



EQUIPMENT LEASING AND FINANCE ASSOCIATION

Financing a Growing Economy

National Association for Business Economics

Capital Spending and Financing Outlook

Thursday, June 19, 2008

11:00 AM Eastern

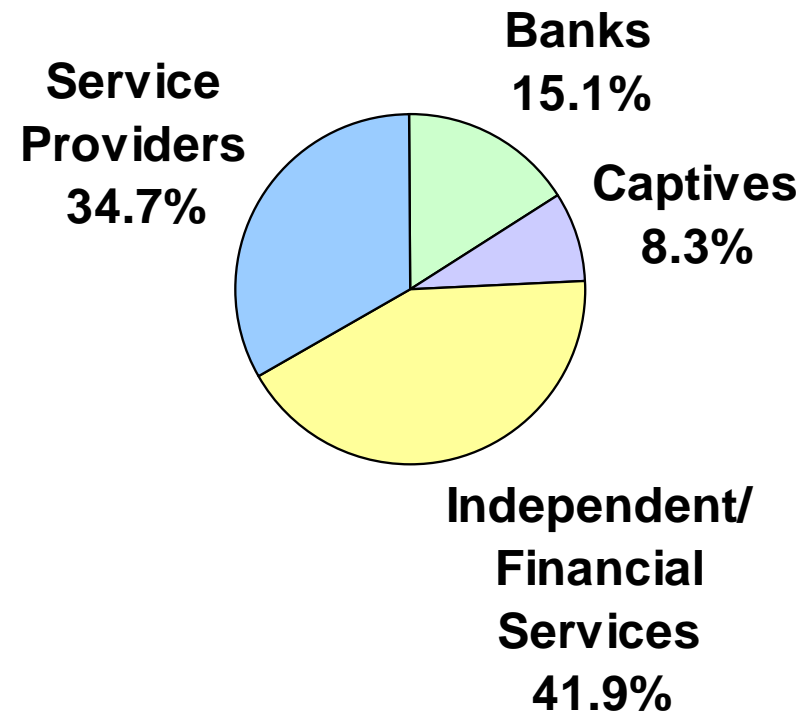
Ralph Petta

**Vice President – Research & Industry Services
Equipment Leasing & Finance Association**

ELFA Membership

ELFA Membership (by type of company)

▪ Banks (45%)	110
▪ Captives (24%)	57
▪ Independent/ Fin. Svcs. (31%)	290
▪ <u>Service Providers(0%)</u>	<u>224</u>
Total (100%)**	681*



* Number of members as of 5/12/08

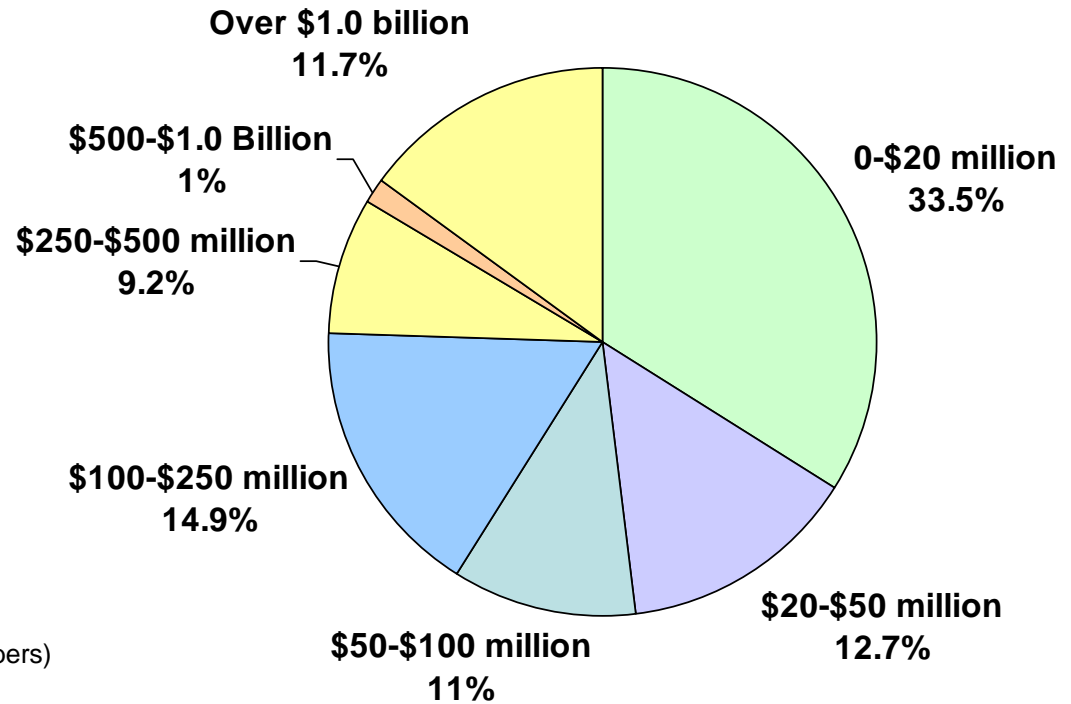
** percentage of business volume for YE 2007

ELFA Membership

ELFA Membership* (by annual volume size)

• 0 - \$20 million	132
• \$20 - \$50 million	56
• \$50 - \$100 million	42
• \$100 - \$250 million	65
• \$250 - \$500 million	33
• \$500 - \$1 billion	5
• <u>Over \$1 billion</u>	<u>59</u>
Total	391*

(*as of 5/12/08; does not include service provider members)



is the ...

1. Forum for industry development
2. Platform to advocate for the industry
3. Principal resource for industry research

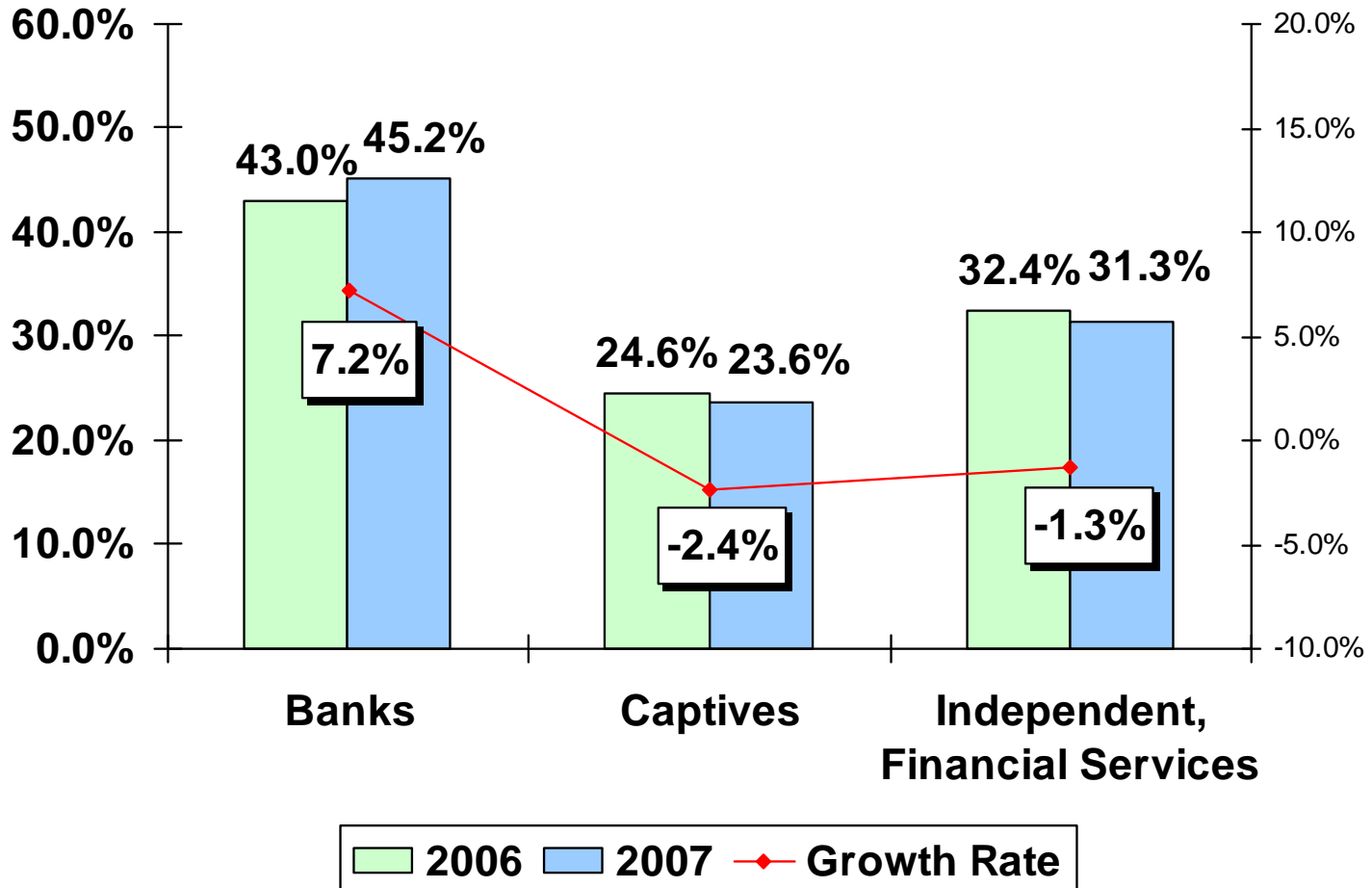
Industry Trends and Developments

- ELFA 2008 *Survey of Equipment Finance Activity (SEFA)*
- *ELFA Monthly Leasing and Finance Index (MLFI-25)*
- Equipment Leasing and Finance Foundation
U.S. Equipment Finance Market Study

ELFA 2008 Survey of Equipment Finance Activity (SEFA)

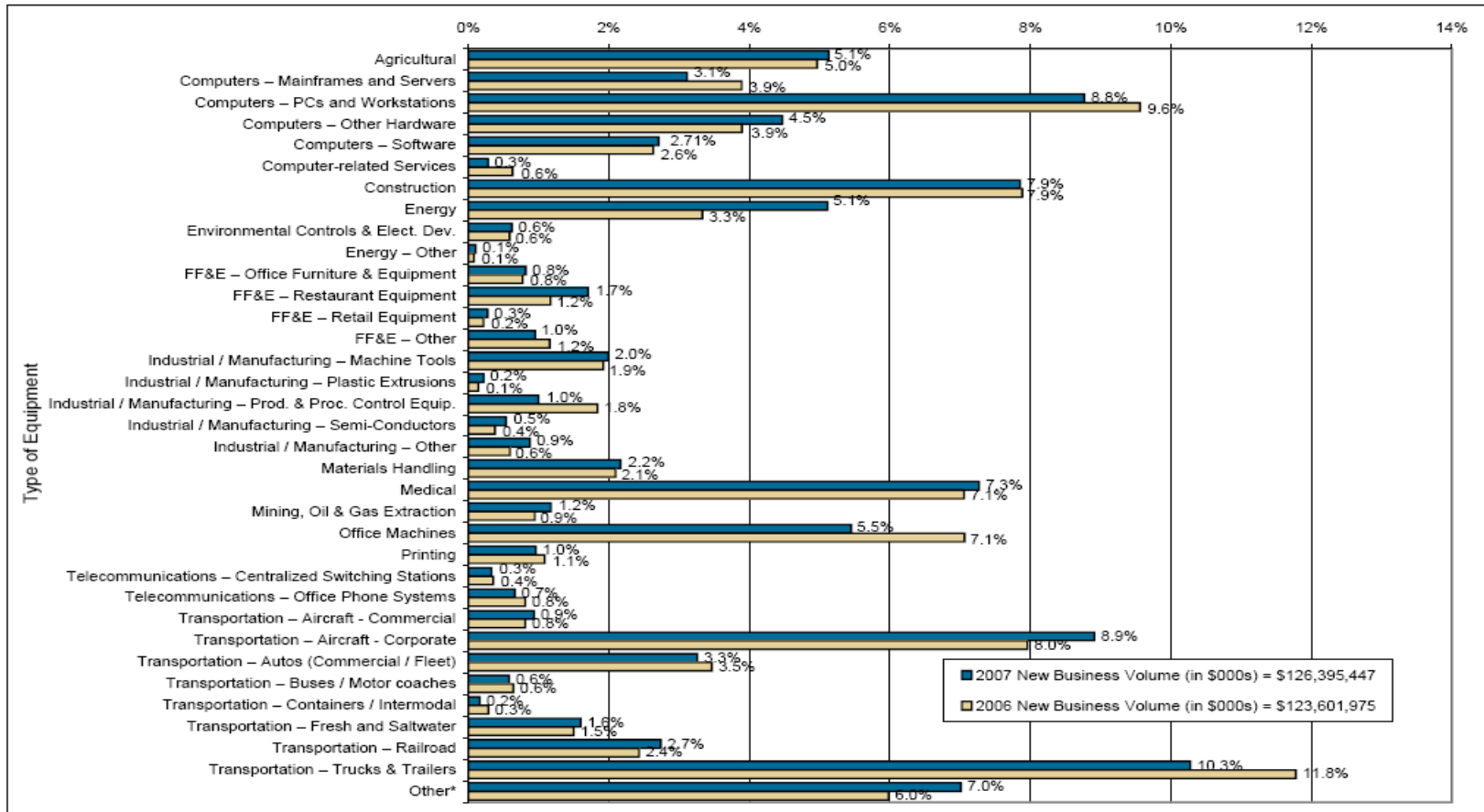
- **Modest 2007 growth (2%)** year over year, and mixed growth depending on organizational type and ticket sizes vs. **significant 2006 growth (12%)** year over year and growth across all organizational types and ticket sizes.

