2020 Survey of Equipment Finance Activity

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

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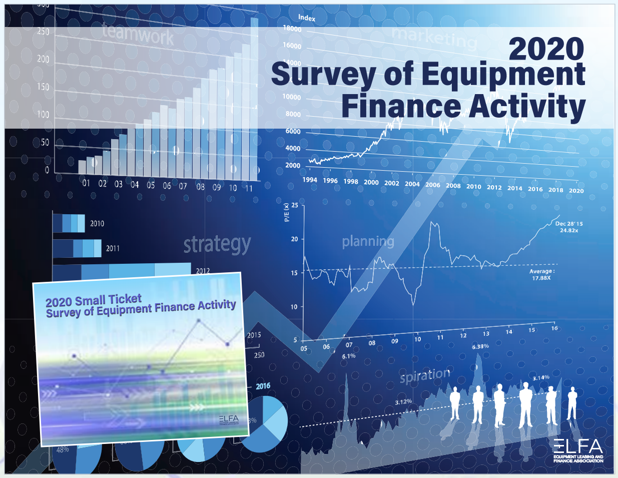

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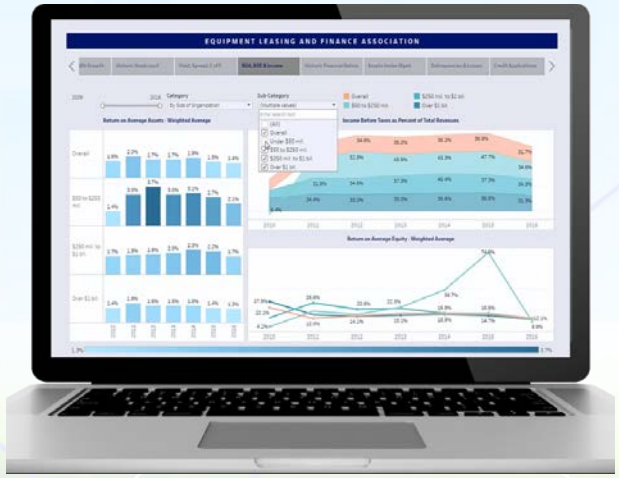

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A personalized data tool that lets SEFA survey respondents track their own operational and performance statistics and compare them against their peers. Only available to companies that participate in the SEFA.

Learn more at

www.elfaonline.org/SEFA

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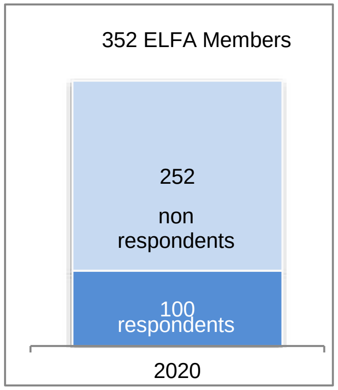
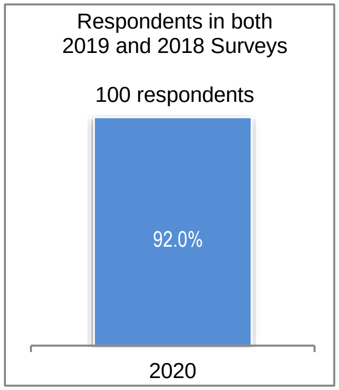
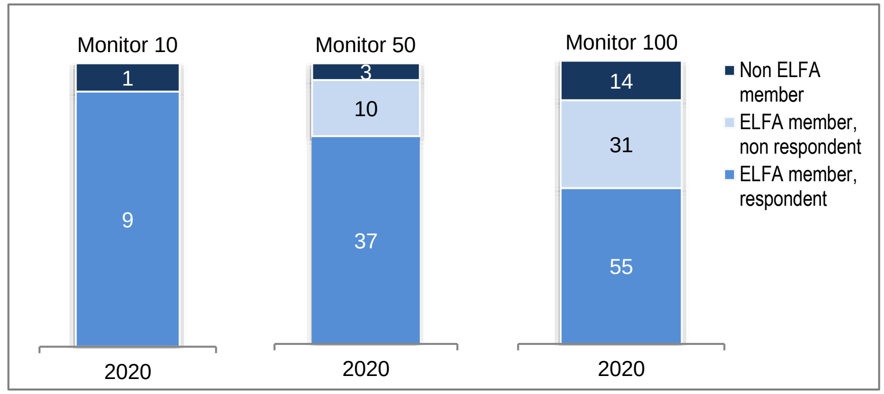
About The ELFA 2020 Survey of Equipment Finance Activity Report

Who Participates in This Survey?

