2019

Survey of Equipment Finance Activity

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

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MySEFA

A personalized data tool that lets SEFA survey respondents track their own operational and performance statistics and compare them against their peers. Only available to companies that participate in the SEFA.

***Learn more at* www.elfaonline.org/SEFA**

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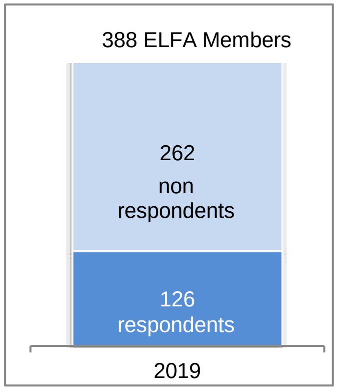
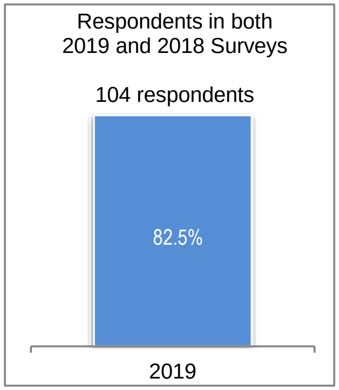
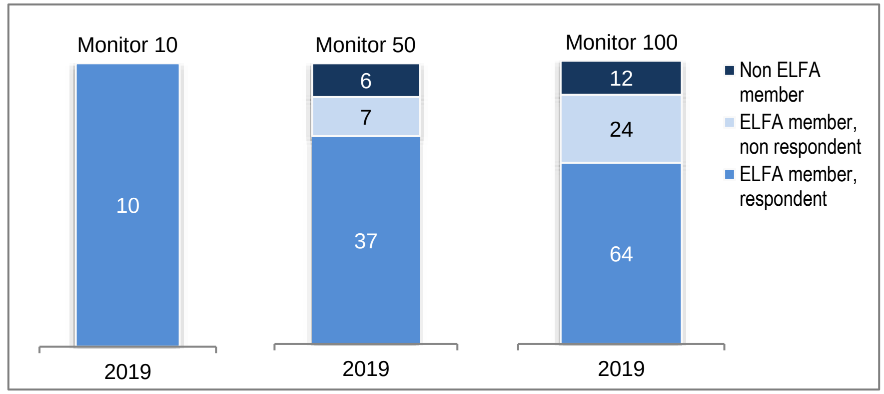
About The ELFA 2019 Survey of Equipment Finance Activity Report

Who Participates in This Survey?

ELFA Members participate in the Survey. Respondents to this survey represent the majority of the 2018 Monitor 100, with 80.9% of the assets reported there. Note that this report has a different scope than the Monitor. Here, we ask respondents to focus on their U.S. equipment leasing and finance business only.







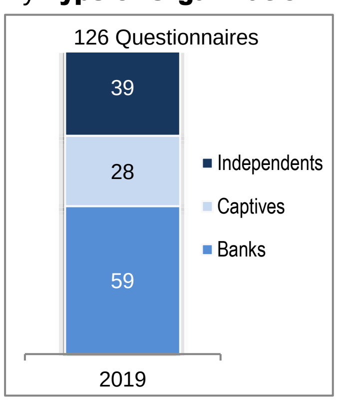
126 questionnaires were used to compile this Survey.

What Information Is Provided in This Survey?

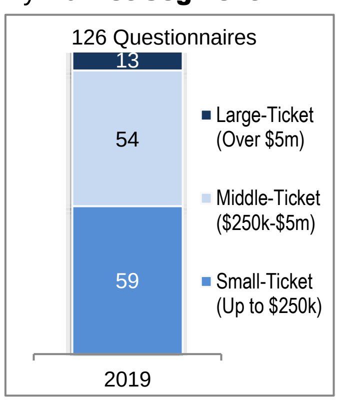
- Financial and Operational Information, covering New Business Volume (NBV), Financial Statements, Collections, Credit, Remarketing, Employee Levels.
- The data represents operations in the **United States** only.
- Respondents are asked to **exclude** dealer floorplan or wholesale financing, real estate leasing and financing, and non equipment finance operations.
- The data is **not audited**, but simply **compiled**. The data is **not extrapolated** to industry-wide projections.
- Respondents provide **two years of data** for almost all data points covered in the Survey.
- Respondents do not necessarily provide data for all 66 questions in the Survey. Note that each table shows the number of respondents included in that table.

