LEASE MANAGEMENT OVERVIEW

Oracle Lease Management, an Oracle E-Business Suite application, integrates Oracle Financials applications and is designed to meet the business requirements of asset-based finance companies spanning the entire lease life cycle. The Oracle Lease Management solution extends from lease origination to contract termination and asset disposition.

The Module is based on Self Service Web Application and integrates mainly with the following modules:

- (a) Inventory
- (b) Accounts Payable
- (c) Accounts Receivable
- (d) Oracle Assets
- (e) Order Management
- (f) General Ledger

1.3 LEASE LIFE CYCLE OVERVIEW



Explanation to Life Cycle

First Diagram- Represents the various transactions involved in Leasing like Sales, Origination etc.

Second Diagram actually represents the Life Cycle of Lease Management. Example-LO means Lease Contract using transaction of Origination i.e. Booking of Contract.

The Diagram shows broadly there are 7 Areas under Lease Life Cycle, however for sake of convenience, LS & LO have been grouped into Opportunity to Booking.

Third and Fourth Diagram shows addition to life cycle on account of Investor and Vendor.

2. ORACLE LEASE MANAGEMENT PROCESS FLOW

2.1 OPPORTUNITY TO BOOKING

When authoring sales quotes, you can create multiple pricing plans, which maximizes your ability to offer your prospect a variety of financing choices. To ensure a seamless transition from the Opportunity -to- Lease Sales Quote process into Credit Application -to- Booking, it is important to complete as many quote details as possible. Entered lease quote details become part of the contract.

The Lease Management Opportunity to Lease Sales Quote process includes the following steps:

- 1. Create a Lease Sales Quote**
- 2. Add Lease Sales Quote Details**
- 3. Accept a Lease Sales Quote**
- 4. Submit Credit Application**

The quotes are created for the ease of structuring the Lease Contract Deal. In various quotes there will be various financing schemes offered by Lessor which will be given to Lessee for making decision of choosing the deal of his choice.

The process of creating quote is handled in the module of Sales Online.

When out of the various quotes structured, the quote is selected by Lessee then the information is submitted to Credit Department to evaluate the Credit worthiness of Lessee before finalizing the Deal.

The job of Credit Evaluation is handled in the module of Credit Management.

After the evaluation of Credit worthiness of the Lessee the Contract is entered into Oracle Lease Management.

Following terms are used in Oracle Lease Management:-

Contract Authoring

Contract authoring is the process by which a Lessor enters the details of an agreed-upon deal with a lessee and creates a contract in Oracle Lease Management. During authoring, an inactive contract is created and then completes it by selecting or entering data, and adding financial asset and fee lines to the contract.

Credit Lines

It defines the Credit Limit to be setup for the lessee either manually in Lease management or via workflow coming through Credit Management (a feature of Oracle Receivables).

Establish at least one credit line for each customer lessee. During the sales origination process, prior to authoring a contract, determine the customer's potential credit line by evaluating the customer's credit application and performing credit checks.

Vendor Programs

Through vendor programs, Oracle Lease Management enables to manage the Terms and conditions that govern the responsibilities of multiple parties involved in a lease transaction. A typical multiple-party relationship might include a vendor, which is the point of origin of the equipment; a dealer, who is authorized to sell the equipment; and a Lessor, who agrees to finance the equipment on behalf of a customer.

The two types of typically-used vendor program agreements in the leasing industry are:

- Operating Agreements
- Program Agreements

Operating agreements are generally mutual agreements between a Lessor and a vendor or manufacturer to work together and administer certain financing programs that set specific terms and conditions for future transactions. The terms and conditions in operating agreements are not deal specific, but rather define the overall nature of an ongoing leasing relationship.

A program agreement between the Lessor and a vendor creates a specific financing program for the vendor's customers who desire financing. The terms and conditions of the vendor program may govern aspects of the deals created as a result of the program.