New Business Volume 2007



2007 NBV By Equipment Type

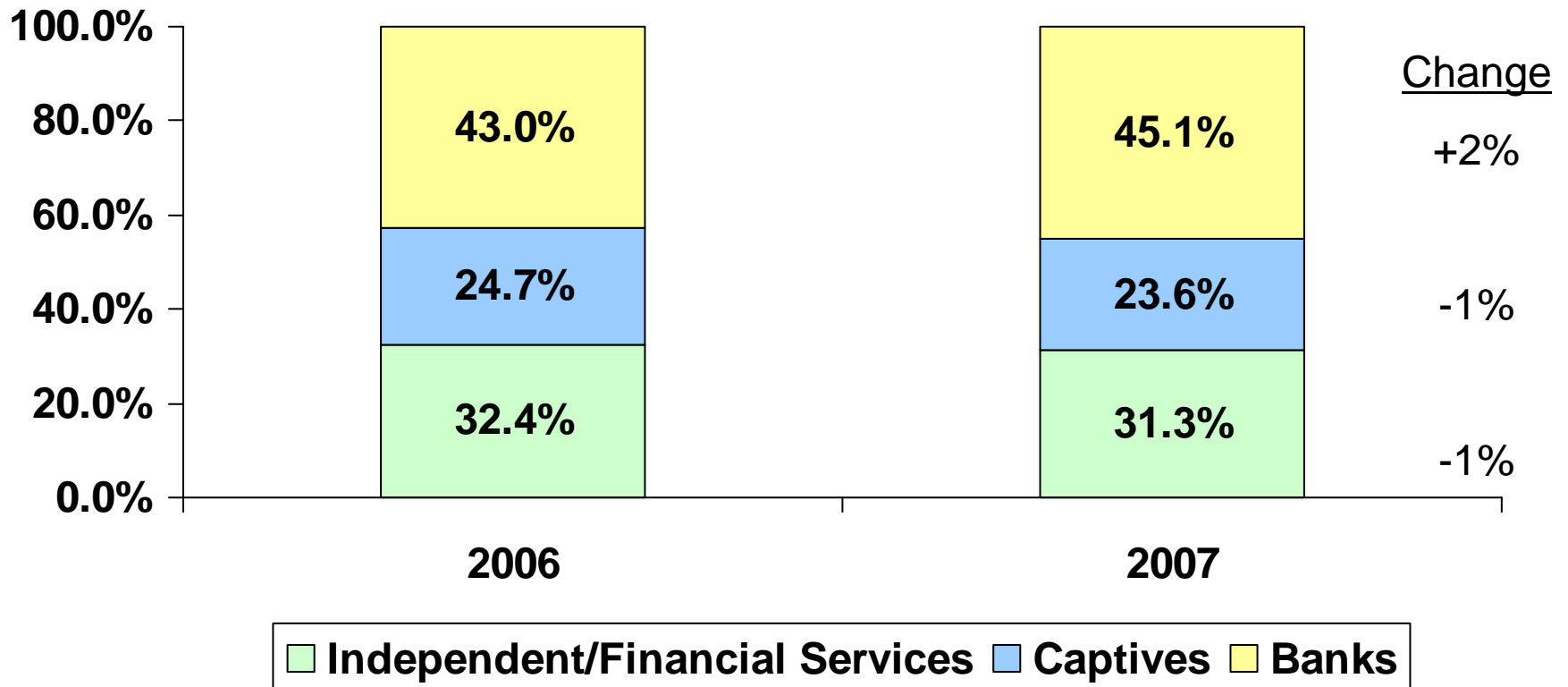
Overall (128 responses)



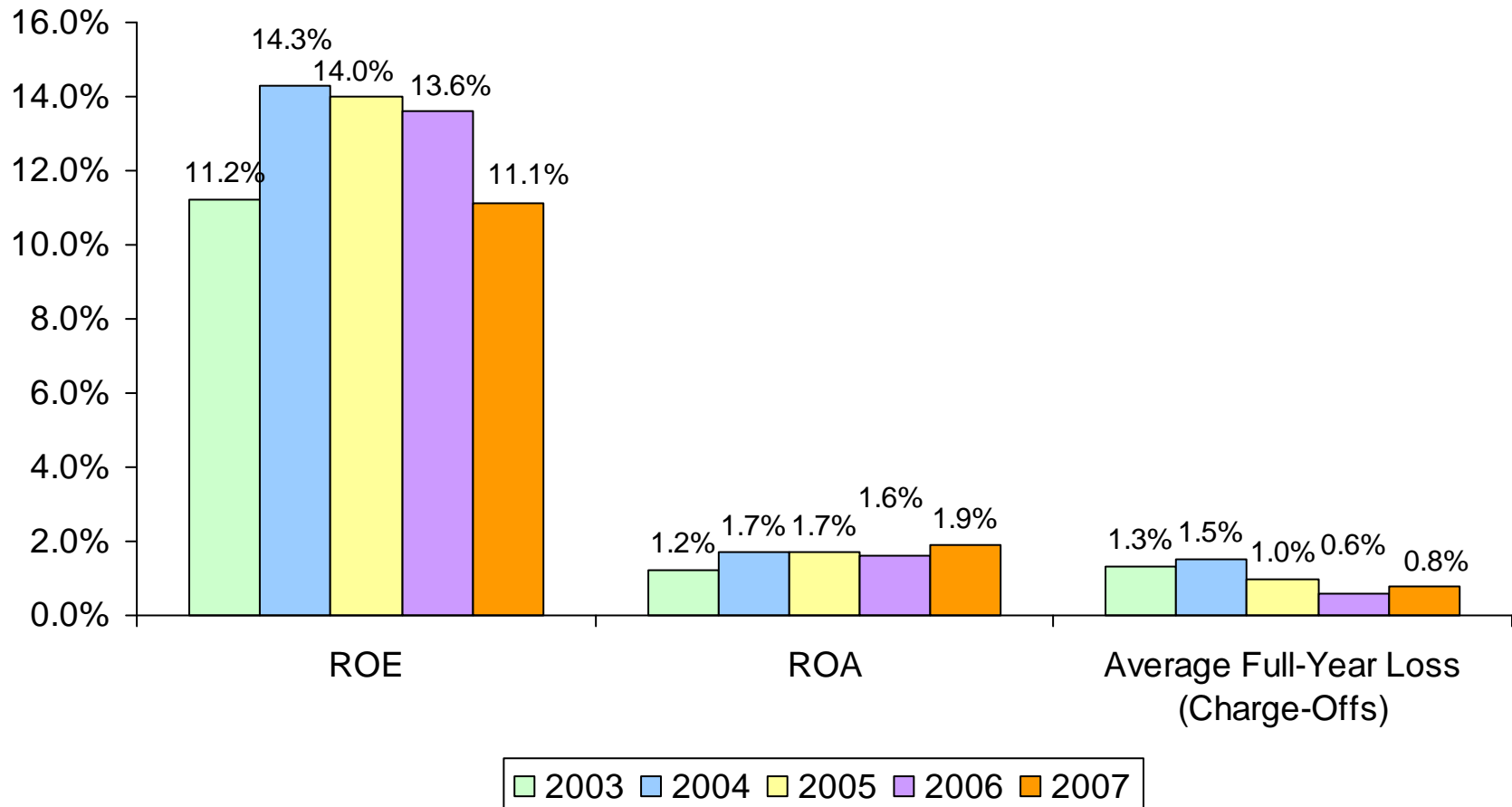
*Other includes uncategorized or miscellaneous such as consumer goods, food processing, franchises, engineering and gas stations.