ELFA Members participate in the Survey. Respondents to this survey represent the majority of the 2019 Monitor 100, with 83.9% 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.







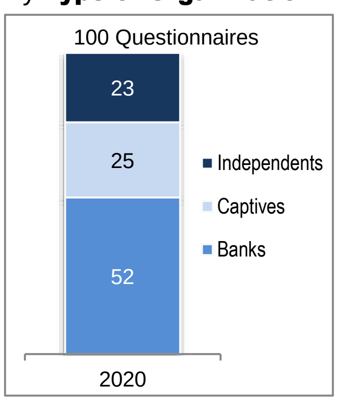
100 questionnaires were used to compile this Survey. One respondent is running off a portfolio and has no new business volume but provided other data.

What Information Is Provided in This Survey?

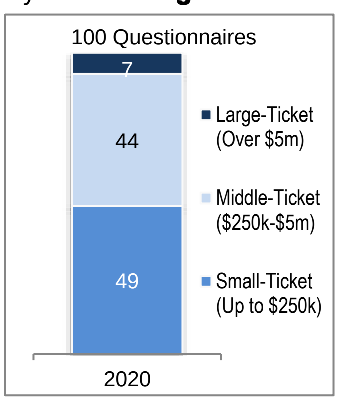
- Financial and Operational Information, covering New Business Volume (NBV), Financial Statements, Collections, Credit, Remarketing, Employee Levels.
- The data represents operations in the **United States** only.
- Respondents are asked to **exclude** dealer floorplan or wholesale financing, real estate 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?

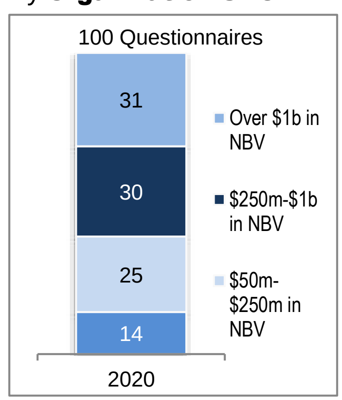
By **Type of Organization**



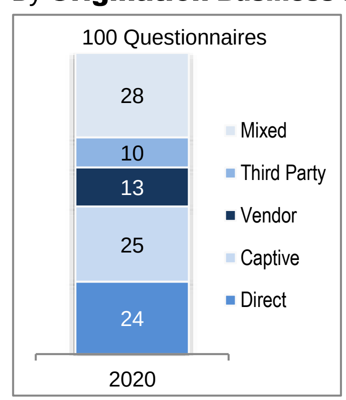
By **Market Segment**



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 2020 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 100 equipment leasing and finance companies.

This report focuses on the equipment leasing and finance activity for fiscal year 2019. As this report is being compiled mid 2020, in the midst of a pandemic, the world is a very different place than it was in 2019. The information included in this report will provide historic reference to the business cycle and the equipment finance industry through 2019, but will not show the pandemic's impact on the industry. This report is still significant, providing insight into the industry's status before the pandemic.

Through 2019, growth once again chased off the specter of an economic downturn as equipment finance companies charted a strong 10.5% overall increase in New Business Volume (NBV) for 2019. The rise was stronger than the 4.4% increase achieved in 2018 and very impressive when compared with growth of the nation’s GDP, reported at 2.3% for 2019 by the U.S. Department of Commerce.

End-user industries leading growth were Services (+ $2.8b year-over-year), Agriculture (+ $1.7b), Wholesale/Retail (+ $1.4b) and Industrial / Manufacturing (+ $1.5b) industries. The impact of the 2020 pandemic is expected to be significant on all of those end-user industries. Equipment types shepherding growth were Transportation (+ $4.4b year-over-year), IT & Related Technology Services (+ $1.9b) and Construction (+ $1.6b).