Master Lease Agreements (MLA)

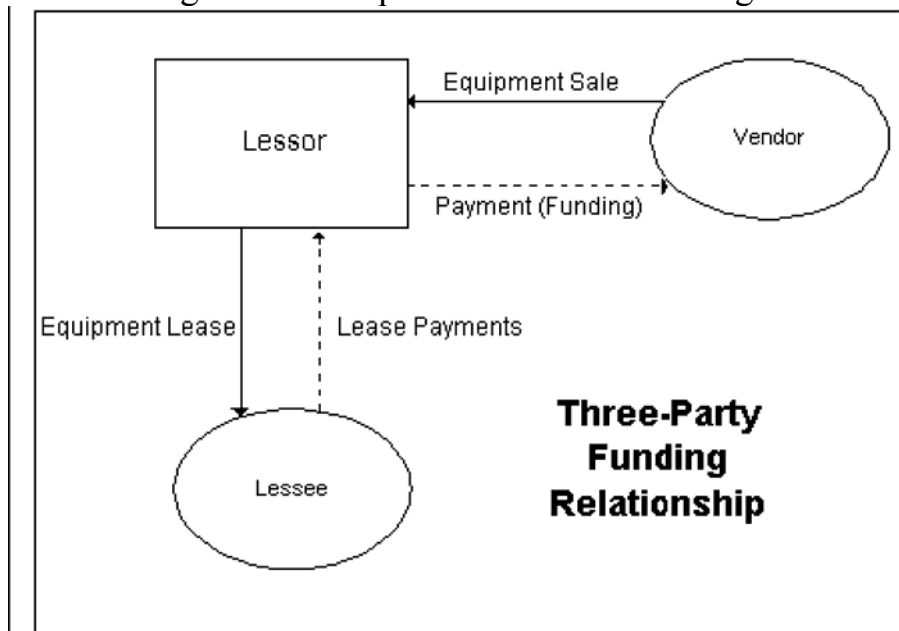
As a Lessor, it may be possible to enter into multiple leases or loans with the same customer. While these leases could have different start dates, involve different asset types, or have different lengths, they may share a number of terms and conditions or articles. In this case, creating a master lease agreement with the customer allows you to share certain agreed upon terms and conditions across lease contracts.

In other words, MLA allows setting terms and conditions at Customer level applicable for various Contracts with the same customer.

Funding

Funding is the term used to define how the Lessor will pay for the equipment and related fees that comprise the lease.

Funding Relationship in Oracle Lease Management



Credit Application to Booking consists of following steps in real business scenario:-

1. Confirm for granting the Credit to Lessee.
2. Create the Contract in OLM (Attach the MLA, Credit Lines, Payment Terms, Payment Schedule, Contract Termination Conditions and other terms & conditions).
3. Validate the Contract (Validation by System as applicable for business scenario like Contract Start date should be on Business Day only).
4. Generate the Streams (Streams are basically the Rental amount payable by Lessee to Lessor in Future).
5. Approval of Contract by Managers to confirm the Rental Payment and other Terms & Conditions as specified in the Contract.
6. Finally, Book the Contract- Also knows as Contract Activation.

2.2 BILLING TO RECEIPT

The billing -to- invoice process deals with generating billing items for invoices. It starts with identifying the due date for customer payments. It calculates the amounts that become due, including taxes, fees, costs and expenses; applies variable interest rates as appropriate; and, generates the receivable. Oracle Lease Management performs the initial task of selecting the data, and then sends the data to Oracle Receivables, which generates the actual invoice.

Invoicing to Receipt consists of following steps in real business scenario:-

1. First Stage in Producing Receivable Invoice is Preparation of data for billing. The following steps involved in Preparation of Bills for Invoicing:

Perform ONE of the following sets of tasks:

- Run the program Process Billable Streams
- Enter data manually in the Create Manual Invoice screen
- Run the program Create Receivables Variable Rate Invoice
- Run the program Service Contracts Billing

2. Second Stage is Generation of Invoice which involves the following concurrent jobs:

- (a) Prepare Receivable Bills
- (b) Receivables Bills Consolidation
- (c) Receivables Invoice Transfer to AR
- (d) Auto Invoice Maser Program
- (e) Fetch AR Invoice Numbers
- (f) Print Consolidated Invoices (if consolidation required)

3. Receipts created via Oracle Lease Management and Oracle Receivables. There are two approaches of creating receipt in OLM :

- (a) Manual Receipt
- (b) Batch Receipt

After Creating Receipt, Concurrent Cash Application program will automatically apply the receipts against Invoices created in AR.