Banks grow volume in 2007

New Business Volume by Organization Type

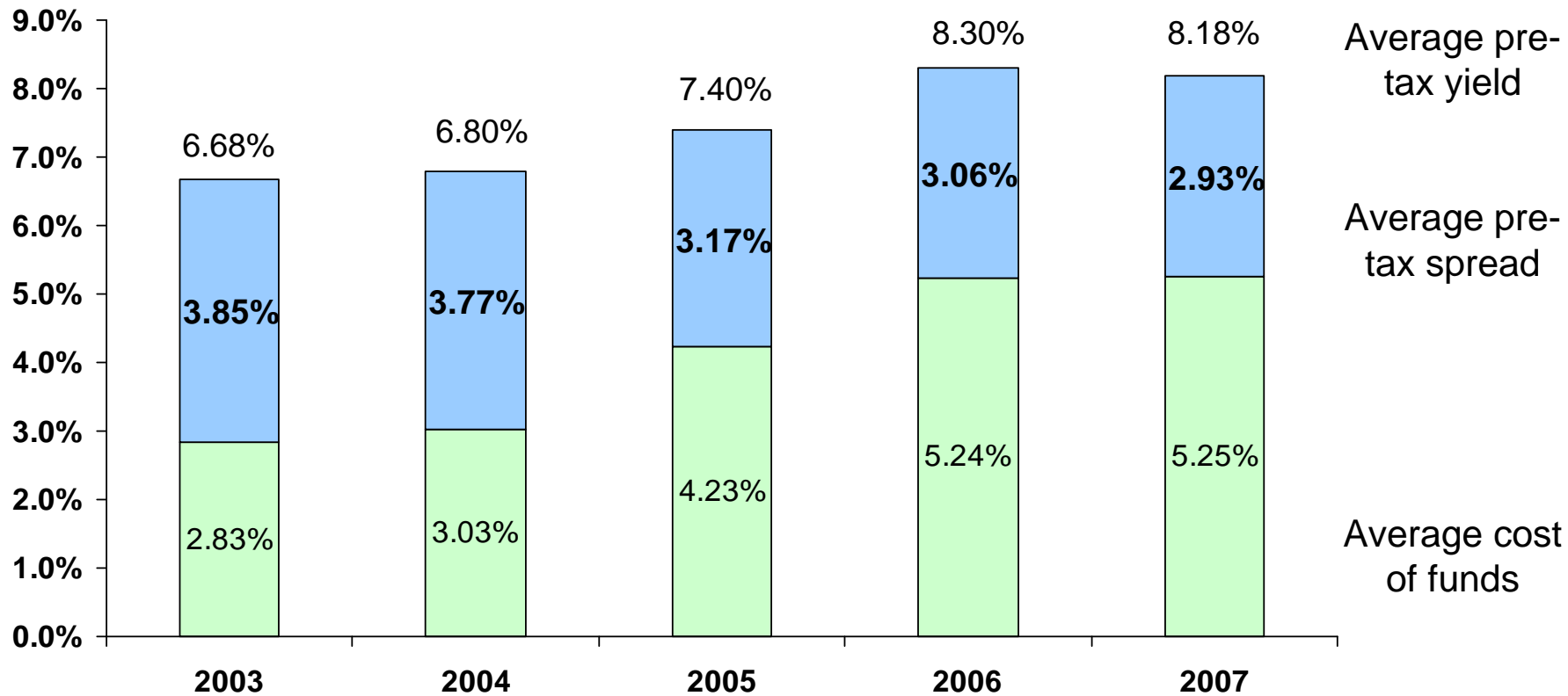


Profitability & Losses



Source: 2008 ELFA Survey of Equipment Finance Activity

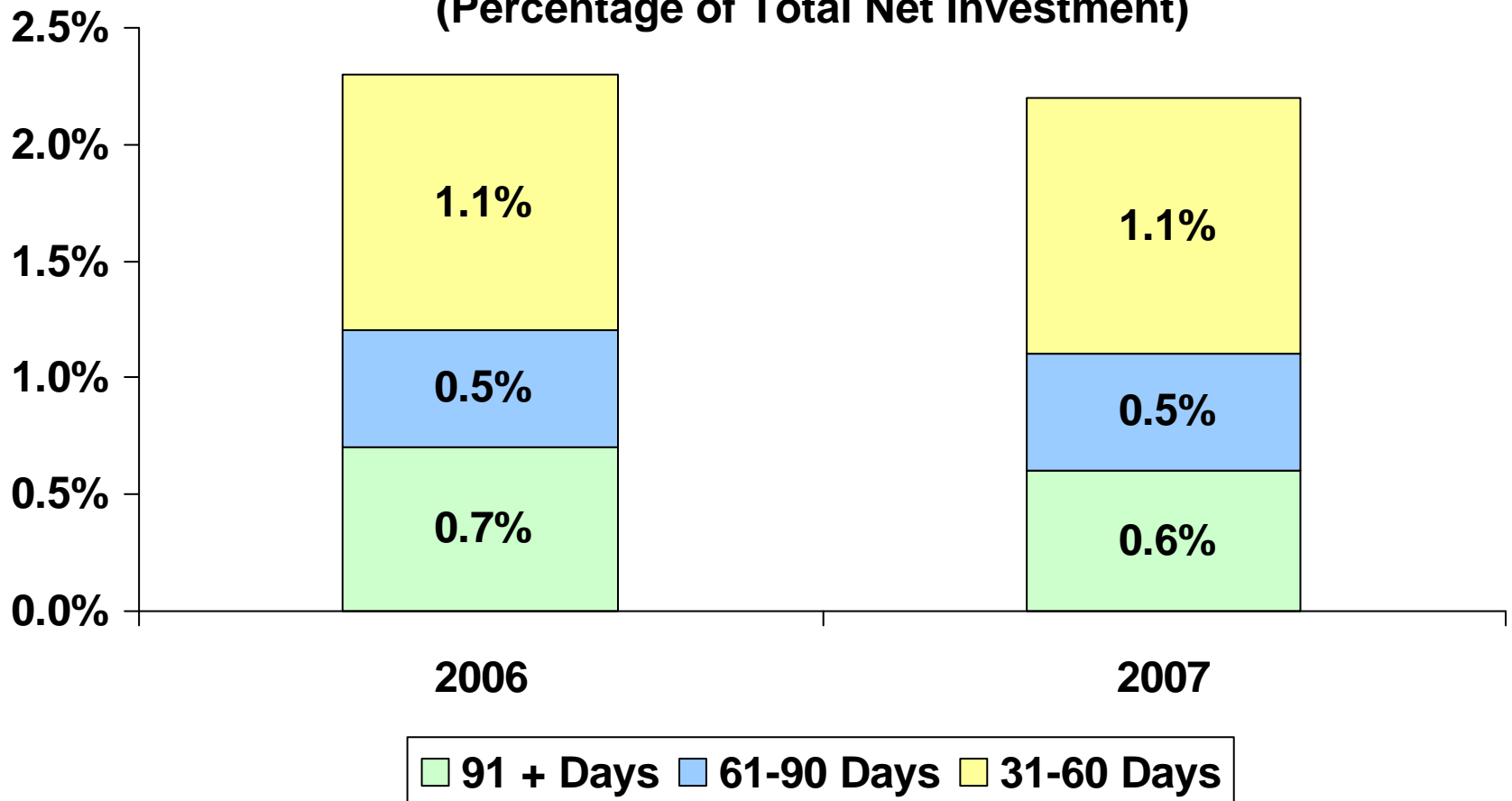
Pre-Tax Yield, Cost of Funds & Pre-Tax Spread, Dollar Weighted Average



Source: 2008 ELFA Survey of Equipment Finance Activity

Delinquencies remain unchanged

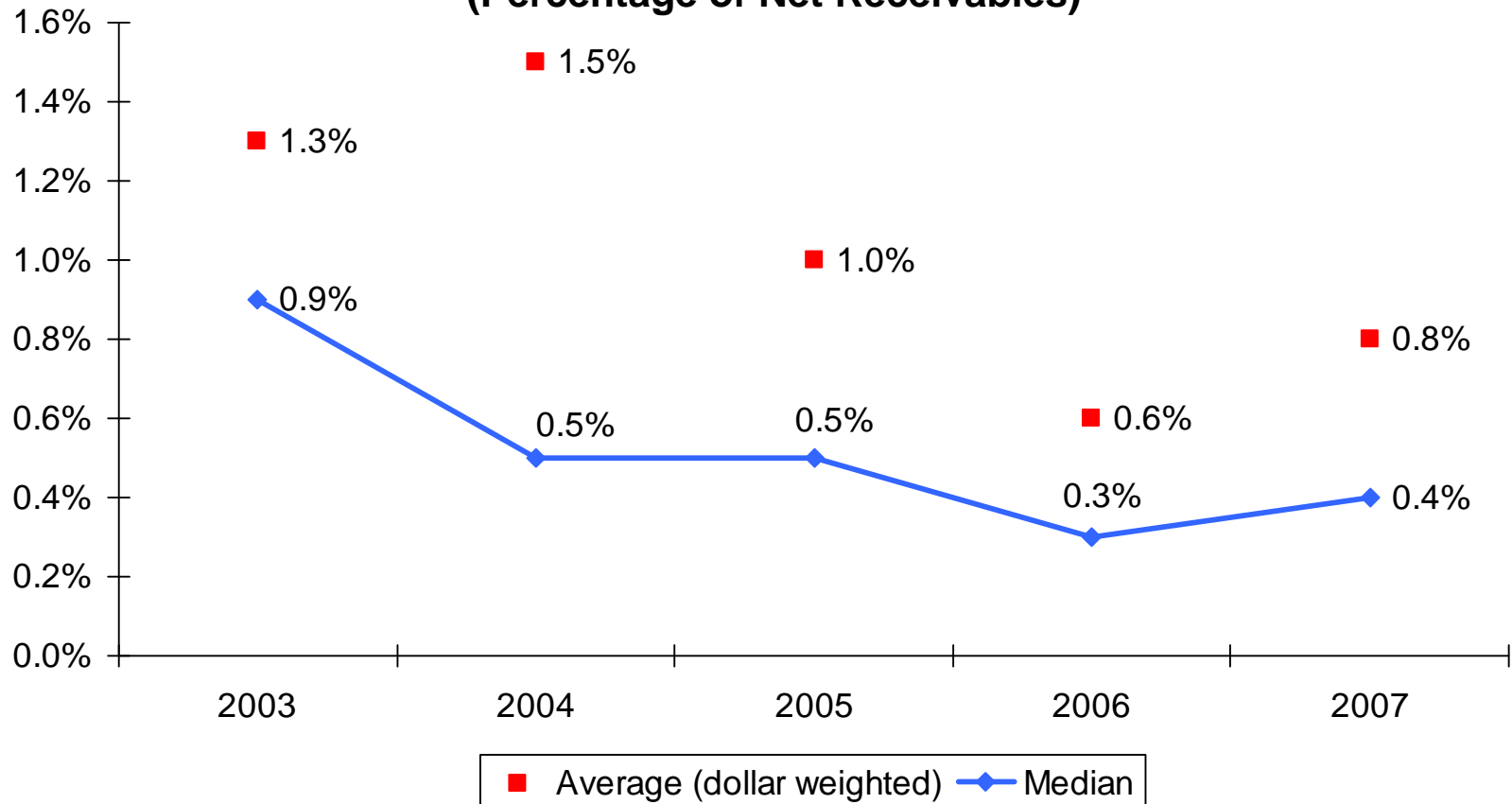
Accounts Receivables Aging – Over 30-Days
(Percentage of Total Net Investment)



Source: 2008 ELFA Survey of Equipment Finance Activity

Charge-offs virtually unchanged

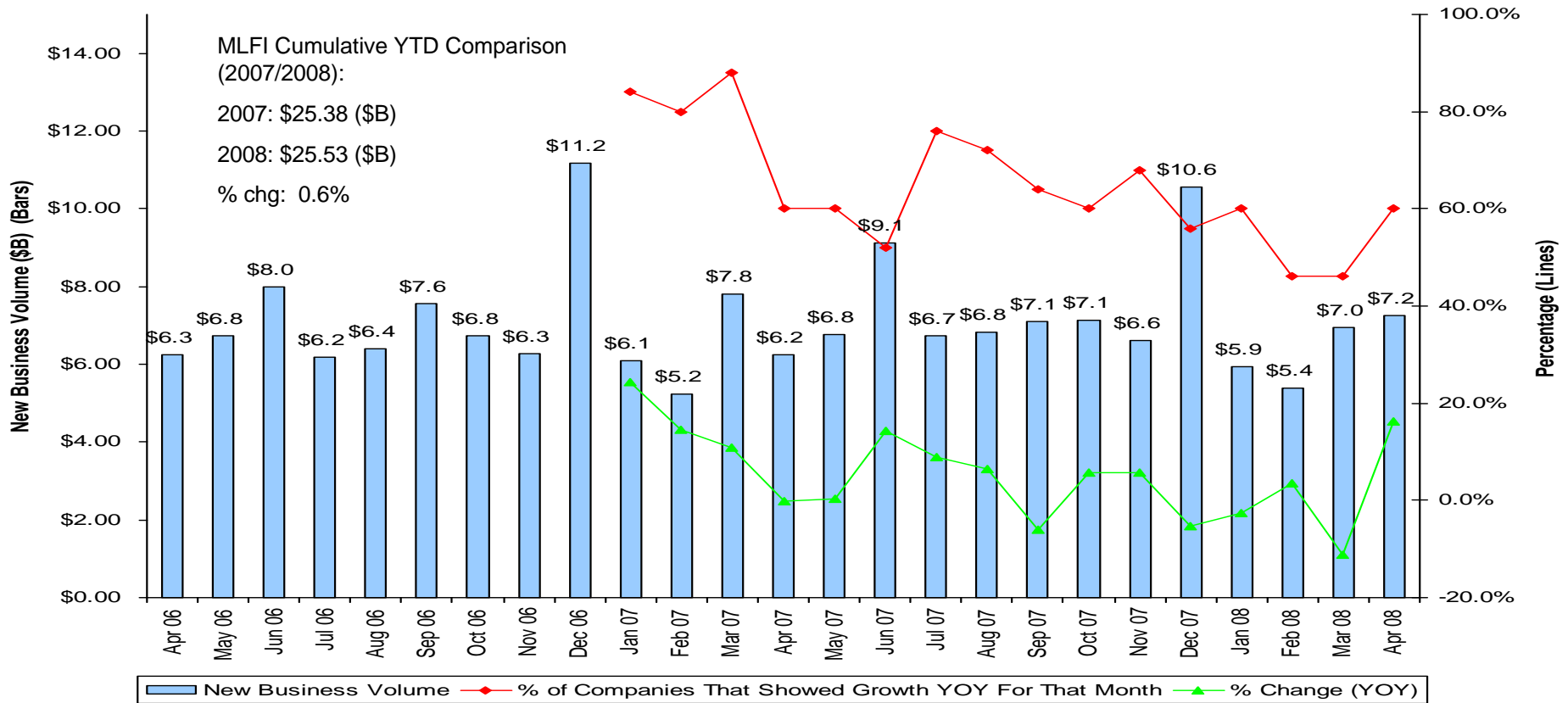
Full-Year Loss (Charge-Offs) – Five Year History
(Percentage of Net Receivables)