How Are Respondents Categorized?

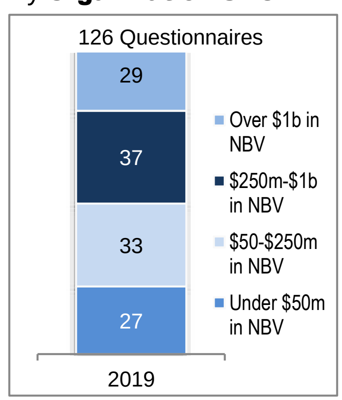
By **Type of Organization**



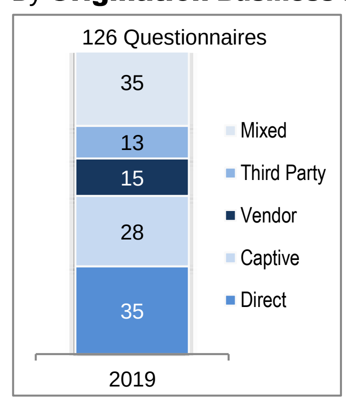
By **Market Segment**



By **Organization Size**



By **Origination Business Model**



For complete definitions of these categories, please see the Glossary in the Appendix to the report.

EXECUTIVE SUMMARY

The Equipment Leasing and Finance Association is pleased to present the 2019 Survey of Equipment Finance Activity. The Survey is the most important source of statistical information available on the $1-trillion equipment finance industry. This survey report covers key statistical, financial and operations information for 126 equipment leasing and finance companies.

Growth once again chased off the specter of an economic downturn as equipment finance companies charted a solid 4.4% overall increase in New Business Volume (NBV) for 2018. The rise was lower than the 6.9% increase achieved in 2017, but still impressive when compared with growth of the nation's GDP, reported at 2.9% for 2018 by the U.S. Department of Commerce.

End-user industries leading growth were Services and Wholesale/Retail, followed closely by Transportation, Agriculture and Industrial & Manufacturing. Equipment types shepherding growth were PCs and Workstations, Construction, and Trucks & Trailers Transportation.

Delinquencies edged up in 2018 to 4.5% overall, from 4% in 2017. But Net Full-Year Losses more than tripled overall, rising from a meek 0.27% in 2017 to 1.14% in 2018. Railroad Transportation, Mining, and Manufacturing were the largest contributors. Additional findings pertaining to the full industry appear after the following breakdown.

Key Findings by Sector

Banks: A 2.9% increase grew Banks' NBV to $87 billion in 2018. But the 2.9% growth rate was well below the 5.3% increase in 2017 and was the lowest in five years. IT equipment in the form of PCs and Workstations more than doubled its contribution to NBV, while Railroad and Trucks / Trailers Transportation also increased noticeably. But contractions in NBV from state and local governments as end-users, along with a late-year tightening of credit criteria, may have been partly to blame for lackluster growth performance. Banks were further hindered by increased costs of funds and though pre-tax yield increased, it did not cover the increase in cost of funds so in the end, pre-tax spreads decreased.

Bank delinquencies at 4.7% were in line with the overall rate of 4.5% of receivables over 31 days past due. Government-Federal and Mining/Oil & Gas Extraction led past-dues by end-user industry, each with totals of 4.5%. The vast majority of those in Mining/Oil & Gas Extraction were more than 90 days delinquent. Net full-year losses for Banks climbed to 1.04% – lower than the overall rate of 1.14%, but a leap from the 0.19% that Banks experienced in 2017.

Captives: With a 6.1% increase that brought NBV to $42.5 billion in 2018, Captives experienced moderate growth from NBV originated through vendor programs or sourced through third parties, while NBV originated through captive channels rose significantly.

