

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

FIRST SOUND BANK, a Washington
corporation,

Plaintiff,

v.

LARASCO, INC., a Washington corporation;
LOUIS A. SECORD, JR., an individual; and
RICHARD A. SECORD, an individual,

Defendants.

NO. C09-0056 TSZ

DECLARATION OF ROBERT G. YOHE

I, Robert G. Yohe, declare as follows:

1. I am over the age of 18 and otherwise competent to testify in this matter. I make this declaration based upon my personal knowledge. I have neither asked to be paid nor have I been paid to provide my thoughts concerning the company formerly known as Puget Sound Leasing Co., Inc., and its former owners, Lou and Dick Secord.

2. I attended the University of Kansas from the Spring of 1975 to the Spring of 1981 with the focus of my studies in accounting, finance, business administration & economics. My professional career has been spent almost exclusively in the "small ticket" commercial use equipment leasing industry. I consider "small ticket" commercial use equipment leases to be those with a total value of less than \$250,000 where the equipment is used exclusively in the

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1 course of business activity, not any consumer related leasing or finance. I consider "small ticket"
2 equipment leases to be those with a total value of less than \$250,000. In addition to my work in
3 the industry, from 2000 to 2001, I was appointed to serve on the Ethics Committee of the United
4 Association of Equipment Leasing, now known as the National Equipment Finance Association.
5

6 **My Background in the Equipment Leasing Industry.**

7 3. I began my career in the financial services industry with General Electric Credit
8 Corporation ("GE") in 1981. At GE, I worked in inventory finance and was exposed to auto
9 leasing via floor planning provided to auto dealerships. My former manager at GE recruited me
10 to join him at Westinghouse Credit Corporation ("WCC") in 1985 as a Credit Analyst in WCC's
11 new small ticket equipment leasing business located in Kansas City. It was my job to underwrite
12 and assess the credit risk of entities and individuals who wished to finance their trade equipment
13 needs by leasing that equipment from WCC. I reviewed credit submissions from potential
14 lessees and trained WCC credit staff.
15

16 4. While at WCC, I became aware of independent leasing companies and equipment
17 manufacturers' captive leasing operations that were utilizing bank warehouse lines of credit,
18 investor capital and their own cash to finance equipment leases. I started to solicit these firms to
19 acquire the payment streams of those leases. As assignee, WCC bought only the right to the
20 stream of payments made by lessees on the leases and assumed none of the lessor's obligations
21 under the leases. In 1986, I became Portfolio Acquisitions Manager and Senior Credit Analyst at
22 WCC. In that role, I was required to analyze not only the face value of the leases within the
23 portfolio, but also the financial strength of the lessees, the lessees' ability to pay timely and
24 otherwise fulfill other obligations under the leases. Because servicing the leases, and quickly
25 enforcing the lessor's rights to security deposits and repossession of the equipment in the event
26

1 of any default, was so important to ensuring the portfolio purchaser actually received the benefit
2 if its purchase, WCC and other portfolio purchasers at that time insisted on servicing the leases
3 themselves. As the business grew, WCC received requests from assignors to continue servicing
4 the leases assigned to WCC. At this point, my job responsibilities expanded to include
5 analyzing the financial strength on both the corporate and personal levels of the assignors who
6 made such requests and to assess their ability to properly service the leases and ensure that
7 payment streams WCC was purchasing, would continue in a timely satisfactory manner. In those
8 cases where the assignor was allowed to continue to service the leases, it was done on a "lock
9 box" arrangement with all payments going to a lock box account under the control of WCC.
10

11 5. In about 1987, WCC was sold to Denrich Leasing, a subsidiary of Fleet Bank and,
12 after a short absence, I resumed my Senior Credit Analyst and Portfolio Acquisitions Manager
13 position with Denrich. I remained at Denrich until 1990 when Denrich closed its Kansas City
14 operations and I declined Denrich's numerous offers to join its Miami, Florida operations, and I
15 chose to become an independent consultant to the equipment leasing industry. During my
16 employment with WCC and Denrich, I was responsible for lease portfolio acquisitions in excess
17 \$800 million. I developed automated process for discounting analyzing the cash flow of lease
18 portfolios. I established a nationwide network of top lessors and brokers and equipment lease
19 funding sources (also known as portfolio purchasers or investors).
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22 **My Examination and Assessment of Puget Sound Leasing Co., Inc., My Decision to Begin**
23 **Purchasing Puget Sound Leasing Co., Inc., Lease Payment Portfolios, and My Conclusion**
24 **that the Quality of Puget Sound Leasing's Leases, Reporting and Servicing Were Among**
25 **the Best in the Industry.**

