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NATIONAL ASSOCIATION OF CREDIT MANAGEMENT

Loss Prevention Department

8815 Centre Park Drive, Suite 200
Columbia, MD 21045-2117
Telephone: 410-740-5560
FAX: 410-740-5574

August 17, 1992

Assistant Attorney General for Anti-Trust
U.S. Department of Justice
10th & Constitution, NW
Washington, DC 20530

Re: Business Review

To Whom It May Concern:

At the National Association of Credit Management, we are in the process of planning the development of a new organization, designed to combat fraud within the leasing industry. The organization is to be called "The Leasing Industry Loss Prevention Department," and is planned to be a corporation owned by its members (subscribers). The Loss Prevention Department of the National Association of Credit Management will be the manager of the Department.

We are interested in a business review of this proposed entity. Enclosed, to assist in this review, are the following materials:

- (1) By-Laws for the organization;
- (2) Member Agreement for the organization;
- (3) Membership application;
- (4) Overview of the proposed Department;
- (5) Sample Input/Evaluation form.

If you need any additional information to respond, please don't hesitate to contact the undersigned. Thank you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert J. Lawson", is written over the typed name.

Robert J. Lawson

Leasing Industry Loss Prevention Group By-Laws

Article One - The name of the Group shall be the "Leasing Industry Loss Prevention Group," hereinafter referred to as the "Group."

Article Two - The purposes for which the Group is formed are to:

- (1) provide the leasing industry with a mechanism to exchange leasing, credit and business information systematically, legally, and confidentially on businesses soliciting funding for leases and other financial instruments.
- (2) provide the leasing industry with a mechanism to obtain indictments and aid in the prosecution of those who engage in fraud against financial services organizations.

Article Three - The Group shall be a corporation owned by its members. The National Association of Credit Management (NACM) Loss Prevention Department shall manage the group.

Article Four - In no event shall the Group, or its members, participate in or give consideration to any activity, plan, understanding, or arrangement which would restrict or interfere with the exercise of free and independent judgement by the members in the management or operation of their respective businesses. Nothing contained in these bylaws shall authorize the Group or its members to perform or engage in any acts or practices prohibited by law.

Article Five - The officers of the Group shall be a Chairman, Vice-Chairman and a Secretary. The Chairman and Vice Chairman shall be elected by a majority of the voting members of the Group. All members shall be notified in writing of those running for the offices of chairman and vice chairman. All officers shall be elected for a term of one year or until their successors are appointed. A member of the NACM Loss Prevention Department staff shall be the secretary of the Group. The officers shall comprise the Governing Committee.

Article Six - Any business which meets the following criteria is eligible for membership in the Group:

- (1) The applicant must be a business.
- (2) The applicant must not use the information obtained by the group for use in consumer credit or consumer funding decisions.
- (3) The applicant must have an ongoing financial interest in the leasing industry. "Ongoing is defined as being in the business of funding, originating, brokering, selling, or buying lease transactions.

(4) The applicant must be willing to exchange leasing, credit, and relevant business information fully and truthfully. "Fully" is defined as all information normally exchanged in a routine credit inquiry. "Truthfully" is defined as to the best of one's knowledge.

(5) The applicant must submit a written application.

Article Seven - Membership in the Group will include direct membership in the National Association of Credit Management.

Article Eight - With the exception noted in the next paragraph, information developed by the Group will be maintained on a confidential basis by Members of the Group. Members are required to keep the information within their own company solely for use in making funding and other financial decisions relating to financial services transactions.

At the discretion of the Loss Prevention Department of NACM, information (but not the source of the information) may also be shared with members of the "Business Credit Loss Prevention Group," an entity managed by the National Association of Credit Management.

Article Nine - The service charge for membership in the Group is payable in advance by each member. Any member who fails to pay the Group service charge by its expiration date shall be dropped from membership.

Any member who fails to pay any additional Group expenses such as dinner charges, meeting fees and special assessments for extraordinary expenses that may be required and approved by the Governing Committee, within forty-five (45) days after the billing date, shall be notified by NACM in writing, that if payment is not received within forty-five (45) days, the member will be referred to the Governing Committee for possible suspension from the Group.