EXECUTIVE SUMMARY *… continued …*

Captives distinguished themselves with a decrease in delinquencies as other sectors experienced an increase. Past-dues fell to 3.8% of receivables, compared to 5.4% in 2017. In addition, Captives' net full-year losses rose just 0.02% in 2018 to 0.40% – a rate that is less than half the overall rate of 1.14% of average receivables. Slight increases to in-house personnel in Credit Approvals and Servicing may have contributed to these results.

Although delinquencies were down, Transportation-Railroad led the end-user industries contributing to it, with 28% of accounts past due. Of those, nearly half were 90 days past due. Transportation-Railroad produced just 0.3% of Captives' total NBV in 2018.

Independents: With a 14.6% increase that brought Independents' 2018 NBV to $7 billion, growth for this smallest of sectors far outstripped that of other sectors. The five largest Independents grew their NBV by an average of 13%; though one respondent experienced a decline, another respondent more than doubled their new business volume year-over-year. In comparison, on average the top five Banks by volume only grew an average of 1% in 2018, with two seeing negative growth and the top performer seeing 6% growth.

The cost of funds rose for all three sectors, but only Independents experienced an increase in yield higher than the cost of funds. That Independents were able to increase spreads by 20 basis points suggests that Independents are not competing on price, but using technology as well as knowledge of the industry and/or customer needs to acquire business.

End-user industries leading Independents' NBV were unchanged from 2017, and were Services-Other, which includes services in data-processing, administrative support and repair; Wholesale/Retail; and Truck Transportation. But Mining/Oil & Gas Extraction nearly tripled to account for 5.3% of Independents' 2018 NBV, possibly due to policy and regulatory changes, and Industrial Manufacturing-Metal and Machinery also climbed as end-user industries ranging from computer and electronics products to petroleum and coal products showed growth.

A barely perceptible 0.2% rise brought Independents' delinquencies from 1.4% to 1.6% of portfolio, lower than percentages reported by Banks or Captives. But Independents' net full-year losses rocketed to 3.27% in 2018, more than double the overall rate of 1.14%, itself a dramatic increase over 2017. Tax changes that took effect in 2018 limiting the net operating loss carryback/carryforward rules may have contributed to the surge.

Credit approvals for Independents rose by 2% to nearly 40% of applications submitted. But the percentage of approved applications that were booked and funded contracted slightly to 62.2% from 64.0% in 2017, reflecting the decrease overall. However, in dollar terms, applications booked and funded increased in 2018.

EXECUTIVE SUMMARY *... continued ...*

Overall Trends

The Small-Ticket segment commanded industry growth in 2018 with a 9.3% increase in NBV. The rise was more than double the increase of the Middle-Ticket segment and in stark contrast to the contraction in NBV experienced by Large-Ticket segment. Significantly, PCs and Workstations led equipment types with the growth in NBV, while Mainframes and Servers saw the greatest year-over-year declines. IT, Transportation and Construction dominated the market.

The percentage of respondents whose NBV increased rose to 63.5% overall in 2018, the highest rate since 2015. Captives won this contest with 68% reporting growth. But the percentage of Independents experiencing higher NBV declined slightly.

Assets Under Management rose 2.8% in 2018 to reach $267 billion overall, but Return on Assets weakened to 1.3% from 1.7% in 2017, largely due to companies' adjustment to the new tax regime. Nevertheless, balance sheets strengthened as Net Earning Assets and Operating Lease Assets increased 2.7% over 2017 levels, and Reserves for Losses decreased in dollar value. Return on Average Equity fell sharply after rising in 2017 in response to changes in tax policy. And while Gross Revenues increased by 6%, a 28% jump in interest expense led to an overall drop in Net Lease and Loan Revenues of nearly 5%.

But growth continued in all sectors in 2018 despite an 81-basis-point climb in the cost of funds that reflected increases instituted by the Federal Reserve. Although pre-tax yields increased by 63 basis points overall, the rise was not sufficient to prevent a decrease of 28 basis points in pre-tax spreads. Spreads have narrowed in each of the past five years. In 2018, just 34% of respondents saw their pre-tax spreads widen.