26 6. I first met Lou and Dick Secord in 1986 when I was working for Denrich. The
Secords had recently started an equipment leasing company called Puget Sound Leasing; they

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1 were interested in selling lease payment stream portfolios and Denrich was interested in
2 acquiring this type of portfolio. I flew to Seattle and I met with the Secords. I was immediately
3 impressed with their extensive backgrounds in banking. From my initial discussions with them, I
4 was confident that the Secords had a firm understanding of fundamental finance issues like credit
5 assessment, asset value and lease enforcement. As has been borne out in the years since 1986,
6 the Secords were focused on their bottom line; they were driven to maintain the quality of their
7 lease portfolios as they grew their business, not by a desire to increase volume for volume's sake.
8 They were dedicated to slow and controlled long-term growth, not short-term, dramatic growth
9 through methods like rampant, multi-level securitization of their leases.
10

11 7. I was also impressed with Puget Sound Leasing's reporting system. The Secords
12 had developed software that reflected their banking background; it tracked lease variables that
13 financial institutions like Denrich and other banks found important and could easily understand.
14 Based upon my own significant experience with lease portfolio reporting in the equipment
15 leasing industry, I believed that Puget Sound Leasing had the best software in the industry and,
16 as a result, provided the most accurate and valuable lease reporting in the industry. I repeatedly
17 told the Secords over the following several years that, if they chose to sell their proprietary
18 software to others in the industry, it would become the industry standard.
19

20 8. I was impressed by the fact that Puget Sound Leasing had established very large
21 credit lines to finance the purchase of leased equipment. As a result of these "warehouse" lines,
22 Puget Sound Leasing was able to hold its leases without experiencing the pressure other lessors
23 who financed their leases with less favorable credit experienced to immediately pay off their
24 financing by selling their lease payment streams to investors. Puget Sound Leasing had more
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1 experience with their "aged" leases than other lessors and thus had a higher level of confidence
2 in how they would perform.

3 9. For all of these reasons, I chose, on behalf of Denrich, to acquire a lease payment
4 stream portfolio from Puget Sound Leasing. More significantly, for the first time, I allowed
5 Puget Sound Leasing to maintain responsibility for servicing the leases in that portfolio. I trusted
6 the Secords' experience, reporting system, the quality of their leases, their servicing capabilities,
7 and their character and chose for the first time to not require Denrich to take the servicing in
8 house.
9

10 10. While at Denrich, I purchased lease payment portfolios from Puget Sound
11 Leasing on behalf of Denrich having the approximate value of approximately \$100 million.
12 Denrich received monthly reports on all related leases and was kept aware of all delinquencies
13 on all leases. Not every lease remained current. Under the lease payment portfolio purchase
14 agreements I negotiated with all lessors (both for Denrich and, as described below, later for other
15 investors), the lessors, including Puget Sound Leasing, were required to report late payments.
16 This is because, under our agreements, Denrich and other investor had the right to take over
17 servicing of the problem lease if the investor felt it could better protect the payment stream than
18 the lessor. Delinquency reporting was important, and Puget Sound Leasing always properly
19 reported delinquencies. In addition, not every lessee fulfilled its insurance, maintenance,
20 personal property tax and other obligations under the leases, but Puget Sound Leasing kept its
21 investors fully apprised of the status of every lease. Even though the Puget Sound Leasing lease
22 payment portfolios were non-recourse, Puget Sound always made full lease payments to Denrich.
23 With its monthly remittance to Denrich, Puget Sound Leasing was required to state of all
24 payments it had made on behalf of a lessee and why such payment was made. In most cases,
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1 Puget Sound Leasing acted quickly enough and had ensured it had adequate security either to
2 continue making monthly payments or to close the lease out and pay the entire present value of
3 the remaining, expected lease payment stream to the investor. Under the lease payment portfolio
4 agreements I negotiated with lessors including Puget Sound Leasing, the lessor was required to
5 account for any shortfalls it chose to make up and pay itself. This is because if the investor
6 chose to take over servicing of a lease that was over 90 days past due, it not only would have to
7 pay all subsequent servicing and collection costs out of its own pocket, it would also have to
8 reimburse Puget Sound Leasing for any payments it had advanced on behalf of lessees to
9 investors. Puget Sound Leasing had every incentive to properly account for and report
10 delinquencies and its advance payments. I observed Puget Sound Leasing's reporting of
11 delinquencies and its advance payments and believe that Puget Sound Leasing always properly
12 reported delinquencies and advance payments.
13