Article Ten - All Members are obligated to respond to Department releases within a reasonable period of time. Any member found to have withheld information on the subject of a release is subject to suspension.

Article Eleven - Because of the sensitive nature of the information developed and maintained by the Group, NACM reserves the right to decline membership to any entity not meeting the membership requirements as specified in Article Six.

**Leasing Industry
Loss Prevention Department
Membership Agreement**

1. Introduction - The business entity named in the attached invoice agrees that it (hereafter referred to as "Member") has read the By-Laws of the Leasing Industry Loss Prevention Group (hereafter referred to as "The Group"), a corporation owned by its members and managed by the Loss Prevention Department of the National Association of Credit Management (hereafter referred to as "The Department").

2. Department Role - The Member understands that the Department will perform the following services:

(a) Upon submission of a fully completed and signed Input/Evaluation Form, a copy of which is attached, accompanied by the pertinent materials required by the Form, the Department may verify certain items of information with contained therein. Where deemed appropriate by the Department, a survey of all Members for their experience with said commercial entity may be conducted.

(b) the Department will compile and evaluate responses to Departmental circulations and, based on its sole discretion, may provide such information to law enforcement.

(c) upon the request of law enforcement, the Department may circulate information and requests to Members concerning ongoing reviews of questionable commercial activity, and otherwise assist, where appropriate, in such reviews.

(d) develop a database of information gathered as a result of activities noted in parts (a), (b), and (c) above. Information from the database will be made available to the Member.

3. Cooperation With Department - The member agrees that it will cooperate with the Department in the performance of the Department's services as described in the preceding paragraph. Such cooperation shall include, but not be limited to:

(a) the complete and accurate completion of any Input/Evaluation Forms submitted by the Member; and

(b) the timely response to Department requests for a Member's experience with the subject of any circulation sent to the Member during the term of this membership agreement.

The Member further agrees that the submission of an incomplete or erroneous Request for Evaluation shall be considered a material breach of this Agreement.

4. Hold Harmless -- The Member understands that it will periodically receive reports and information from the Department with respect to representations made by commercial entities seeking leases or other credit accommodations. The member waives and releases the Department, and the National Association of Credit Management from any claim, demand or expense it may suffer as a result of any conduct by any of the foregoing parties in performance of the services described in this agreement, and agrees that it will not bring a lawsuit or any other legal or equitable action against NACM, or the Department therefor.

5. Independent Judgement - The Member agrees that it will exercise its own independent judgement as to the credit-worthiness of any subject of a Department release.

6. Department Not Sole Source of Information - The Member further agrees that it will not rely solely on any information provided to it by the Department in determining the credit-worthiness of any applicant for a lease. Because the Department is meant to be a supplement, not a substitute for routine credit information, the Member must complete their standard credit investigation regardless of the information provided by the Department.

7. Confidentiality - The Member agrees to maintain all information received from the Department in a secure manner solely at the official address of the Member as so designated in this agreement. The Member agrees that information received from the Department will be held in confidence, and that no information received from the Department will be redistributed or otherwise transmitted, orally or in writing, in whole or in part, to any person not involved in funding decisions by the Member.

8. Information - As manager of the Leasing Industry Loss Prevention Department, the NACM Loss Prevention Department will have the right to any information developed. The Department will not reveal the source of the information, but may, in furtherance of the Group's Mission, have the option of exchanging information with members of the Business Credit Loss Prevention Group.

Any information or database developed while the NACM Loss Prevention Department manages the Group shall be the property of the Loss Prevention Department.

8. Breach - In the event the Member commits a material breach of this agreement, the Department shall have the right to immediately suspend all services provided to the Member and to terminate this agreement without refund.

9. Alteration of Agreement - The rights and obligations of the parties to this agreement apply to all information provided at any time to the Member under this agreement. No alteration or variation of the terms of the agreement shall be valid unless they are in writing and signed by the parties.



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Background & Update

Because of severe competitive pressures faced by the Leasing Industry in recent years, a significant rise in fraud has occurred. It appears that individuals have learned that a sizeable amount of money can be made at the expense of those who fund leases. NACM Loss Prevention experience has determined that individuals that have begun a career in crime can be counted on for the following:

- (1) Those involved in this activity will not stop their criminal activities;
- (2) The magnitude and sophistication of criminal activities will escalate.