Yet, a 30% overall leap in IT expenses for 2018 suggests that companies in every sector, market segment and size category are working feverishly to boost efficiencies and thereby increase spreads. Independents and Captives outspent Banks, while Small-Ticket IT spending topped that of other segments. Organizations with revenues of $50 million to $250 million spent significantly more on IT than companies of other sizes, and respondents with vendor origination business models spent more than those with other business models.

Accordingly, the number of applications processed with auto-decisioning rose dramatically across the industry, as did total dollars approved. Credit decision turnaround time also fell across all transaction sizes for the vast majority of respondents.

EXECUTIVE SUMMARY *... continued ...*

Participants

A total of 126 questionnaires were submitted by ELFA member companies for the 2019 Survey. Participants represent the majority of firms listed in the 2018 Monitor 100 and just under 81% of the assets reported there. For the purposes of the SEFA, however, respondents were asked to focus exclusively on their U.S. equipment leasing and finance business. One hundred four of the 126 respondents, or 82.5%, also participated in last year's survey.

Of this year's participants, 47% categorize themselves as Banks, while 31% define themselves as Independents and 22% classify themselves as Captives. By market segment, 47% specialize in small-ticket transactions (up to $250,000), while 43% focus on middle-ticket transactions ($250,000 to $5 million). Just 10% work principally in the large-ticket segment (over $5 million).

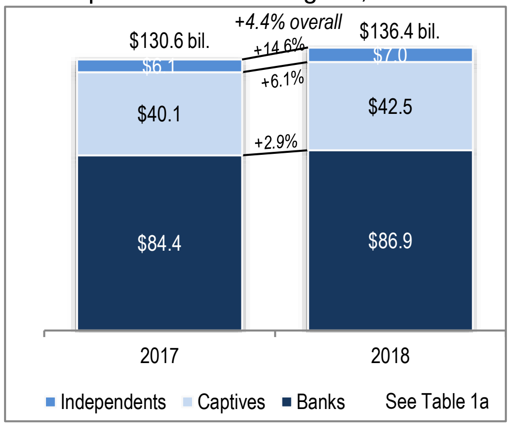
In terms of new business volume, 29 participating companies reported doing over $1 billion in 2017, while 37 participants reported NBV of $250 million to $1 billion. Another 33 respondents reported doing $50 million to $250 million, while 27 participants reported under $50 million in NBV. Classifying participants by origination business model, 35 companies reported doing business directly, while 28 said they use a captive model. Another 35 companies reported using mixed origination models, while 15 said they use the vendor model and 13 said they acquire NBV primarily through third parties. For complete definitions of all categories, please see the Glossary in the Appendix of this report.

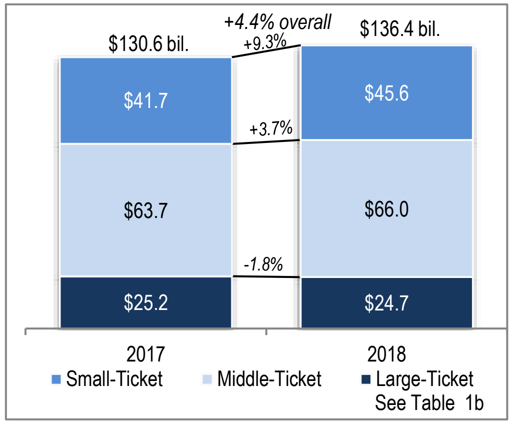
About the Survey

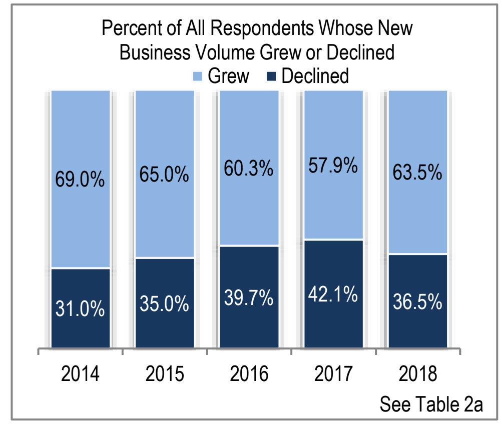
Participation in the Survey of Equipment Finance Activity is a benefit of membership in ELFA. Member-respondents receive a complimentary copy of the survey report, as well as confidential individual company data sheets, which show the individual company's statistics ranked against a peer group.
In addition, the indivdual company's statistics is published in the form of a Tableau dashboard with five years of historic data for trending.
For more information about the report, please visit www.elfaonline.org/SEFA.