14
15 11. The portfolio agreements we entered into with Puget Sound Leasing were non-
16 recourse; if the lessee did not pay and the security deposit, the value of the repossessed
17 equipment, or other collection efforts resulted in a recovery that was less than the remaining
18 payment stream on the lease, Denrich would be contractually obligated to absorb that loss.
19 However, Puget Sound Leasing and the Secords had a policy from the beginning to pay Denrich,
20 and all of its other portfolio investors, the full present value of any terminated lease. This
21 unprecedented policy made Puget Sound Leasing portfolios more valuable than their
22 competitors' portfolios. To the best of my knowledge, Denrich never received anything less than
23 full payment on the lease payment portfolios it purchased from Puget Sound Leasing. As an
24 investor, you could sleep soundly at night knowing you owned Puget Sound Leasing portfolios.
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1 **My Work Since 1990 on Behalf of Other Lease Payment Portfolio Investors and Puget**
2 **Sound Leasing's Continuing Superior Business Practices.**

3 12. In 1990, I left Denrich to start my own equipment leasing consulting company. I
4 have maintained my network of lessors, brokers and funding sources and assisted investors in
5 assessing, acquiring and managing lease payment portfolios. Since 1990, I have been involved
6 in the acquisition of additional portfolios worth approximately \$1.2 billion.

7 13. Also in 1990, a Midwest bank called First Bank Richmond, located in Richmond,
8 Indiana, contacted me because it was interested in lending outside of its immediate geographic
9 area. It had decided that equipment leasing would allow it to do so. I met with the President of
10 the Bank at the time, Robert F. Fix, and was soon hired by the Bank as an independent consultant
11 to establish a small ticket leasing subsidiary for the Bank. That subsidiary was called First
12 Federal Leasing. I was responsible for writing First Federal Leasing's small ticket lease
13 operation policies and procedures manual, and training employees who would assist in
14 acquisition and in lease servicing from third party originators. Like Denrich, the vast majority of
15 lease servicing would be done in house at First Federal Leasing. I also published a manual for
16 use at First Federal Leasing called "Financial Statement Review & Analysis for Small Ticket
17 Leasing" that described the due diligence employed in lease acquisitions. I also began
18 introducing First Federal Leasing acquisition personnel to the best equipment lessors I had
19 worked with. This included the Secords and Puget Sound Leasing.

22 14. First Federal Leasing representatives met and assessed Puget Sound Leasing and
23 reached the same conclusions I had about Puget Sound Leasing's experience, the quality of their
24 underlying leases, and superior management, reporting and servicing. First Federal Leasing
25 agreed to buy its first lease payment portfolio from Puget Sound Leasing and agreed to allow
26 Puget Sound Leasing to retain servicing responsibility for its leases. Over the last 18 years, I

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1 have continued to work as a consultant for First Federal Leasing purchasing over \$100 million of
2 Puget Sound Leasing lease payment portfolios for First Federal Leasing. First Federal Leasing,
3 like Denrich before it, has either received every lease payment it paid or, in that tiny percentage
4 of cases where lessees have defaulted and security deposits, repossessed equipment, or other
5 collection efforts have not been enough to generate the full value of the lease purchased, Puget
6 Sound Leasing has paid the difference. Despite the non-recourse nature of the lease payment
7 portfolios, First Federal Leasing has made every dime it expected to receive from Puget Sound
8 Leasing portfolios. That record is unmatched among other lessors with whom I and First Federal
9 Leasing have done business.

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12 **Independent Audits Confirmed the Soundness of Puget Sound Leasing's Leases, Reporting,**
13 **Servicing and General Business Practices.**

14 15. The lease payment portfolio purchase agreements I negotiated over the last 25
15 years with every lessor including Puget Sound Leasing allowed Denrich, First Federal Leasing
16 and all other lease payment portfolio investors with whom I have worked to audit the lessor's
17 books and records at any time. In 18 years of working with Puget Sound Leasing, purchasing
18 approximately \$300 million of Puget Sound Leasing's leases, analyzing its detailed reports,
19 visiting and analyzing Puget Sound Leasing's books and records myself, and reviewing audit
20 reports of its operations and reporting by independent auditors, I observed that Puget Sound
21 Leasing's reporting and performance, including its delinquency reporting, collateral reporting,
22 and lease payment performance was completely accurate and met or exceeded the best business
23 practices of the equipment leasing industry.
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1 **Puget Sound Leasing's Lease Delinquency and Charge-Off Rates Have Consistently Beaten**
2 **the Industry Average and Its "No Loss" Policy Ensured Its Lease Payment Portfolios Were**
3 **Among the Best in the Industry.**