Delinquencies, defined as receivables over 31 days past due, edged up in 2019 to 2.1% from 1.8% in 2018, and this deterioration was seen across the board. Net Full-Year Losses also edged up slightly overall, rising from a mere 0.24% in 2018 to 0.30% in 2019. Mining and Railroad Transportation were the largest contributors to delinquencies. With losses well below 1% of receivables, and delinquencies edging just above 2%, the portfolio through 2019 was very strong, prior to the seismic changes expected in 2020. Additional findings pertaining to the full industry appear after the following breakdown.

Key Findings by Sector

Banks: A strong 12.8% increase grew Banks' NBV to $93 billion in 2019. This was much stronger than the 2.9% growth rate in 2018 and was the highest in five years. Trucks and trailers gave banks the most significant increase in dollar volume from 2018 to 2019, followed by construction. While office machines showed a sharp drop in new business volume and commercial aircraft showed a modest drop, almost all categories of volume by equipment type increased their dollar value year-over-year to 2019. Cost of Funds for Banks decreased sharply by 57 basis points from 2018 to 2019. Though Pre-Tax Yields also decreased, the decline was 50 basis points. This resulted in a modest increase in Pre-Tax Spreads by 7 basis points. While this is a minor increase, it halts a ten-year trend of unrelenting pressure on and decline in Pre-Tax Spreads.

Bank delinquencies at 1.4% of receivables were an improvement over the overall rate of 2.1% of receivables over 31 days past due. Federal Government and Mining / Oil & Gas Extractions led past-dues by end-user industry categories, each with totals close to 5% delinquent. The vast majority of those in Mining / Oil & Gas Extraction were more than 90 days delinquent. Net full-year losses for Banks edged up to 0.23% of receivables from 0.19% in 2018. The Banks' portfolio is strong at the end of 2019 heading into 2020.

EXECUTIVE SUMMARY *... continued ...*

Captives: With a 6.5% increase that brought NBV to $46.8 billion in 2019, Captives experienced growth in line with the 6.1% increase seen in 2018. Captives' Cost of Funds decreased by 20 basis points overall. Pre-Tax Yields actually increased by 2 basis points. Pre-Tax Spreads therefore grew by 22 basis points between 2018 and 2019, reversing a long negative trend.

Captives, due to their relationship with their parent and customers, traditionally support higher delinquencies than other equipment finance organizations. In 2019, 4.5% of Captives' receivables were 31 days or more past due compared to 2.1% overall. This is a slight increase for Captives from 4.2% in 2018. Although delinquencies were down, Mining / Oil & Gas Extraction led delinquencies by end-user industry, at 29% delinquent. Thankfully, this volume is just 1.6% of Captives' total NBV in 2019.

In addition, Captives' net full-year losses rose just 0.08% in 2019 to 0.40%. While this is greater than the overall average of 0.30% full-year losses, it is still remarkably low. The Captive portfolio is strong going into 2020.

Independents: With an 8.4% increase that brought Independents' 2019 NBV to $5.9 billion, the growth rate for this smallest of sectors was greater than Captives' but lagged behind Banks' growth rates. Trucks and trailers held prime place in market share by equipment type in both 2018 and 2019. Construction equipment showed the highest dollar volume increase in 2019 for Independents compared to 2018.

The Cost of Funds decreased for all three Organization Types, but Independents only saw a 17 basis points decrease. Pre-Tax Yields increased most strongly for Independents compared to Banks and Captives, by 31 basis points. In combination, Independents saw the most significant increase in Pre-Tax Spreads of 47 basis points. In addition, 75% of Independents saw their Pre-Tax Spreads increase in 2019.

Independents' delinquencies increased from 1.9% to 2.7% of receivables in 2019. This is lower than the Captives' rate and greater than Banks'. When looking at delinquencies by equipment type, Transportation Services showed Independents' highest delinquency rate at 5%, but this category only represents 2.5% of dollar volume of NBV in 2018. Independents' net Full-Year Losses were much higher than Banks or Captives at 1.2% of receivables. Though high by comparison, net losses less than 2% of receivables is considered low.

Credit approvals versus applications submitted for Independents rose from 51.4% to 62.6% in 2019, the lower rate compared to Banks and Captives. Despite this, the dollar amount approved by Independents increased in 2019 compared to 2018. Though the percentage of applications booked and funded as a percentage of applications approved decreased to 56.1% from 72.5% for Independents, the overall dollar volume booked increased.