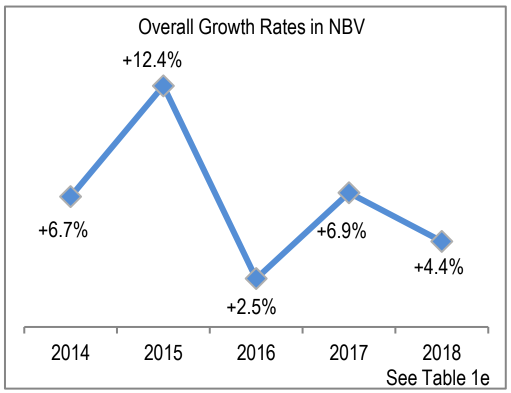
MAJOR FINDINGS

New Business Volume (NBV) **grew by 4.4%** in 2018. Independents grew the most by percentage, at 14.6%, though from a lower base, followed by Captives at 6.1 Growth by the Banks was at 2.9%, closer to the overall growth rate for the Survey. The Small-Ticket segment led the industry in growth at 9.3% increase in NBV. Most respondents' volume grew, with over 63% of respondents experiencing growth in 2018.









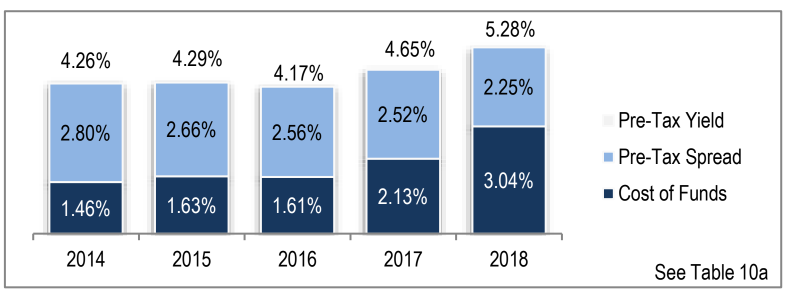
End-User Industries with Most Growth in NBV:
- Truck Transportation
- Wholesale / Retail
- Construction

End-User Industries with Greatest Decline in NBV:
- State & Local Government
- Other Services
- Educational Services

Equipment Types with Most Growth in NBV:
- PCs and Workstations
- Construction
- Trucks & Trailers Transportation

Equipment Types with Greatest Decline in NBV:
- Mainframes and Servers
- Software
- Energy

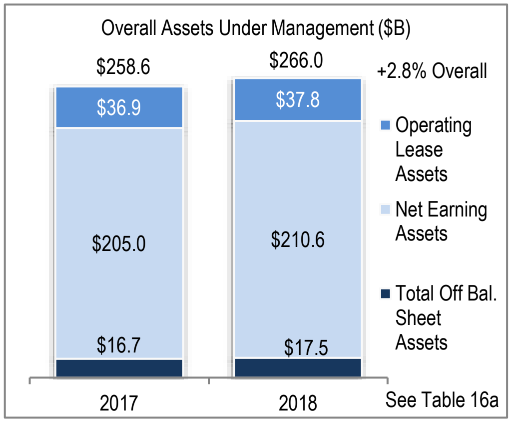
Note that these lists reflect growth and decline rates of respondents who provided two years of data.