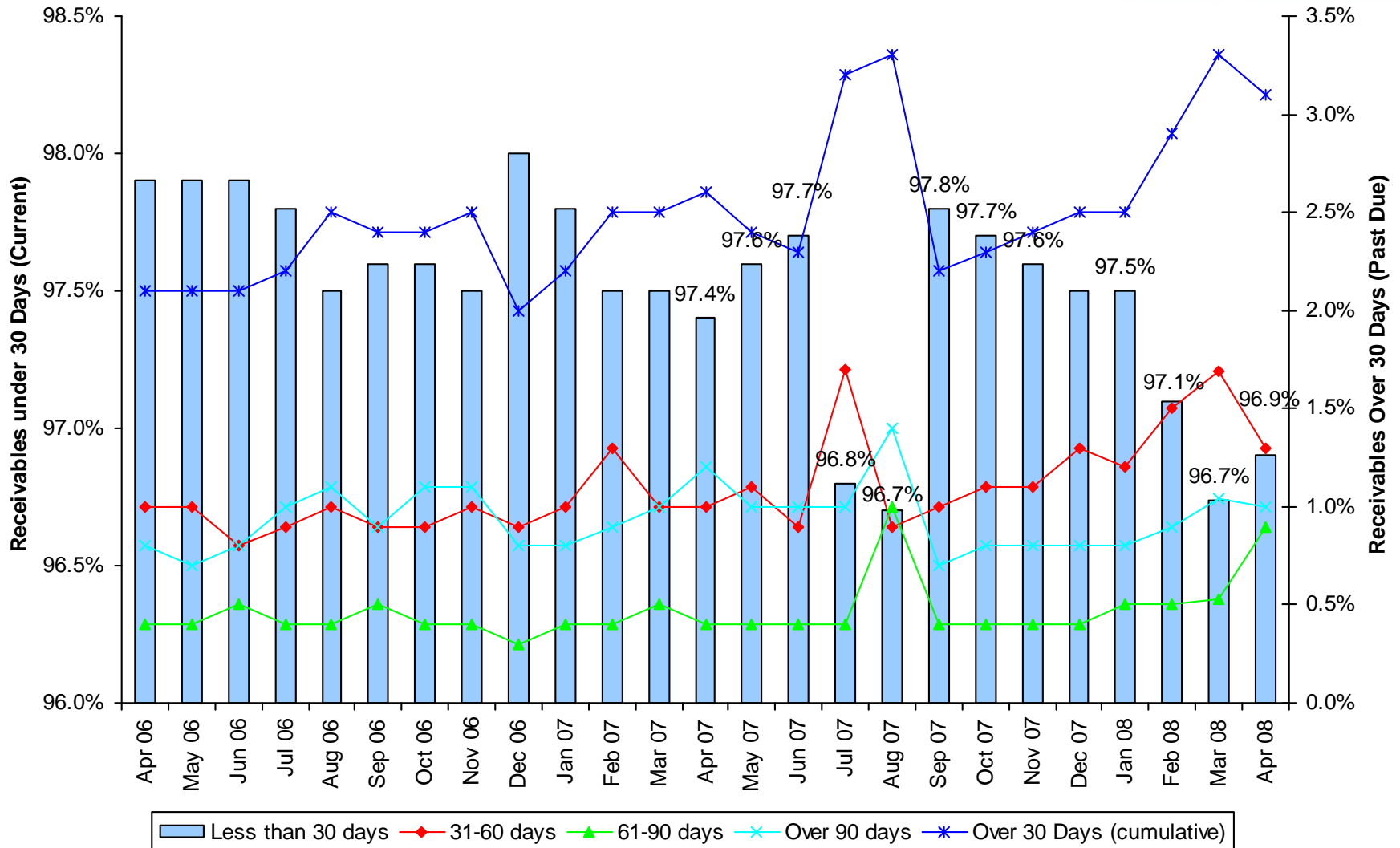
Monthly Leasing & Finance Index (MLFI-25)

- ELFA takes a snapshot each month of five components that comprise the MLFI-25 survey
 - new business volume (originations)
 - aging of receivables
 - charge-offs
 - credit approval ratios (approved vs. submitted)
 - headcount for the equipment finance business
- Participating companies represent a cross section of the equipment finance sector including small ticket, middle market, large ticket, bank, captives, and independent leasing and finance companies
- The same 25 companies report each month, and the ELFA has captured over 2 years of data from the same companies

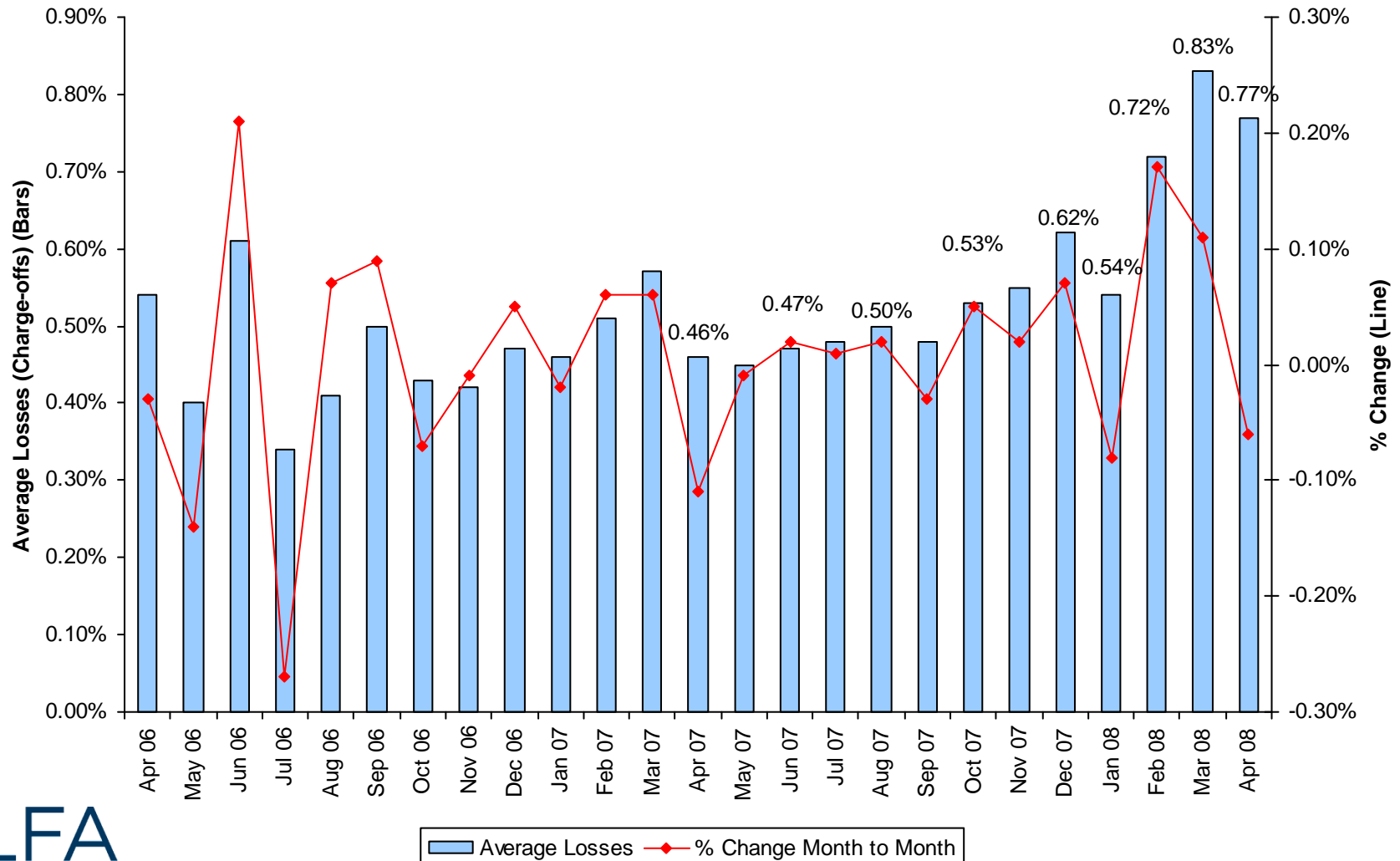
MLFI-25 New Business Volume (Year Over Year Comparison)



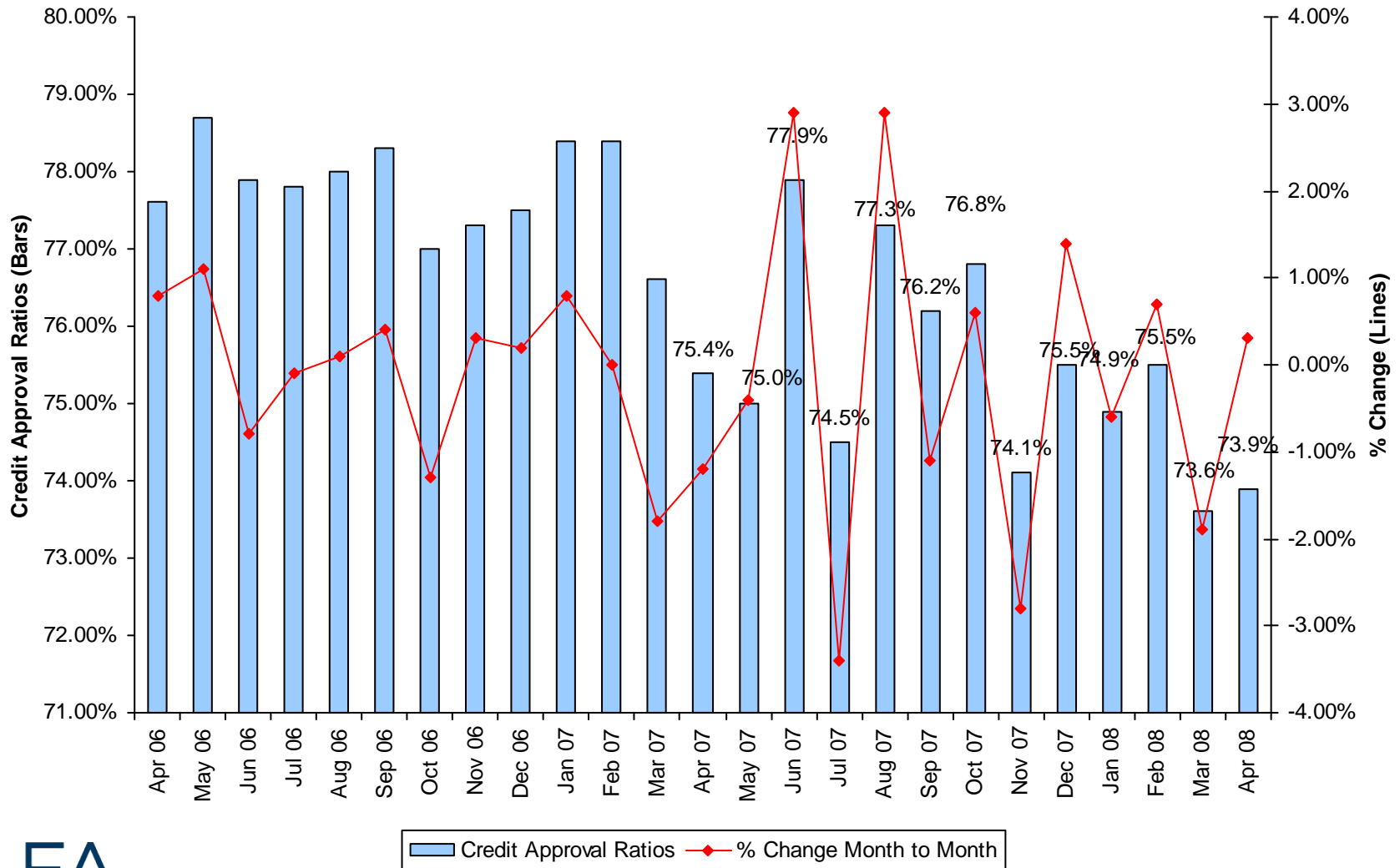
MLFI-25 Aging of Receivables



MLFI-25 Average Losses (Charge-offs) as a % of net receivables (Year Over Year Comparison)



MLFI-25 Credit Approval Ratios As % of all Decisions Submitted (Year Over Year Comparison)