EXECUTIVE SUMMARY *... continued ...*

Overall Trends

The Large-Ticket segment commanded industry growth in 2019 with a 20.0% increase in NBV, though from the smallest base, to reach $26.1 bil in volume overall. The Middle-Ticket segment had the highest dollar increase in volume, growing by $5.6 billion to $67.7 billion; the Small-Ticket segment grew by $3.9 billion to $51.4 billion. Trucks & Trailers and Construction led the dollar volume growth by equipment type while Office Machines saw the sharpest drop in volume. Transportation, IT and Construction equipment dominated the equipment financing market.

The percentage of respondents whose NBV increased in 2019 rose to 69.7% overall, the highest rate since 2015. Independents won this contest with 85% reporting growth. Only 52% of Captives saw NBV growth in 2019.

Assets Under Management rose 6.2% in 2019 to reach $233 billion overall. Return on Assets edged up to 1.4% in 2019 from 1.3% in 2018, as Net Income increases kept pace with increases in Assets Under Management. Balance sheets strengthened as Net Earning Assets and Operating Lease Assets increased 6.3% year-over-year and Reserves for Losses increased by only 3%. Return on Average Equity also edged up in 2019 to 10.9% from 10.7% in 2018, but remain at the lowest levels in the ten-year trends presented in this report. While Gross Revenues increased by 8.3% in 2019, a 26% jump in Interest Expense led to a minor 1% increase in Net Lease and Loan Revenues. Net Income increases kept pace with increased Assets, but that depended on increases in other Income and not Net Lease and Loan Revenues increases.

A trend was broken in 2019. For the first time since 2009, Pre-Tax Spreads increased year-over-year and this across all respondent types. This was essentially driven by a decrease it the Cost of Funds, by 46 basis points from 2018 to 2019. While Pre-Tax Yields decreased overall, the decrease was at a lesser rate than Cost of Funds by only 33 basis points. This is significant as Pre-Tax Spreads actually increased by 14 basis points. This Survey last reported an overall increase in Pre-Tax Spreads year-over-year in 2009, since that time there has been unrelenting compression of Spreads. Though the increase is relatively minor, it is a reversal that can translate to improved revenues in the future.

EXECUTIVE SUMMARY *... continued ...*

Participants

A total of 100 questionnaires were submitted by ELFA member companies for the 2020 Survey. Participants represent the majority of firms listed in the 2019 Monitor 100 and just under 84% 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. Ninety-two of the 100 respondents also participated in last year's survey.

Of this year's participants, 52% categorize themselves as Banks, while 23% define themselves as Independents, and 25% classify themselves as Captives. By market segment, 49% specialize in small-ticket transactions (up to $250,000), while 44% focus on middle-ticket transactions ($250,000 to $5 million). Just 7% work principally in the large-ticket segment (over $5 million).

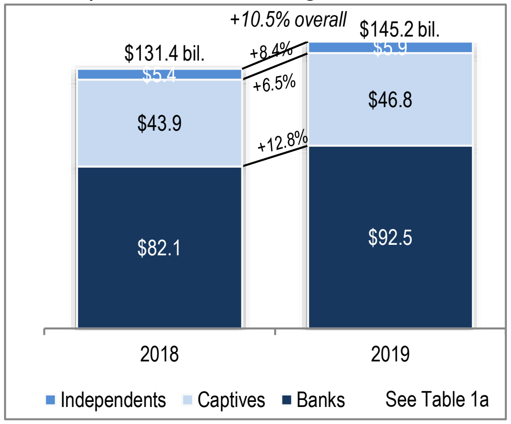
In terms of new business volume, 31 participating companies reported doing over $1 billion in 2019, while 30 participants reported NBV of $250 million to $1 billion. Another 25 respondents reported doing $50 million to $250 million, while just 14 participants reported under $50 million in NBV. Classifying participants by origination business model, 24 companies reported doing business directly, while 25 said they use a captive model. Another 28 companies reported using mixed origination models, while 13 said they use the vendor model, and 10 said they acquire NBV primarily through third parties. For complete definitions of all categories, please see the Glossary in the Appendix of this report.