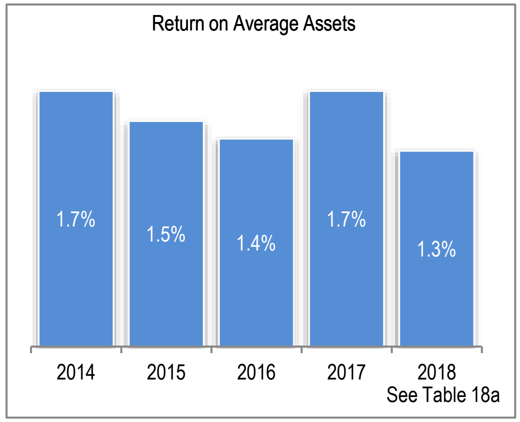


Overall, **Pre-Tax Yields increased** by **63 basis points** in 2018 compared to the previous year. This is driven by a sharp increase in **Cost of Funds.** Despite the **increase in yields,** there was a **27 basis point decrease** in **Pre-Tax Spreads**.

MAJOR FINDINGS *… continued …*

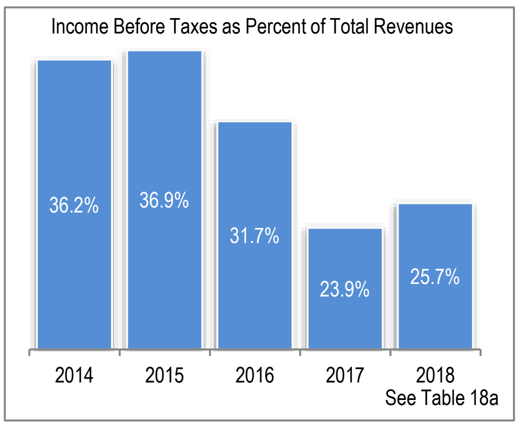
Assets Under Management grew between 2017 and 2018. **Return on Assets** decreased in 2018 to 1.3% from 1.7% in 2017. In 2017, there was an increase in ROA driven by the change in corporate income tax. This led to a significant jump in Net Income after taxes as Provisions for Taxes was a negative number in 2017. A more standard Provision for Taxes is seen in 2018, as the respondents had already accounted for the new tax regime.

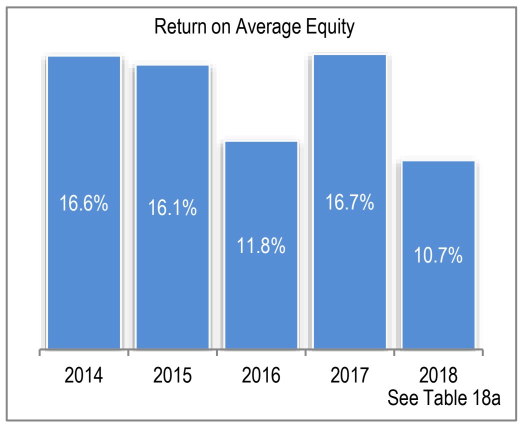




Balance Sheet strength improved in 2018. Reserves for Losses decreased in dollar value while Net Earning Assets and Operating Lease Assets both increased by 2.7% year-over-year.

Return on Average Equity decreased sharply year-over-year; the jump in Net Income in 2017 due to the corporate income tax change drove a sharp increase in ROE in 2017; in 2018 returns dropped to levels similar to 2016. In addition to the income tax impact, Income Before Taxes as a Percent of Total Revenues is at low level in 2018, compared to 2014 to 2016. While gross revenues increased by 6%, the overwhelming increase in interest expense by 27.7% resulted in an overall reduction of Net Lease and Loan Revenues by 4.9%