With this as a backdrop, several leasing industry leaders have requested that NACM develop a system to help identify abusive practices and the individuals who engage in such practices. Over the last several months, we have been working on a series of steps designed to make the new "Leasing Industry Loss Prevention Department" a reality. The organization will allow the industry to police itself and aggressively reduce the fraud that plagues it.

Computerized data-base

NACM believes that the key to solving the fraud problem lies with information. If industry parties are aware of potential problems, they will be able to make more informed funding decisions. Therefore, the Leasing Industry Loss Prevention Department (the "Department") will be a centralized clearinghouse for the exchange of information on a regular (weekly or monthly) basis on problem accounts.

The Leasing Industry Loss Prevention Department will serve as an intelligence center for factual information regarding suspected and actual frauds affecting the industry.

Each period, Member companies would submit a list of accounts which meet certain pre-determined characteristics. NACM has worked with several parties in developing a preliminary "Input/Evaluation" form (listed on the next page) to be used for submission of information.

**Leasing Industry
Loss Prevention Department
Input/Evaluation Form**

I am: Providing data Requesting data on the following:

Business name (full name, including dba): _____

Business type: Vendor Lessor/broker Lessee

Street address: _____

City, State, Zip: _____ Phone _____

Known affiliated companies _____

Principal(s) name(s) and SS#: _____

Reasons for input or inquiry:

- | | |
|---|--|
| <input type="checkbox"/> Routine credit reference | <input type="checkbox"/> References unverifiable |
| <input type="checkbox"/> No equipment exists | <input type="checkbox"/> Unusual program/product mix |
| <input type="checkbox"/> Undisclosed sale leaseback | <input type="checkbox"/> Skip |
| <input type="checkbox"/> Misrepresentations on application | <input type="checkbox"/> Principal's background unverifiable |
| <input type="checkbox"/> Financial statement irregularities | <input type="checkbox"/> Other (specify) _____ |
| <input type="checkbox"/> Name similar to another firm | _____ |
| <input type="checkbox"/> Not listed with directory assistance | _____ |

Credit history (if applicable):

Open date _____
High credit _____
Balance _____

Past due: _____
Losses: Yes No
Pay experience _____

Support

Please offer details on the reverse side or in a letter. Factual information must be used. Support documents such as completed references, credit reports and background information should be attached.

I certify to the National Association of Credit Management that the information is true and correct and that there is no previous or pending dispute with the subject of this request (if there is, please explain). I am attaching all pertinent materials from my files.

Member name: _____

Member number: _____

Title: _____

Signature: _____

Date: _____

Please return to: NACM, 8815 Centre Park Drive, Suite 200, Columbia, MD 21045-2117
Phone: (410) 740-5560 Fax: (410) 740-5574

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It is anticipated that both the above form and the Department's reporting procedures will "evolve" over time. After a few months in operation, a sub-committee of Members of the Department should review the form and reporting so that the most meaningful information can be captured and disseminated.

At the Loss Prevention Department, information will be keyed into the computer for preparation of a report which in turn would be sent out to the Members. The report would list the name and address of the business or entity on which information was submitted, and possibly have a code for the reporting Member. It would also specify the reason that the account is reported.

Cooperation is essential -- The success of the organization is in large part dependent upon the participation of ALL members. As such, every report should be considered a "Request For Information." If you have any experience with an entity referred to in a report, you would be required to report the experience. To truly be fair, NACM believes that Members should not have the option of selectively reporting information only on accounts that they choose, but should be compelled to report any experience on each reported entity.

One of the most important functions of the Leasing Industry Loss Prevention Department will be the development of a computerized database specifically for the Leasing Industry. Such a database will be a powerful tool in the industry's loss prevention efforts, and members will have the right to call the Department for a computer check at any time.

Governing Committee

NACM proposes that the new Leasing Industry Loss Prevention Group establish a Committee which can assist in establishing Department policy. The committee should be instrumental in establishing policy in such areas as

- (1) priorities of the Department;
- (2) legal aspects of the Department, including by-laws and member-agreements;
- (3) eligibility for Membership in the Department; and
- (4) general policy.