4. The process of Collection, reports for outstanding amount and follow up with Customer etc. will be taken care by AR.

DISBURSEMENT/FUNDING OVERVIEW

The process of funding or disbursement can be covered in business scenario either after booking of Contract or during the course of billing to Receipt process. Disbursements are payment to suppliers for expenses incurred for a contract (example- legal fees) or for any other charges.

Funding or Disbursement consists of the following steps:

1. Create Funding Request in OLM. For Creating Disbursements, either create Manual or run the program 'Pay Invoices Creation of Auto-Disbursement Process'.
2. Fund all Assets under the Contract. The funding amount will never be more than the Contract Amount. The amount will include the Cost of Asset and any expense/fees payable to Vendor.
3. Approve the Funding Request.
4. Run the following Concurrent Programs to Generate AP Invoice after approval of funding request or after creation of Disbursements:-
 - (a) Pay Invoice Prepare for AP Transfer.
 - (b) Pay Invoices Transfer to AP Invoice interface.
 - (c) Payables Open Interface Import.
5. The process of Validating the Invoice and making payment towards Invoice will be taken care by AP.

2.3 QUOTE TO TERMINATION

The termination process provides the necessary information to handle the termination of a contract or asset on a contract.

The levels of termination supported by Oracle Lease Management are as follows:

- Termination of a complete contract.
- Termination of an asset line on a contract, that is, all the units of an asset line on a contract.
- Termination of some, but not all, of the units of an asset line on a contract; if the asset is a serializable asset, specify the serial numbers of the asset units want to terminate.

The termination of an asset line, or of some of the units of an asset line, is called a *partial termination*, or *asset-level termination*. Asset-level termination rebooks the original contract, without the terminated assets, with updated yields and insurance and new contract-level and asset-level streams.

Quote to Termination process consists of the following steps:

1. Create the Termination quote.

Termination may be early termination or may be termination at the expiry of Contract. Termination may be Termination with purchase i.e. Lessee wants to buy the asset after the end of lease or Termination without purchase.

(A) Termination with Purchase- The amount of quote composed of following amounts:

- ❖ Buy-Out Amount (Price payable by Lessee to acquire the asset).
- ❖ Contract Obligation (Present Value of Future Rentals not received).
- ❖ Termination Penalty (If Early Termination).
- ❖ Billing Adjustments (Reversal of Excess Billing in case of Early Termination).
- ❖ Miscellaneous (Based on Formula attached in Setup of Terms & Conditions to Contract)
- ❖ Taxes there on as applicable.

The processes involved in various modules in conjunction with Termination with Purchase are as below:

- (a) Retiring of Asset in Oracle Assets.
- (b) Calculation of Gain/Loss and Depreciation thereon.
- (c) Termination of Asset or Contract from OLM.
- (d) Generation of Invoice for Termination Quote Amount in AR.
- (e) Accounting in OLM, Assets and AR.

(B) Termination without Purchase- The amount of quote composed of following amounts:

- ❖ Contract Obligation (Present Value of Future Rentals not received).
- ❖ Termination Penalty (If Early Termination).
- ❖ Billing Adjustments (Reversal of Excess Billing in case of Early Termination).
- ❖ Miscellaneous (Based on Formula attached in Setup of Terms & Conditions to Contract)
- ❖ Taxes there on as applicable.

The processes involved in various modules in conjunction with Termination without Purchase are as below:

- (a) Creation of Stock in Inventory for the Asset Returned.
- (b) Retiring of Asset in Oracle Assets.
- (c) Calculation of Gain/Loss and Depreciation thereon.
- (d) Termination of Asset or Contract from OLM.
- (e) Sale/Remarking of Asset through OM.
- (f) Generation of Invoice for Termination quote as well as for the sale of Asset through OM in AR.
- (g) Accounting in OLM, Inventory, Assets and AR.

2. Approval of Termination Quote

After the creation of Quote, the Quote to be approved by respective Approver, via Termination Approval Workflow as applicable to business conditions.

3. Acceptance of Termination Quote

There are two ways of Acceptance whether manually or automatically:

Accept the Termination Quote Automatically

Automatic acceptance of a termination quote happens through the cash application routine of Oracle Lease Management. The automatic acceptance of termination quote occurs only if:

- The termination quote uses the Upon Receipt means of acceptance. The Upon Receipt means of acceptance means that the contract terminates upon receipt of payment before the Lessor accepts termination notification.