Key Challenges in the US

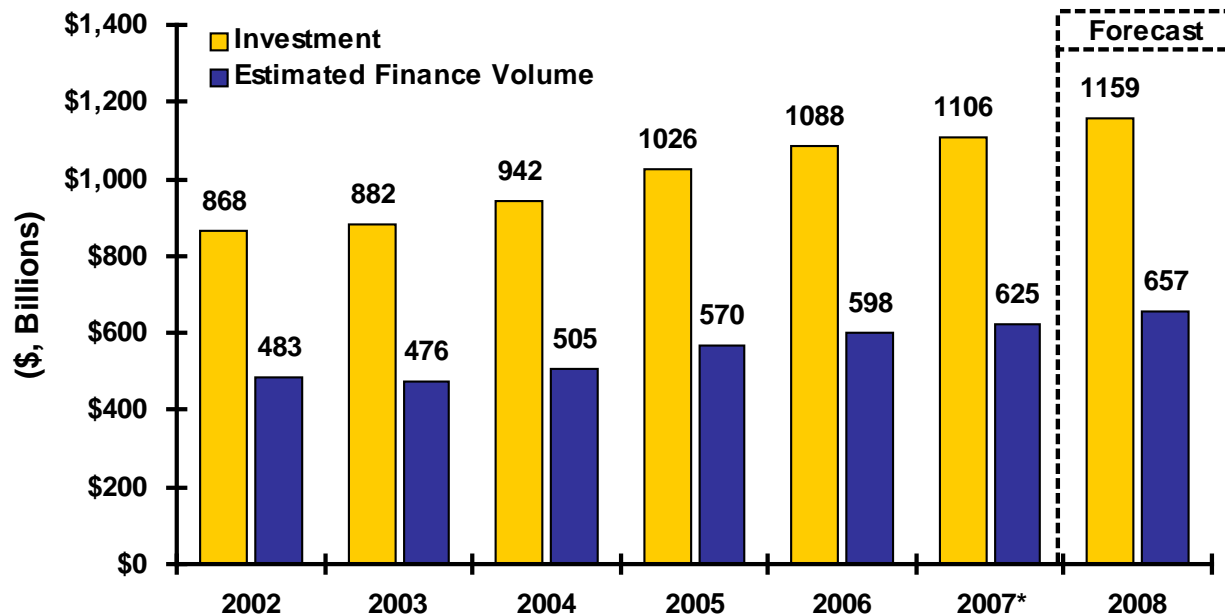
- Liquidity continues to be an issue for some finance companies in 2008
- Margin compression (seeing improvement in 2008)
- Changing accounting standards; off balance sheet treatment and expected changes
- Effects of regulatory response to the mortgage crisis
- Uncertainty regarding future US tax policy
- Impact of the mortgage problems are keeping some larger players out of the marketplace
- Global organizations with a ready supply of capital may fare well in 2008

U.S. Equipment Finance and Propensity to Finance Market Studies

- Sizes the U.S. equipment finance market
- Estimates likelihood and penetration rates for financing of various assets and industries
- Conducted by Global Insight for the Equipment Leasing and Finance Foundation

Expect Continued Growth, But Downside Risks Are Significant

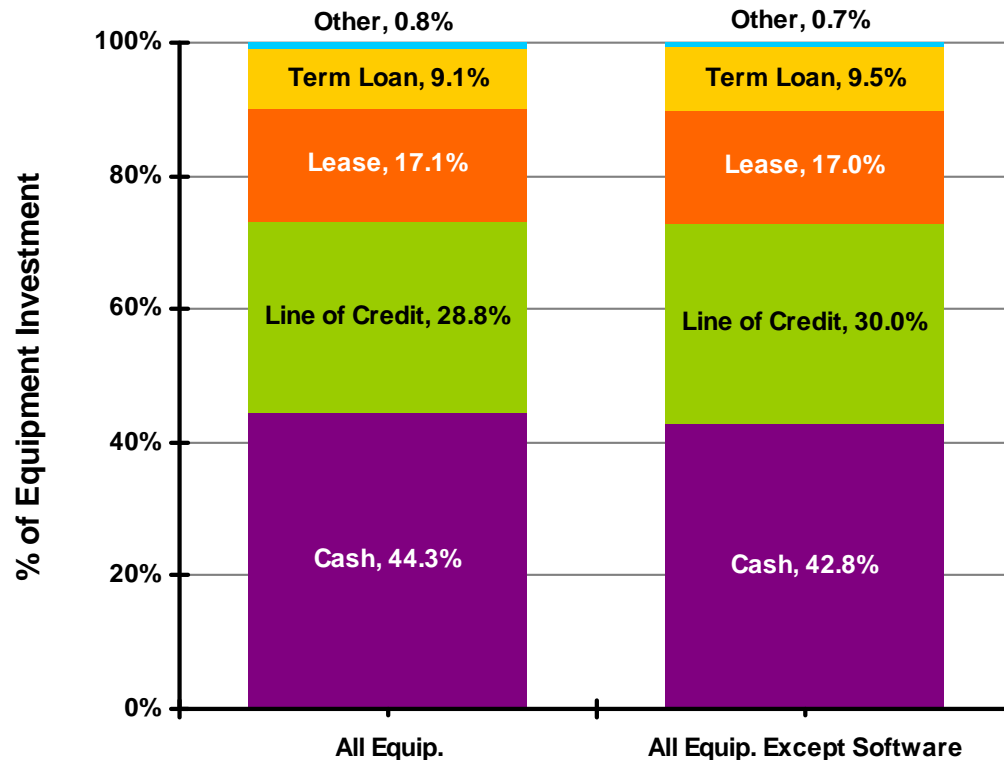
Public & Private Investment in Equipment & Software



	2003	2004	2005	2006	2007	2008
Investment	1.6%	6.8%	8.9%	6.0%	1.7%	4.8%
Est. Finance Vol.	-1.3%	6.0%	13.0%	4.9%	4.5%	5.1%

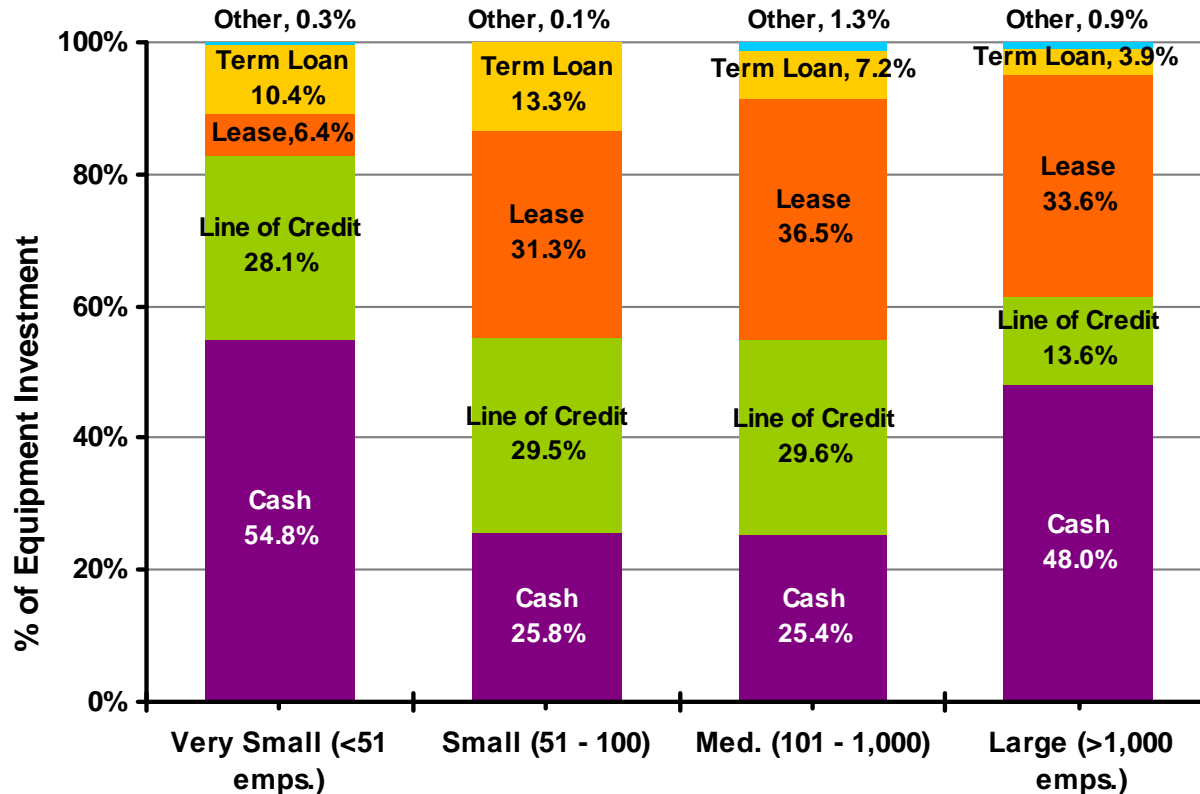
Source: U.S. Dept. of Commerce Bureau of Economic Analysis, and Global Insight

Overall Distribution of Financing Methods



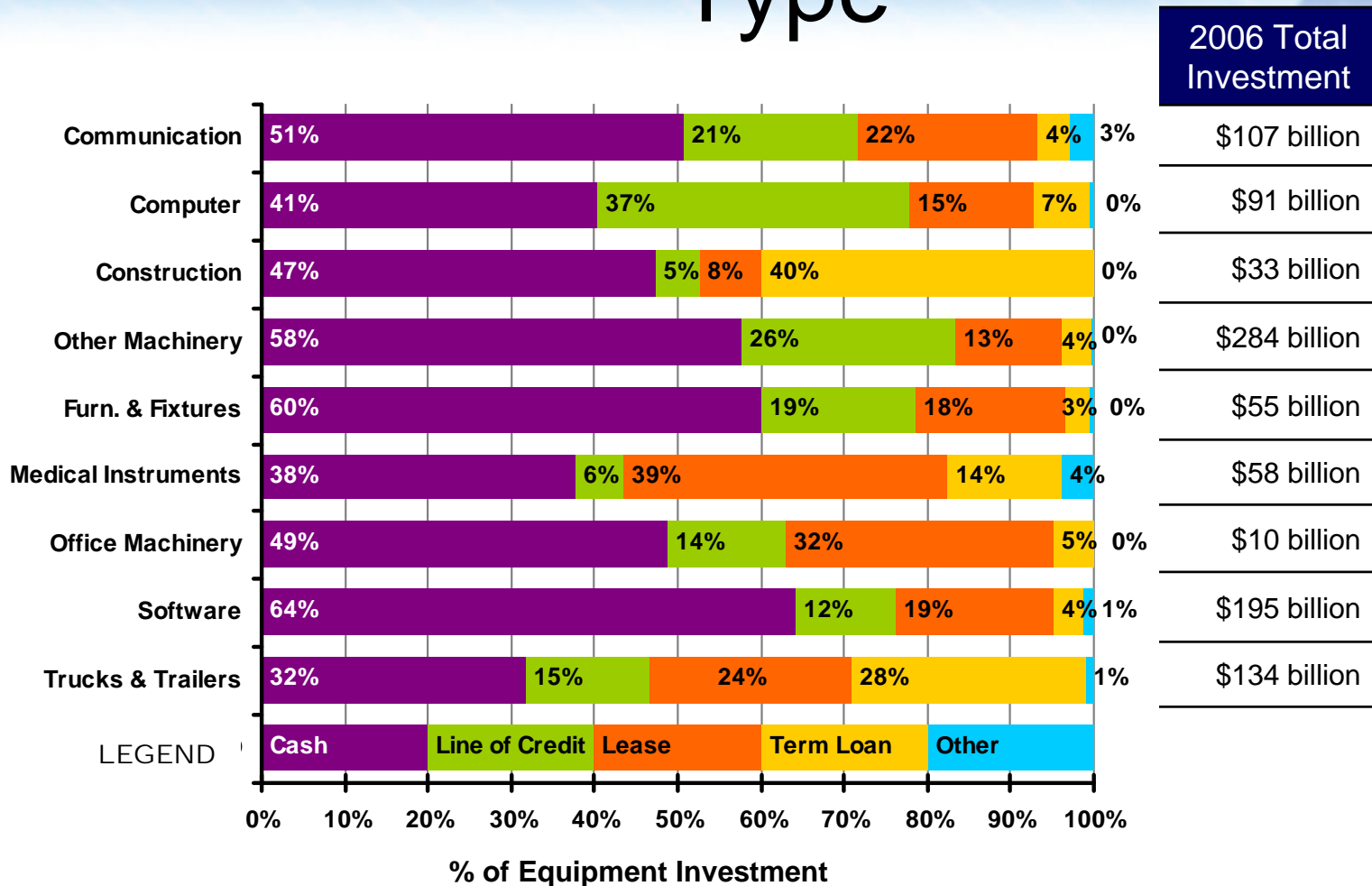
Approx. \$625 billion, the combined volume of equipment term loans, leases and lines of credit represents 55% of the value of equipment investment in 2007.