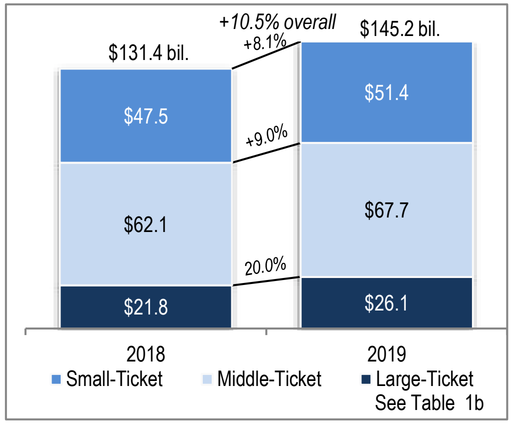
About the Survey

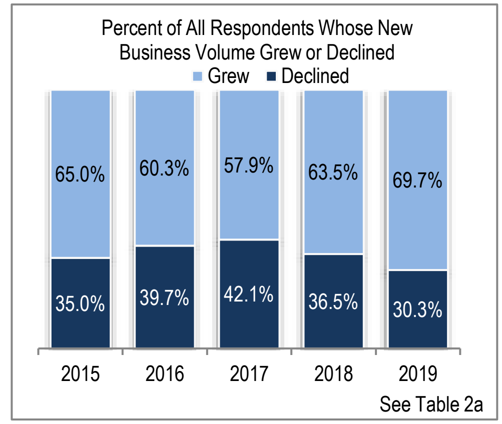
Participation in the Survey of Equipment Finance Activity is a benefit of membership in ELFA. Member-respondents receive a complimentary copy of the survey report, as well as confidential individual company data sheets, which show the individual company's statistics ranked against a peer group.
In addition,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

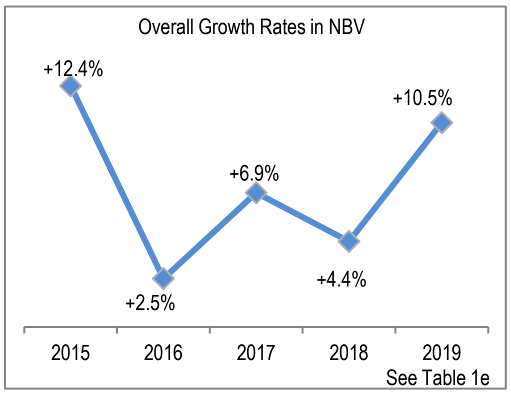
MAJOR FINDINGS

New Business Volume (NBV) **grew by 10.5%** in 2019. Banks grew the most by percentage, at 12.8%, from a largest base, followed by Independents at 8.4%. Growth by the Captives was at 6.9%. The Large-Ticket segment led the industry in growth at 20.0% increase in NBV, though from the smallest base. Most respondents' volume grew, with almost 70% of respondents experiencing growth in 2019.









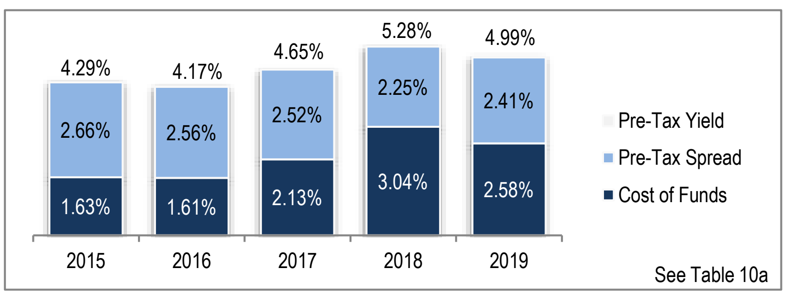
End-User Industries with Most Growth in NBV:
- Other Services
- Agriculture
- Wholesale / Retail

End-User Industries with Greatest Decline in NBV:
- Arts / Entertainment Services
- Air Transportation
- Saltwater Transportation

Equipment Types with Most Growth in NBV:
- Trucks & Trailers Transportation
- Construction
- Agriculture

Equipment Types with Greatest Decline in NBV:
- Office Machines
- IT Storage
- Energy