4 16. Over the course of my over 25 years in the equipment leasing business, I have
5 been familiar with the industry's customary delinquency rates. Purchasers of lease payment
6 portfolios would like to buy lease payments associated with leases that never go bad and I spend
7 vast amount of time reviewing aging and delinquency reports to enhance the chances of buying
8 lease payment streams that do not fail, but given the volume of small ticket leases in any multi-
9 million dollar portfolio, it is inevitable that some lessees cannot or do not pay. In my experience,
10 the industry-wide average delinquency rate is between 2 and 4%. Obviously, in recessionary
11 times like we are currently experiencing, that rate increases. The industry-wide average
12 delinquency rate is currently between 6 and 8%. The industry-wide charge-off rate, or that
13 percentage of leases in a portfolio that ultimately did not produce all payments due under the
14 lease, is about 3%. Puget Sound Leasing's delinquency rate and charge-off rate were always
15 below the industry average, in good and bad economic times. Ultimately, Puget Sound
16 Leasing's low delinquency rate was less material to the value of their lease payment portfolios
17 than the Secords' "no loss" policy. Puget Sound Leasing's delinquency rate was important to an
18 investor's decision whether to buy a lease payment portfolio, but the Secord's "no loss" policy
19 truly ensured that Puget Sound Leasing's leases were the highest quality in the industry.
20
21

22 **Puget Sound Leasing Employees Have Not Expressed Concerns to Me about Puget Sound**
23 **Leasing's Business Practices.**

24 17. Over the years of working with Puget Sound Leasing, I had met Tamara Cady and
25 John Olah, former Puget Sound Leasing employees. I believe Ms. Cady and Mr. Olah are now
26 employed in the leasing division of First Sound Bank. I last spoke to Ms. Cady and Mr. Olah at

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1 the National Association of Equipment Lease Brokers convention in the Spring of 2007. I had
2 previously learned that the Secords were in the process of selling Puget Sound Leasing's assets
3 to First Sound Bank. When I spoke to Ms. Cady and Mr. Olah, they each indicated that they
4 were concerned that the sale to First Sound Bank could result in them losing their jobs. I told
5 them that it was my impression from my conversations with Lou Secord that they had negotiated
6 with First Sound Bank to ensure that former Puget Sound Leasing employees would retain their
7 jobs. Neither Ms. Cady nor Mr. Olah ever told me that they had any concerns about the way the
8 Secords had run Puget Sound Leasing or Puget Sound Leasing's reputation. Their sole concern
9 was trying to retain their ability to continue to work with the Secords.
10

11
12 **Without the Secords in a Management Position at First Sound Bank, There is Very Little**
13 **Market for First Sound Bank's Lease Payment Portfolios.**

14 18. Because of Puget Sound Leasing's, and specifically the Secords', reputation and
15 record in the equipment leasing industry, I was always able to find purchasers willing to pay
16 premium rates for Puget Sound Leasing lease payment portfolios. If First Sound Bank was still
17 selling lease payment portfolios that were originated and serviced by the Secords, even in this
18 economy, I would still be able to find buyers for those portfolios. Because First Sound Bank no
19 longer employs the Secords and investors cannot count on the Secords managing and standing
20 behind those portfolios, investors are not interested in buying First Sound Bank lease payment
21 portfolios. Little if any funding exists anymore for First Sound Bank lease payment portfolios.
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I DECLARE UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF WASHINGTON THAT THE FOREGOING IS TRUE AND CORRECT.

DATED this 2nd day of March, 2009 at ~~Kansas City~~, Missouri.
Stilwell, Kansas



Robert G. Yohe

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1 Certificate of Service

2 I certify that on the date noted below, I electronically filed this document entitled
3 Declaration of Robert G. Yohe using the CM/ECF system which will send notification of such
4 filing to the following persons.

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13 DATED this 2nd day of March, 2009, at Seattle, Washington.

14 /s/ Diana S. Shukis

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