- The amount received matches the termination quote amount. If the amount received upon receipt does not amount the termination quote amount, then manually apply the cash received.

In the cash application routine, when the amount received matches the termination quote:

- The termination quote is automatically accepted.

- The invoice's termination quote lines are generated for transfer to Oracle Receivables.

Accept the Termination Quote Manually

Use this procedure to **manually** approve a termination quote when:

- The termination quote specifies Pre-Proceeds option. The Pre-Proceeds option terminates the contract upon acceptance notification.
- The termination quote specifies to terminate the contract Upon Receipt, but the amount received does not match the termination quote amount. Quote acceptance terminates the contract and changes its status to Accepted.

Accept a termination quote in two ways:

- **Pre-Proceeds:** The contract terminates upon acceptance notification.
- **Upon Receipt:** The contract terminates upon receipt of payment before the Lessor accepts termination notification.

Manual acceptance of termination quote requires to manually applying in Oracle Receivables the cash receipt to the invoice that the termination quote created and to any other outstanding invoices.

4. Completion of Quote

After Acceptance of Quote the status should be processed to Complete on expiry of Quote Effective from Date.

5. Generation of Invoice in AR

Following Concurrent Programs are used in Generation of Invoice for Termination Quote:

- (a) Prepare Receivable Bills
- (b) Receivables Bills Consolidation
- (c) Receivables Invoice Transfer to AR
- (d) Auto Invoice Maser Program
- (e) Fetch AR Invoice Numbers

Contract Terminations

When a lease or loan contract reaches the end of its term, a concurrent process automatically terminates the contract unless the contract was originally flagged as **evergreen** with a purchase option. In the case with evergreen contracts, the contract does not terminate and the billing continues beyond the contract's specified term.

There are two ways of Terminating the Contract: Natural End of Contract termination through a batch process or By Accepting a Full Termination Quote.

2.4 ASSET RETURN TO DISPOSAL

The Asset Return to Disposal process covers record keeping of returned assets, handling amortization and write downs, evaluating the condition of an asset, determining what to do with the asset, and deploying the end-of-term strategies.

The process involves following steps:

1. Create Asset Return Request

Maintaining the record and details of the Asset returned. It specifies the following record:

- (a) Specify the Asset Location.
- (b) Specify the Shipping instructions for the Asset.
- © Specify the Asset return fees to record costs associated with return of asset or Cost involved for Repair, Damages etc. charged.
- (d) Specify whether Asset is subject to like-kind exchange.

Asset Return Request is created by way of these sources:

- (A) Acceptance of a Termination quote without Purchase.
- (B) Repossession of Asset.
- (C) End of Contract without exercising Purchase Option.
- (D) Create manually the Asset Return Request.

2. Create Asset Return Condition

On inspection of Returned Asset, Asset condition to be created which consists of following processes:

- (a) Specify the Damage details if any.
- (b) Specify the Condition of Asset whether good, fair or poor.
- (c) Specify the Repair description like Recommendation for repair, estimated repair cost and actual repair cost.

3. Generate Invoice for Repairs to be charged from Lessee

Create Invoice in OLM and Approve the Invoice. Thereafter, follow the normal billing Concurrent programs to Generate Invoice in AR.

4. Disposal of Asset

Asset Disposal refers to what to do with an off-lease asset after it has been returned and evaluated it. Choices for asset disposal include scrapping the returned asset, remarketing the returned asset, re-leasing the returned asset, and repurchasing the returned asset.

Remarket the Off-Lease Asset

It involves the following processes:

- Create a new item in inventory using the item description from the asset return request.
- Update the price on the Price List from the price on the asset return request.
- Enable the item for re-sale through iStore and Sales Order created and shipped via Order Management.
- Continue depreciation, as applicable.

Re-Lease the Off-Lease Asset

When it will be chosen to re-lease an off-lease asset, the asset becomes available for selection in the Re-leasing process in the Origination part of Oracle Lease Management.

For this purpose, update the Asset's Return Status field to Re-lease.