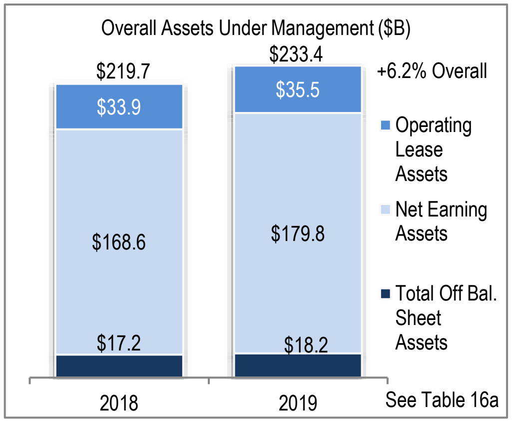
Note that these lists reflect growth and decline rates of respondents who provided two years of data.

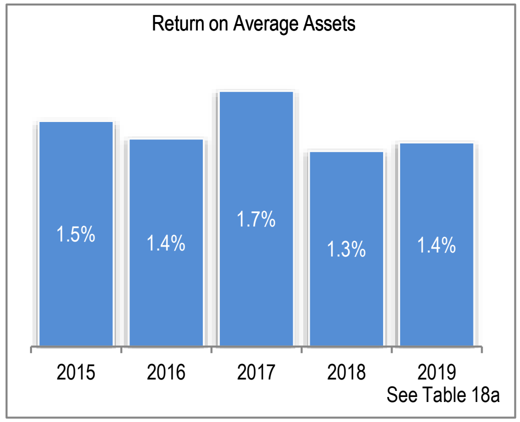


Overall, **Pre-Tax Yields decreased** by **30 basis points** in 2019 compared to the previous year. Over the same period, there was a significant decrease in **Cost of Funds of 46 basis points.** This resulted in an actual **increase in Pre-Tax Spreads by 16 basis points**, the first increase in Spreads since 2009 compared to 2008.

MAJOR FINDINGS *… continued …*

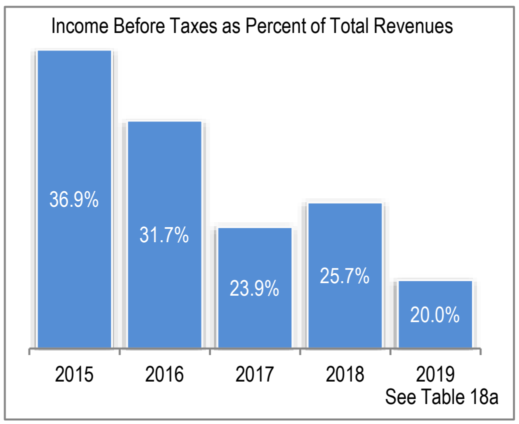
Assets Under Management grew by 6.2% between 2018 and 2019, mirroring a 6.6% increase in Net Earning Assets. **Return on Assets** edged up in 2019 to 1.4% from 1.3% in 2018. Net Income increased by 6.1% overall, paralleling the increase in assets. Therefore, return on assets remain steady year over year.

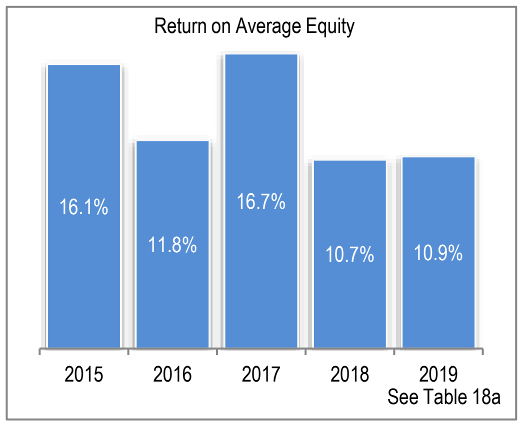




Balance Sheet strength improved in 2019. Though Reserves for Losses grew in dollar terms, the 3% increase was less than the overall increase in Assets Under Management.

Return on Average Equity also edged up slightly year-over-year; The Net Equity position remained steady, increasing by 2.8% compared to the Assets Under Management increase of 6.2%. Though Income before Taxes as a Percent of Total Revenues decreased from 25.7% in 2018 to 20% to 2019, the dollar value of Net Income increased by 6.1%, leading to a slight increase in ROE.