Financing Methods by Size of Firm



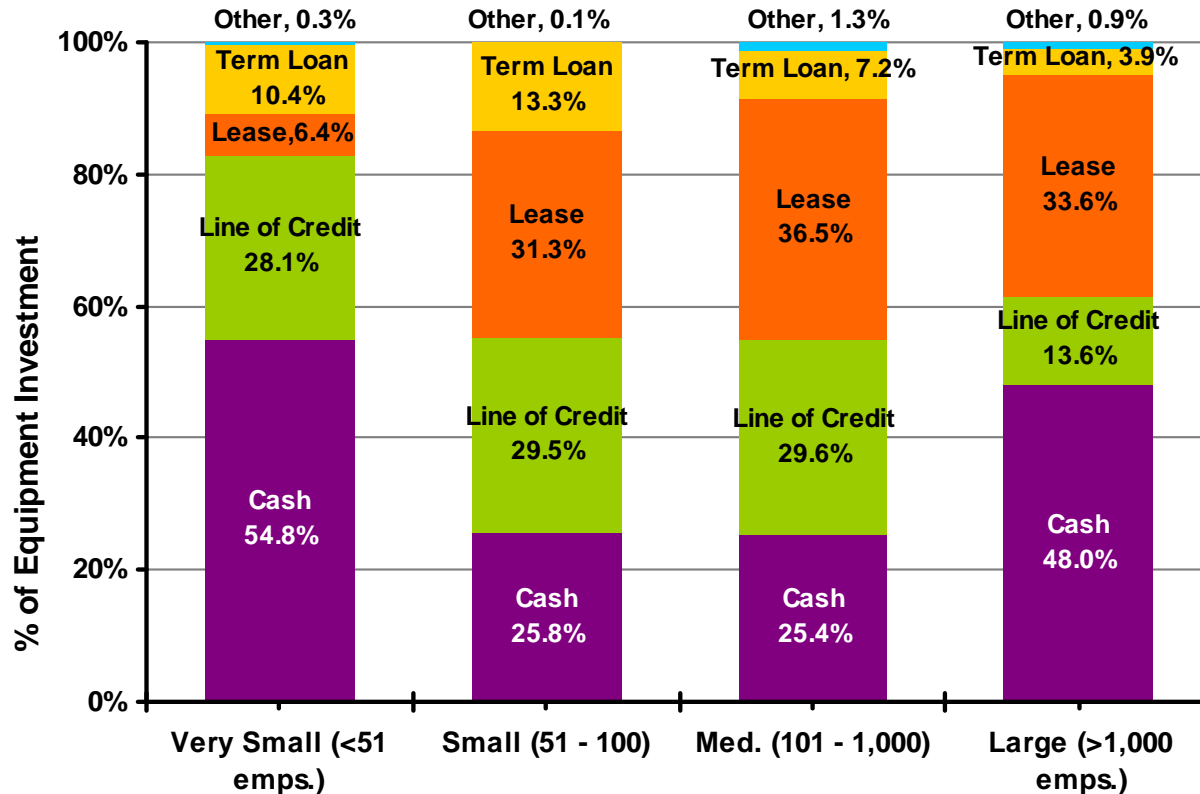
Small firms (51 to 100 employees) and medium-sized firms (101 to 1,000 employees) utilize equipment finance for 74.1% and 73.3% of their purchases, respectively.

Financing Methods by Equipment Type



Of the purchase types with a reliable sample size, the most heavily financed equipment were trucks & trailers (67%), while software required only 35%.

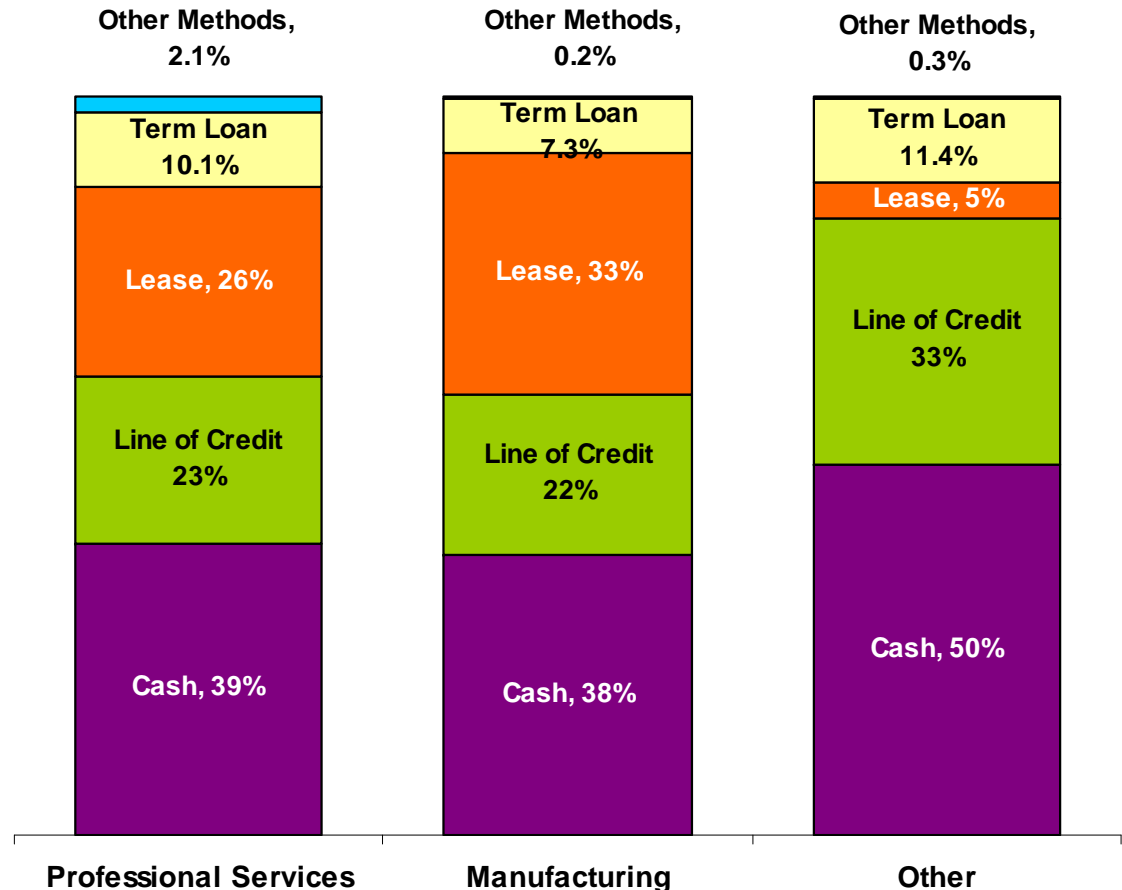
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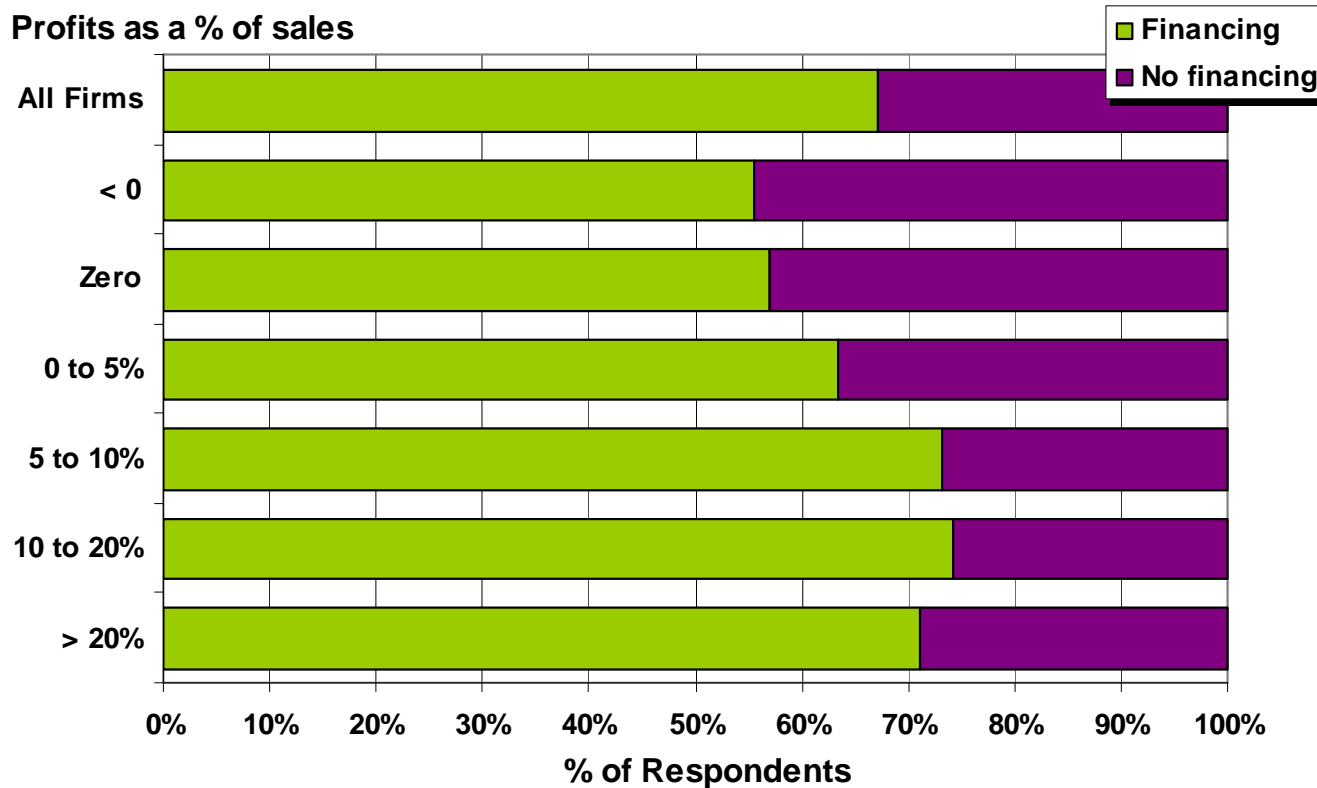
Financing Method by Industry

Confirming lender/lessor surveys, the professional services and manufacturers use equipment finance to a greater degree than other industries.



Profitability Impacts the Propensity to Finance

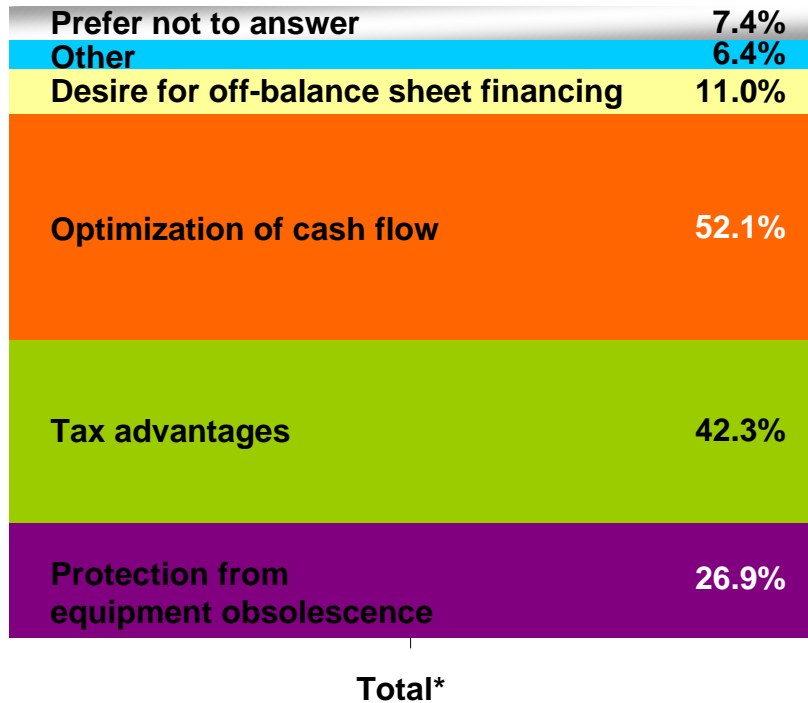
Financing Frequency vs. Firm Profitability



Businesses with high profits relative to sales are more likely to finance their equipment purchases than firms with small or negative profits relative to sales.