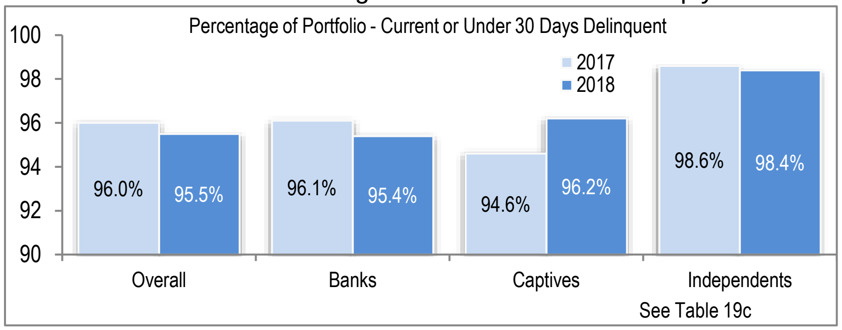


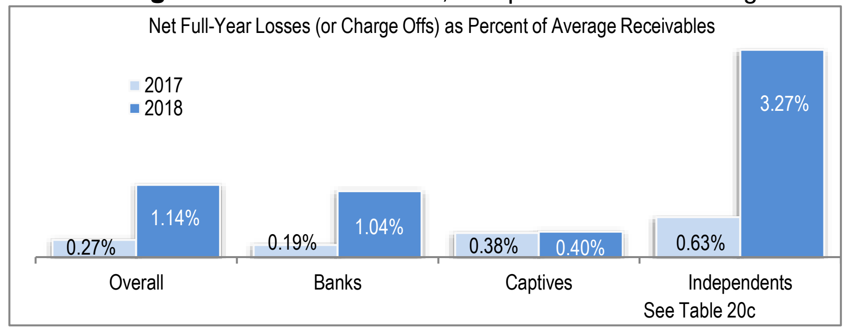


It is noteworthy that sales expenses grew more rapidly than SG&A expenses overall. Coupled with the tightening of margins, rising sales costs will chip away at future profitability if the trend continues.

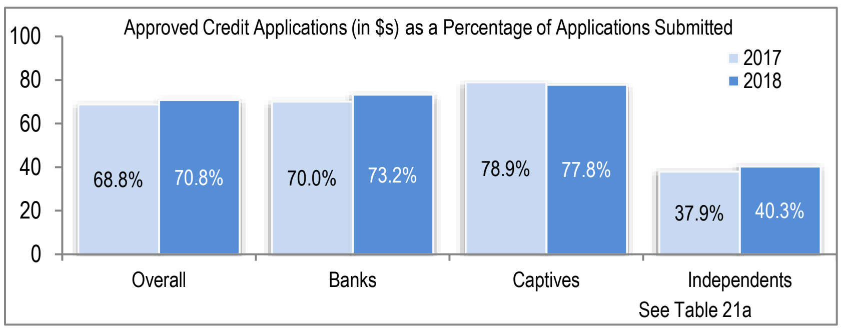
MAJOR FINDINGS *… continued …*

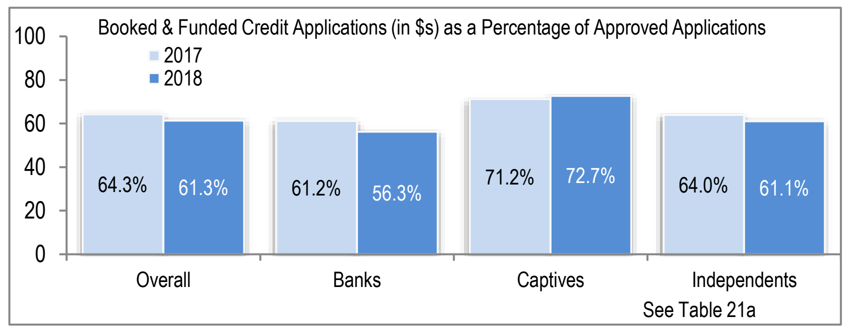
Overall, **Delinquencies increased in** 2018 compared to 2017; 4.5% of receivables are over 30 days past due compared to 4.0% the previous year. Delinquencies have been on the rise since 2013 when only 1.2% of receivables was over 31 day past due. Independents have the lowest delinquencies. **Net Full-Year Losses** or Charge-Offs also increased sharply overall to **1.14% of average receivables in 2018**; Independents saw the highest rates.





Delinquencies continue to be a significant issue for certain industries, especially Railroad Transportation; Mining, Oil & Gas Extraction; and Manufacturing. **Credit Approvals increased slightly and while** the percentage of those approved applications being booked dropped slightly, there was an increase in total dollars booked.





Employment Levels grew moderately by 2.1%, with Independents growing the strongest at 7.6%, though from a lower base.