The Governing Committee and/or all Members should meet on an annual or possibly bi-annual basis with Department staff for exchange of data and refinement of the program to improve effectiveness.

Other Roles of a Leasing Industry Loss Prevention Department

One critical role of such an organization would be to maintain a presence with law enforcement officials for possible prosecution of suspected leasing fraud perpetrators. All too often, law enforcement officials are not educated about the unique nature of white collar crimes such as those effecting the leasing industry. One of the Department's priorities would be to assist law enforcement in major cases. As a general principal, anyone engaged in a fraud will not stop until apprehended.

Another important role of such an organization would be the education of the members of the Group. This will be one of the most important functions of the organization, giving members a competitive edge.

Legal considerations

NACM is very aware of several important legal considerations necessary to successfully engage in a Loss Prevention program. The Department has succeeded in being very aggressive over the years without violating any individual's rights and without jeopardizing any Member of the Department. We are able to do this by following certain principals:

Strict confidentiality is maintained. Members of the Group agree not to redistribute information outside of their own companies.

The information disseminated is strictly factual. The Department will not disseminate unverified information, such as rumors.

Credit information discussed is limited to **past** experiences; it is not legal to discuss **future** actions.

Information supplied to Members may be used only for credit decisions, not for any other purpose.

Simple lists (with no other information) are unacceptable, as they may become black lists. This is not the purpose of the information.

NACM and several industry executives have developed a set of By-Laws and a Member Agreement which we believe protect both the participants and the administrator of the program.

NACM is also are working on obtaining a Business Review letter from the U.S. Justice Department's Anti-Trust Division, and is submitting the Department's overall plan to that organization for their review.

Background on NACM

NACM has operated an organization now called the "Business Credit Loss Prevention Department" for roughly 30 years, and has been engaged in loss and fraud prevention efforts for the credit community since NACM's inception in 1896.

The "Business Credit Loss Prevention Department" has developed a computerized database, called "SEARCH," which is unmatched by any in the country, containing ten's of thousands of names, aliases, and associates of those involved with business credit frauds and other financial frauds over the last 30 years.

In part because of the SEARCH database, NACM has often assisted the FBI, the Postal Inspection Service, and state law enforcement agencies in the location and apprehension of major career financial criminals. It has also assisted law enforcement agencies in the compilation of significant background information on financial criminals unavailable in traditional law enforcement databases.

For the past several years, NACM has been asked to have a representative give talks at the FBI's training center at Quantico, Virginia. These talks have been given on several occasions to beginning and advanced white collar Special Agents of the FBI. In addition, an NACM Loss Prevention Department representative was asked to lecture at conferences on bankruptcy fraud sponsored by the U.S. Trustee's Office (the administrative arm of the bankruptcy courts) for U.S. Attorneys, U.S. Trustees, and FBI Agents. The NACM was the only private organization invited to the conferences.

Organized Crime expertise -- Although not publicized, NACM has been developing a data base specializing in organized crime matters. For decades, organized crime has often been in the background in major business credit frauds, and is suspected of playing a major role in many of the savings & loan frauds.

Organized crime has played a significant role in establishing companies which are used for the sole purpose of stock manipulation and penny-stock scams.

In addition, organized crime has infiltrated many seemingly legitimate companies and financial institutions, using them as ways to obtain "legitimate" income, or simply as fronts for such activities as money laundering.

NACM has conducted some specialized research in this regard in recent years and has many key law enforcement contacts in this area.

Postal Inspection Service database -- Another priority of NACM in the last year has been its computerization of information received from the Postal Inspection Service. NACM's files of Postal Inspection Service actions date to the early 1960's. We recently learned that the Postal Inspection Service itself has not kept this information in readily accessible form.

Nationwide Network of Contacts

In addition to its numerous law enforcement contacts, the Department has access to a nationwide network of credit managers via the 60 affiliates and 36,000 members of the National Association of Credit Management.

This network and the Department's reputation in the field of Loss Prevention enable Department investigators to find information quickly and efficiently that may otherwise be unavailable through any other means.

In addition to its relationship with the NACM affiliates, the Department also has a strong working relationship with many outside credit industry groups or associations that specialize in various industries. NACM also has a close working relationship with other private loss prevention or security organizations.