Reasons for Financing Purchases

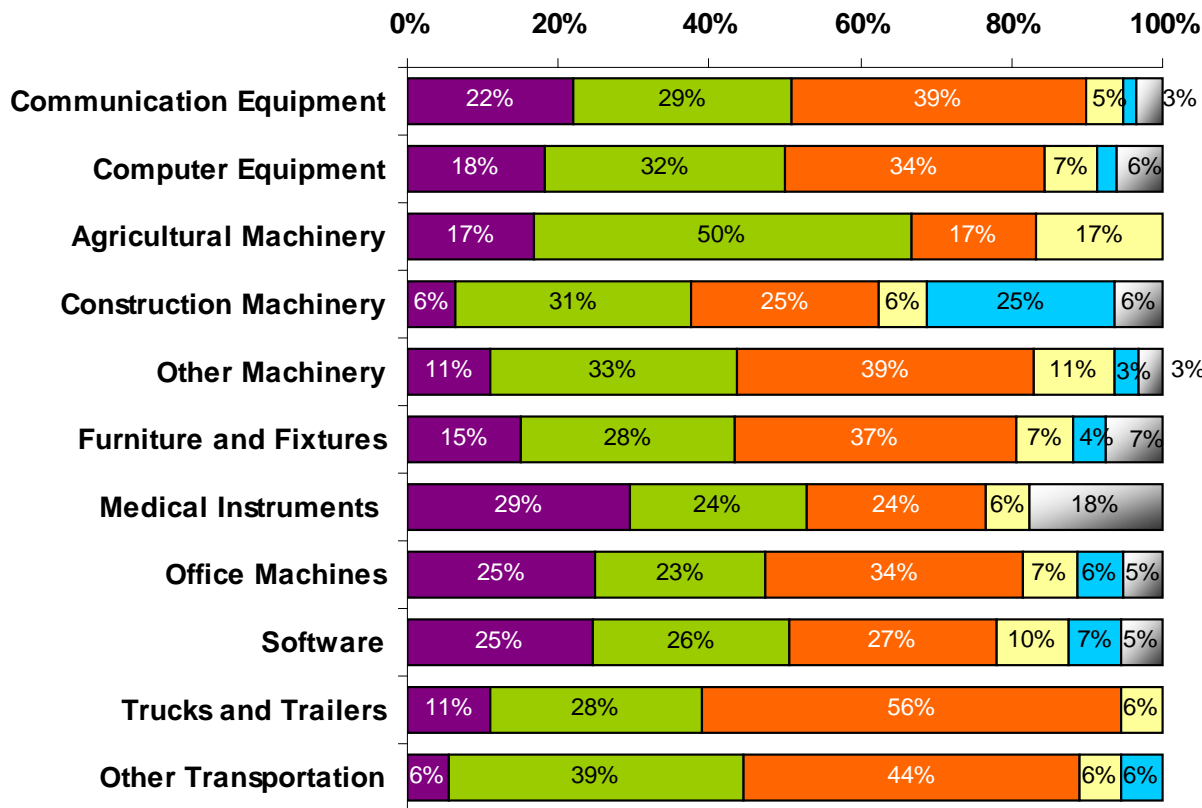
Reason for Financing - Total Percent of Responses



Optimization of cash flow and tax advantages are the primary reasons for using equipment finance for purchases.

* Total percent is more than 100% as respondents may have selected multiple responses

Reason for Financing by Equipment Type



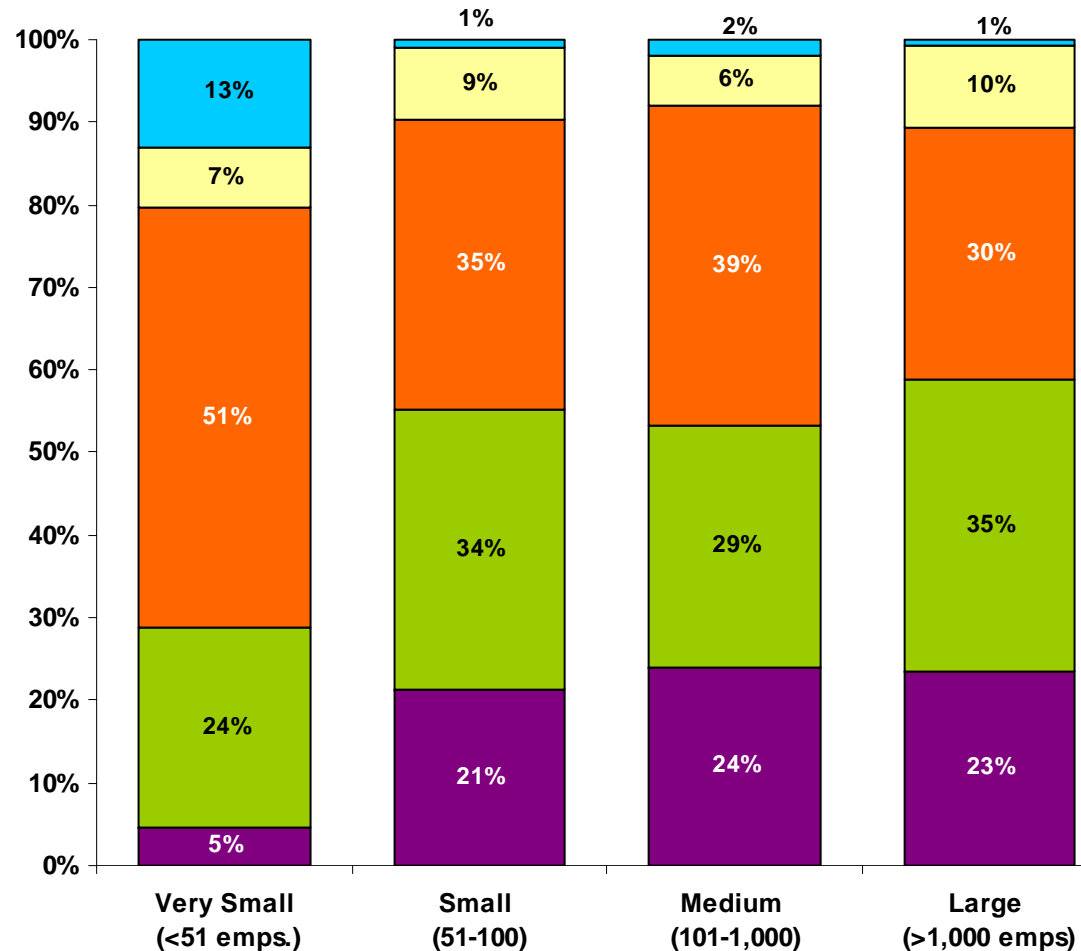
For most equipment types, optimization of cash flow is the primary reason for financing; however tax advantages play a major role for construction & agricultural machinery.

- Protection from equipment obsolescence
- Tax advantages
- Optimization of cash flow
- Desire for off-balance sheet financing
- Other
- Prefer not to answer

Reasons for Financing by Size of Firm

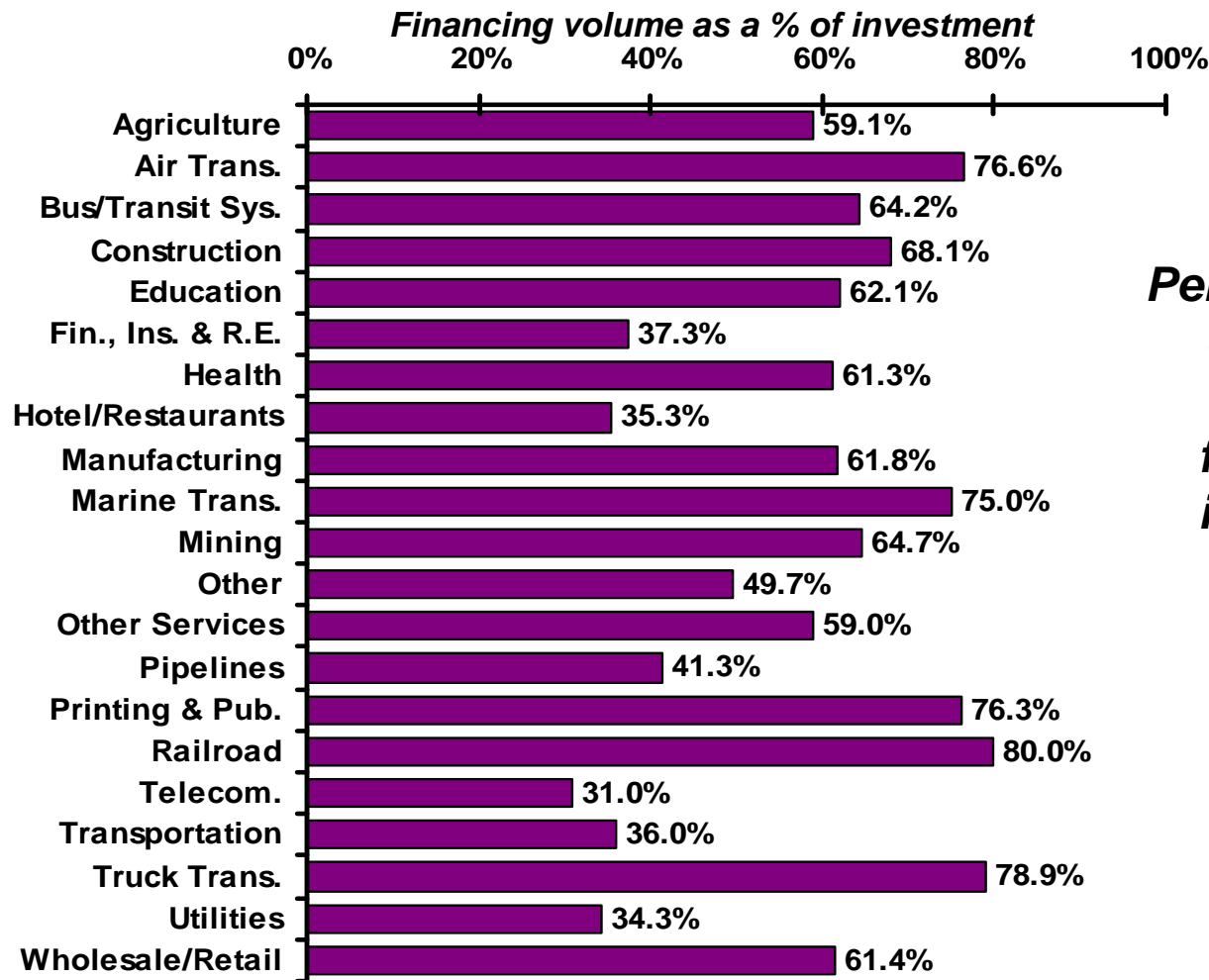
For firms with 50 employees or less, optimization of cash flow is the overwhelming reason for financing equipment purchases.

- Protection from equipment obsolescence
- Tax advantages
- Optimization of cash flow
- Desire for off-balance sheet financing
- Other