Repurchase the Off-Lease Asset

When the vendor repurchases an off-lease asset, the process automatically triggers a sale to the vendor based on the terms and conditions defined on the vendor program contract.

Scrap the Off-Lease Asset

To scrap an off-lease asset, the following processes happen:

- Retires the asset from Oracle Assets at a value of zero.
- Triggers the calculation for a gain or loss on disposal of the asset.

To scrap an off-lease asset, update the asset's Return Status field to Scrapped.

2.5 PERIOD OPEN TO CLOSE

The Accounting processes from the Period Open -to- Close enable accruals, loss provisions, write-downs, periodic adjustments, and journal entries specific to the asset-based finance industry.

It involves the following processes in business scenario:-

1. Generation of Accruals

This basically determines the recognition of income for the Contract. The **Generate Accruals** concurrent program determines the amount to be recognized as revenue based on accounting rule attached to accounting template.

The way Oracle Lease Management obtains amounts that is uses in accruals depend on whether the contract is a fixed or a variable rate contract. Fixed rate contracts include amounts from streams to determine an accrual amount. Variable rate contracts use a formula to determine an accrual amount. The automatic reversal of accruals in the next period happens only for variable rate contracts.

2. Loss Provision

Loss provisions are to create estimated or tentative loss reserves against contracts. Loss provisions make use of aging buckets which has been set up in Oracle Receivables. The loss provision rates associate aging buckets with loss provision rates.

There may be General loss provision or Specific loss provision.

General loss provisions apply to all contracts for a product except for any contract that has a specific loss provision.

Calculations for general loss provisions are based on:

- A provision calculation on Net Book Value (NBV), Net Investment Value (NIV), or principle balance.
 - Rates from aging buckets in Receivables.
- General loss provisions apply reversals:
- In the next period run.
 - Upon contract termination.

On determination of an **actual** loss, can create an adjusting entry to record that loss.

Specific loss provisions:

- Are applicable to a specific contract.
- Reverse on contract termination.
- Reverse previous provisions in addition to or in place of any earlier specific loss provisions.

3. Interface to General Ledger

The three types of accounting entries that Oracle Lease Management generates are:

- Draft accounting entries that happen before booking of a contract.
- Accounting entries that goes to other Oracle modules. Billing and credit memo entries go to Oracle Receivables. Invoices generated on disbursement for payment to Vendor or Investor goes to Oracle Payables.
- Accounting entries that go to the Oracle General Ledger from OLM.

4. View and Create Manual Transactions if any adjustments required.

5. View Account Balances Report

Generate a report of account balances for a given contract, range of periods, and range of general ledger account codes. The report includes year-to-date and lease-to-date balances. Generate either a detail or summary report. The detail report shows individual transactions, and the summary report provides one balance per accounting period per account.

6. Drill Down from Oracle General Ledger to Oracle Lease Management.

2.6 INQUIRY TO RESOLUTION

Lease Center agents and their managers use the Lease Center of Oracle Lease Management to resolve the inquiries or queries of service request raised by Customer or Vendor.

These service requests may include:

- Requests for information specific to leasing. For example, customers may inquire about the terms and conditions on their contract or they may have a question about their bill. Suppliers and vendors may also call with questions regarding disbursements.
- Requests for updates or changes to their lease contracts. For example, a customer may request an equipment exchange or a restructure of the contract.
- Requests for updates to their account information. For example, customers may request an update to their address information.

High Level Business Flow of the Lease Center

The following steps describe a typical business flow using the Call Center, the eBusiness Center, and the Lease Center.

- 1.** An external party, such as a customer or a vendor, calls through the Call Center.
- 2.** A user logged into the Universal Work Queue receives a pop-up message for an incoming call and answers the call.
- 3.** If the customer is identified, upon intake of the call, the user is launched into the eBusiness Center with the customer information available for review and can drill down into a specific contract from the Contracts tab.
- 4.** After identifying the contract, use the navigator to assess the Lease Center and review contract details.
- 5.** Then process inquiries and requests in the Lease Center.

References

1.3 Lease Management Lifecycle Diagram referenced from Oracle Corporation.

Refer to Oracle Lease Management Implementation Guide, Release 11*i* for Implementation of Lease Management.

Refer to Oracle Lease Management User's Guide, Release 11*i* for Using Lease Management.