ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

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The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve
Washington, DC 20551
Transmitted Electronically

Dear Chairman Powell:

On behalf of the nearly $1 trillion equipment leasing and finance industry, I am writing to submit comments regarding the recently announced Main Street Lending program. A short background about the Equipment Leasing and Finance Association (ELFA) follows the signature block.

Small equipment finance companies provide a critical service to the U.S. economy. Whether it is a grocery store financing freezers, a restaurant financing ovens, a small business financing a copier, a fitness center financing treadmills, or a golf course financing golf carts, many times these leases or financings are carried out by small (well under 500 employees) equipment finance companies. These deals are made by small finance companies because oftentimes these transactions are of a size that is not attractive or economical for banks to pursue. Oftentimes, a small equipment finance company has developed an expertise in a specific equipment vertical; expertise in the asset class underlying the transaction allows them to underwrite transactions that a lender with a broader focus might not be comfortable pursuing. Lastly, small equipment finance companies can often process these transactions in a matter of hours whereas a larger institution might take several days.

Small equipment finance companies oftentimes sell portions of these portfolios to banks or larger equipment finance companies. Additionally, some small equipment finance companies securitize significant portions of the leases and loans they originate. It is indisputable that small equipment finance companies play a critical role in the U.S. economy, and will play a critical role in getting the economy running normally again as the health crisis begins to recede.

As you are aware, as of the time of this submission, most small finance companies are excluded from receiving funds under the Small Business Administration's Paycheck Protection Program. Additionally, the Paycheck Protection Program is already fully subscribed to its initial $350 billion allocation, with a path for additional funding unclear.

We are concerned that the loan standards contained within the Main Street Lending program may dramatically limit the availability of loans under the program to small equipment finance companies that have relatively high debt to EBITDA ratios when compared to non-financial companies. As a measure, debt to EBITDA ratios for finance companies do not align with the market averages due to a majority of the cash flow received by finance companies being principal or capital returned from the transactions they invest in, which doesn't get picked up in the definition of EBITDA. Thus, EBITDA is understated vs the underlying debt causing higher debt to EBITDA ratios that may not comply with the program requirements. In general finance companies have debt to EBITDA ratios that align with the asset lives, which may be long in duration.

ELFA is concerned that the combination of these two factors may leave small equipment finance companies with no avenue for federal relief during these unprecedented times. It has been striking to hear from equipment finance companies repeatedly telling stories of the companies that are unable to make payments, and for which they are granting deferrals. The companies seeking deferrals are not their lowest credit customers, but the opposite, it is frequently the best customers who are seeking deferrals and cannot pay because their revenue went to zero due to a government-mandated closure. If equipment finance companies are left with no avenue for relief, they will be forced to reduce payroll, stop making new loans, and will not be ready to respond when the economy begins to reopen in the coming months.

We encourage the Federal Reserve to consider how to accommodate small finance companies into the Main Street Lending Program so that this critical portion of the U.S. capital formation system is not left out of the government's relief efforts. One way to accomplish this would be to exclude the debt to EBITDA ratio for finance companies. A second more complex method would be to include an adjusted EBITDA for finance companies that includes principal portion of direct finance leases or loans. However, finance companies that finance longer life assets will still have higher debt to EBITDA ratios as the term of their portfolio is longer.

For more information, or if we can be of assistance as you further develop this program or others, please contact Andy Fishburn, ELFA's Vice President of Federal Government Relations at afishburn@elfaonline.org. We stand ready to assist the Federal Reserve as you undertake these monumental tasks to provide critical relief to U.S. businesses.

Respectfully submitted,

Ralph Petta
President and CEO

BACKGROUND ON ELFA

ELFA is the trade association representing financial services companies and manufacturers in the nearly $1 trillion U.S. equipment finance sector. Equipment finance not only contributes to businesses' success, but to U.S. economic growth, manufacturing and jobs. Seventy-nine percent of U.S. companies use some form of financing when acquiring equipment, including loans, leases, and lines of credit (excluding credit cards). In 2019, a projected $1.8 trillion will be invested by U.S. businesses, nonprofits, and government agencies in plant, equipment, and software. Approximately 50%, or $900 billion of that investment, will be financed through loans, leases and lines of credit. America's equipment finance companies are the source of such financing, providing access to capital.

ELFA represents more than 575 member companies, including many of the nation's largest financial services companies and manufacturers and their associated service providers, as well as regional and community banks and independent, medium, and small finance companies throughout the country. ELFA member companies finance the acquisition of all types of capital equipment and software, including agricultural equipment; IT equipment and software; aircraft; manufacturing and mining machinery; rail cars and rolling stock; vessels and containers; trucks and transportation equipment; construction and off-road equipment; business, retail, and office equipment; and medical technology and equipment. The customers of ELFA members range from Fortune 100 companies to small and medium sized enterprises to governments and nonprofits.

ELFA represents virtually all sectors of the equipment finance market and its members see virtually every type of equipment financing transaction conducted in the United States and every type of funding available to providers of equipment finance. ELFA members who are service providers to the equipment finance industry (such as lawyers, accountants, trustees and vendors) have a unique vantage point of seeing scores of financial transactions from initial concept to final payout and from the perspective of both the borrower/issuer and lender/investor/funding source. ELFA truly is at the heart of equipment finance in the United States and our member companies provide lease, debt, and equity funding to companies of all sizes.