Percent of Responses by Size of Borrower

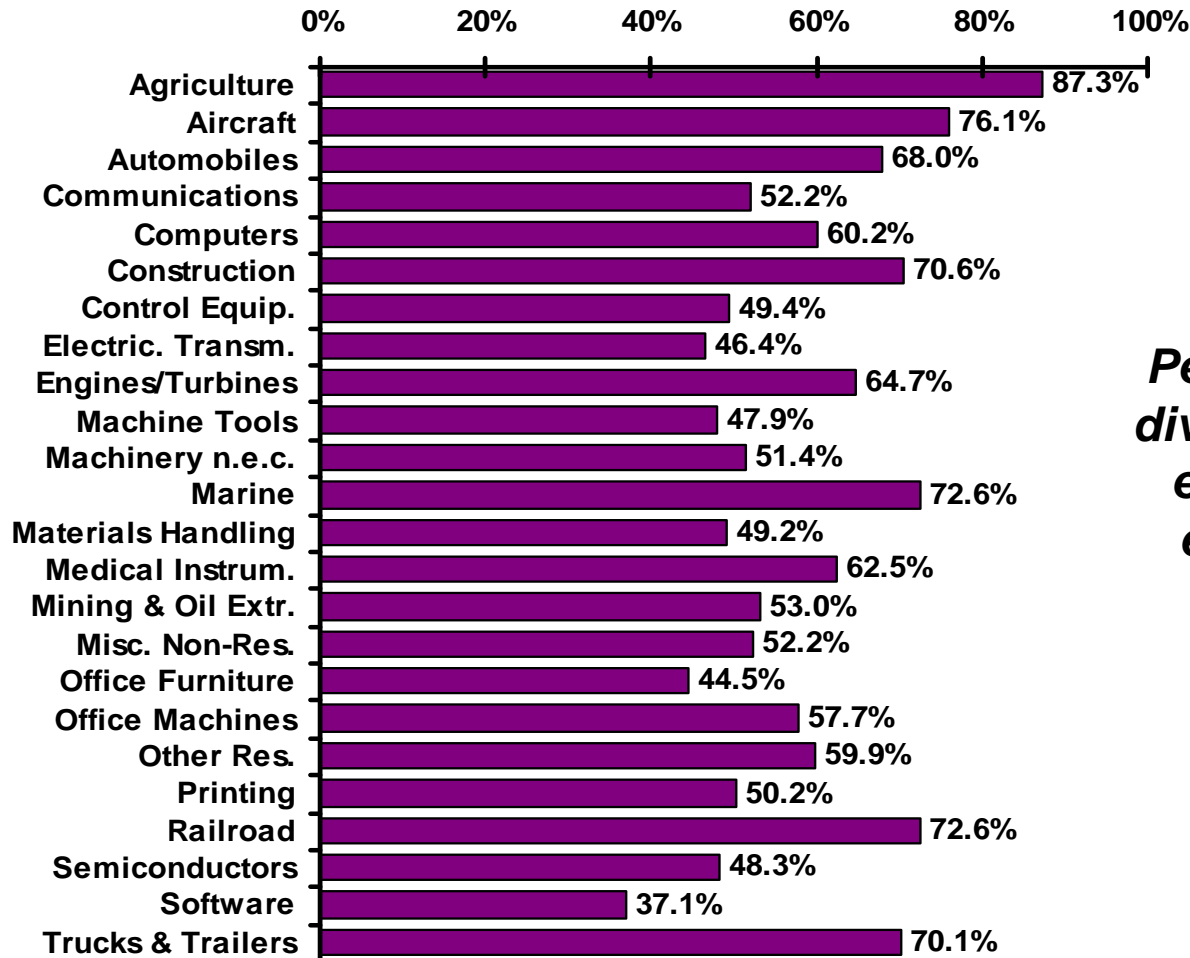
Utilization of Equipment Finance by Industry



Penetration rates derived by dividing overall market sizing estimates for financing by equipment investment by industry.

Utilization of Equipment Finance by Equipment Type

Financing volume as a % of investment



Penetration rates derived by dividing overall market sizing estimates for financing by equipment investment by equipment type.

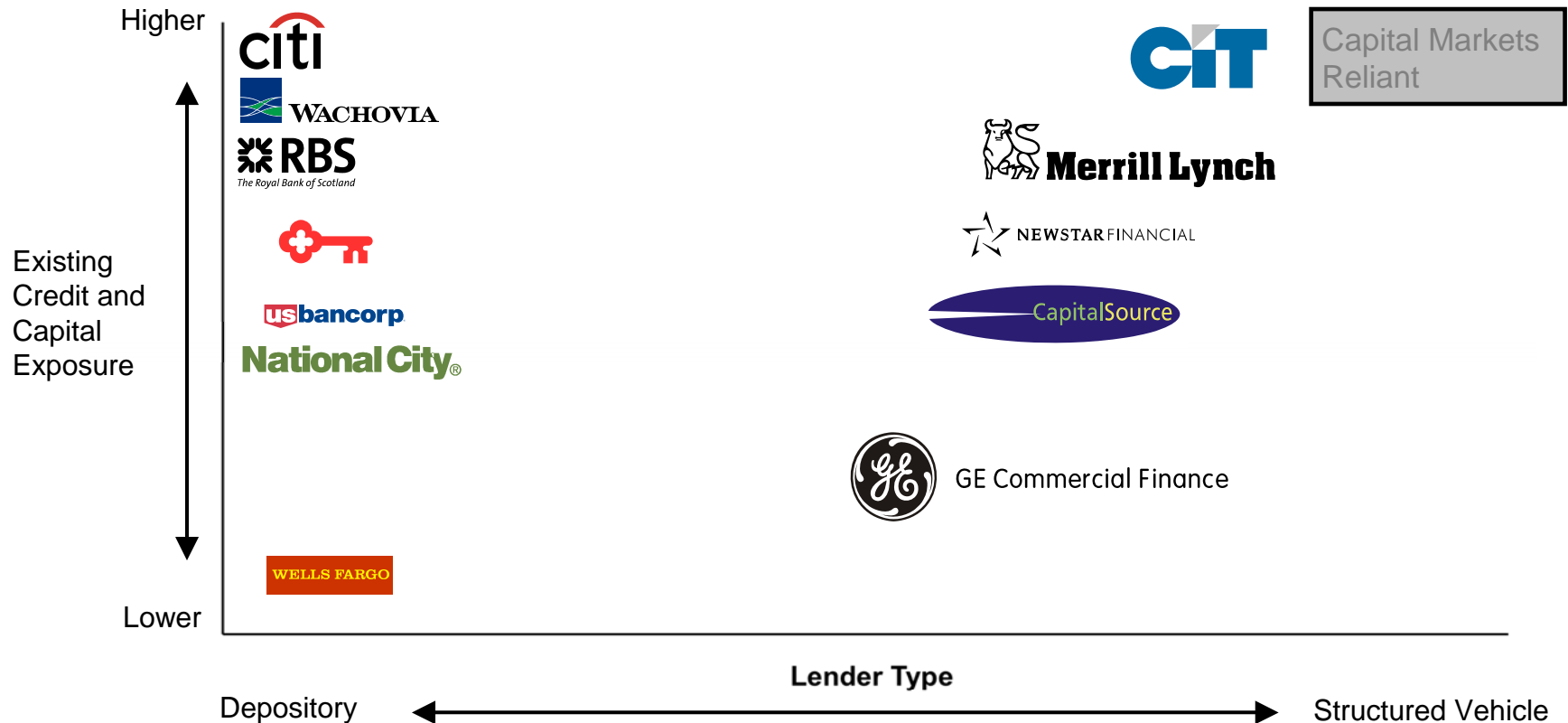
Summary of Key Findings: U.S. Equipment Finance and Propensity to Finance Market Studies

- The equipment finance volume for 2007 is estimated at \$625 billion, increasing to a forecasted \$657 billion in 2008.
- Equipment financing represents 55% of the total U.S. equipment investment. ^[1]
- Small firms (51 to 100 employees) and medium-sized firms (101 to 1,000 employees) utilize equipment finance for 74.1% and 73.3% of their purchases, respectively.
- The larger the ticket size, the more likely that the equipment will be financed. Equipment priced at \$5 million or more has over twice the financing share of items priced less than \$25,000, (71% versus 32%).

Summary of Key Findings (continued)

- The share of firms utilizing equipment finance for their purchases drops off sharply when annual sales are less than \$1 million.
- Businesses with high profits relative to sales are more likely to use equipment finance for their purchases.
- Optimization of cash flow and tax advantages are the top reasons for financing equipment purchases.
- Lenders/lessors have the ability to target specific segments by firm size, equipment type, ticket-size, and industry to optimize account acquisition strategy.

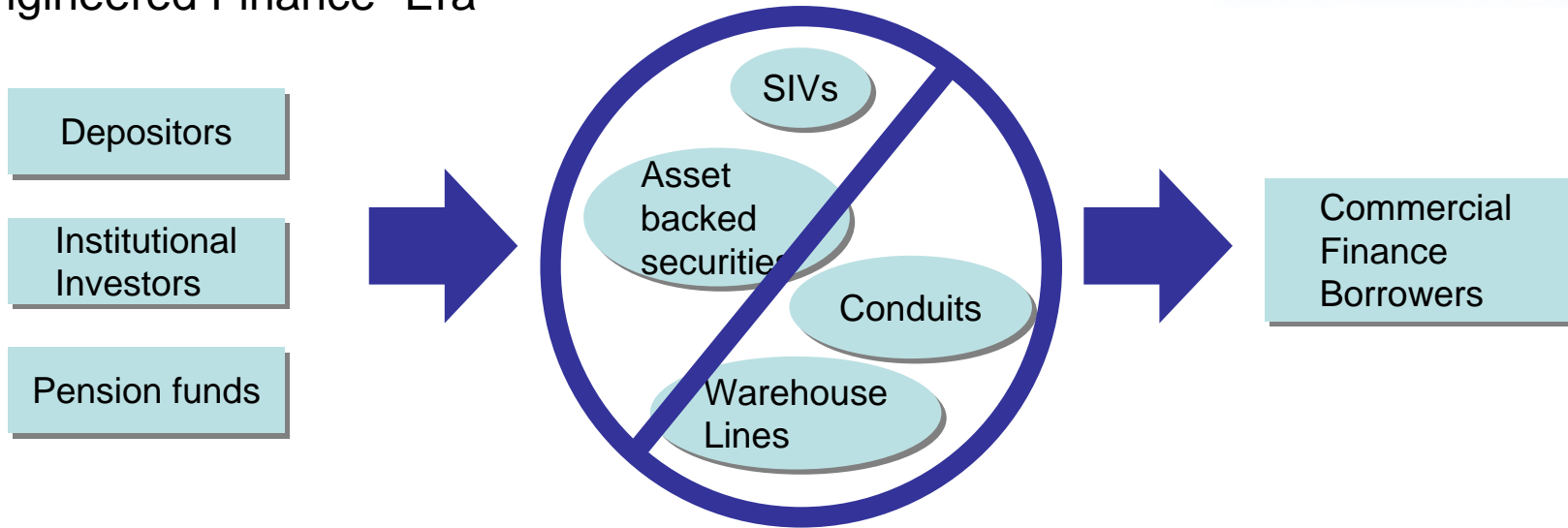
The industry is severely capital constrained...



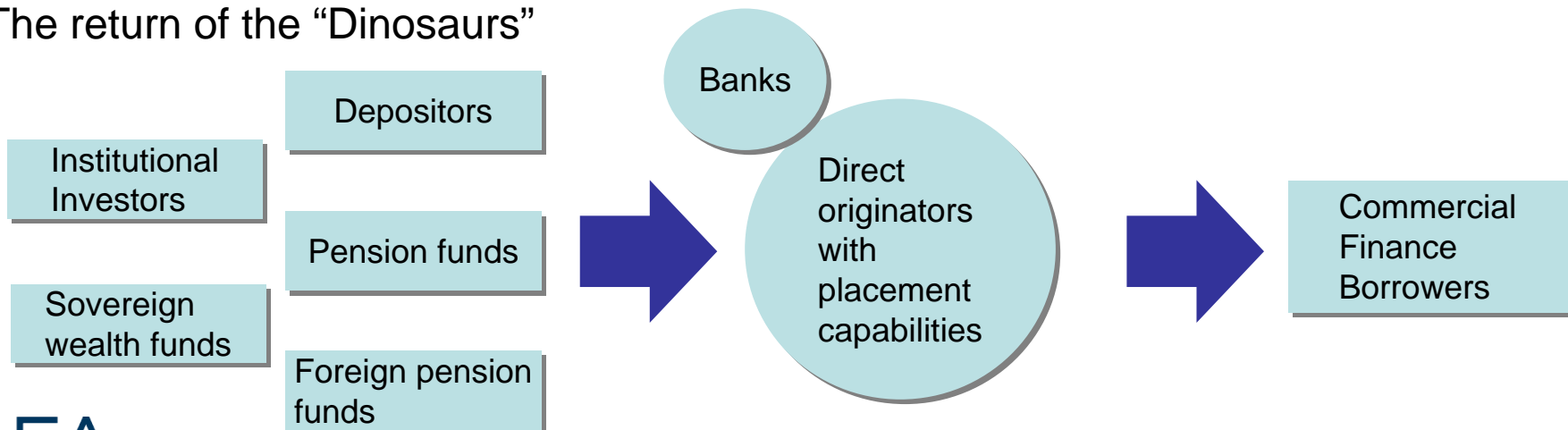
...Creating both major opportunities and challenges.

“Back to the future”

The “Engineered Finance” Era



The return of the “Dinosaurs”



Marketplace Summary

- **The headwinds of the credit market dislocation are unlikely to abate anytime soon**
- **Well capitalized commercial finance companies with liquidity should be able to take advantage of an attractive spread environment**
- **Credit quality will become more of a concern as portfolios season and become exposed to a possible recession**
- **Significant financing risk exists for commercial finance companies that rely on the capital markets including the securitization market**
- **Catalysts for a Recovery — A broad recovery in the credit markets could result if there is aggressive governmental action in the residential market....probably a long shot at this point**
- **Volume growth in equipment finance to continue, export markets to help**

ELFA

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