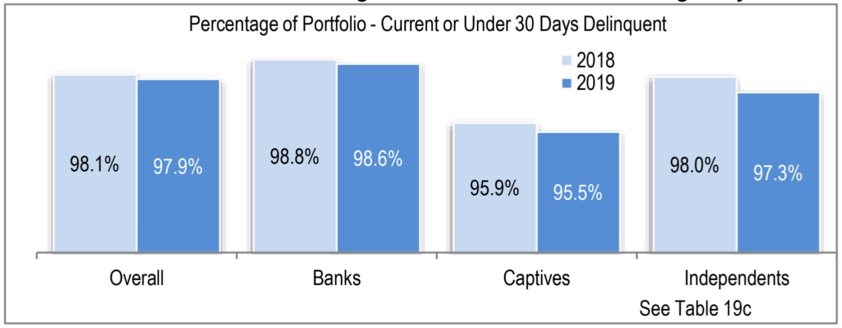


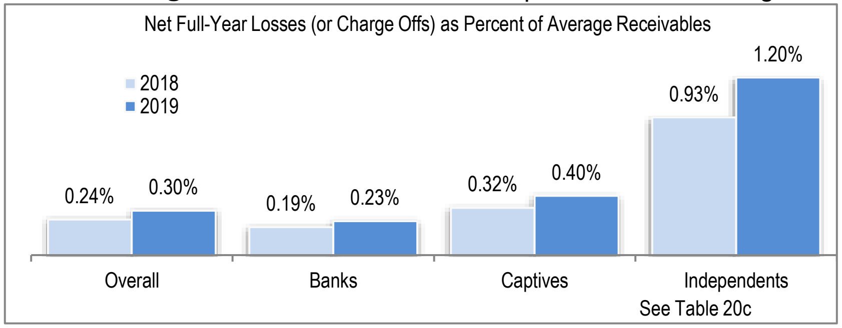


Despite a decrease in the Cost of Funds, Interest Expense increased by 26% in 2019 driven by the increase in Assets. Sales, General and Administrative Expenses also increased by 23.6% in 2019. Income before Taxes still increased, due to a sharp increase in non-Lease and Loan Revenues, which almost doubled.

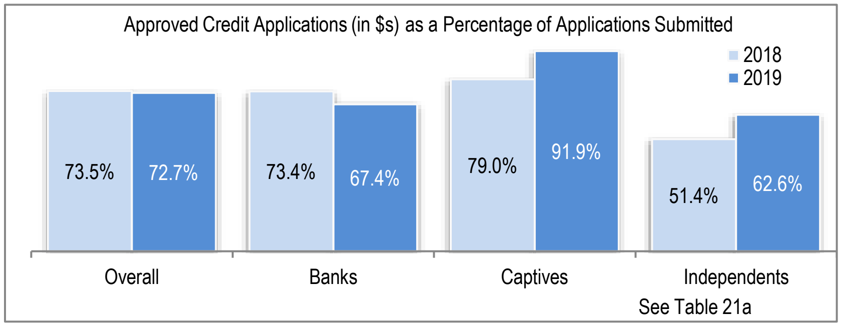
MAJOR FINDINGS *… continued …*

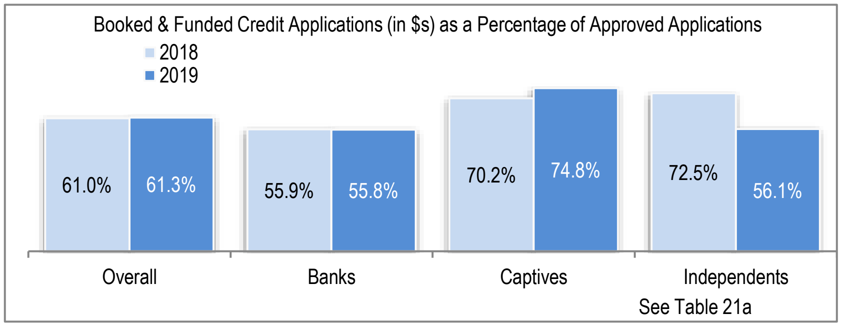
Overall, **Delinquencies increased in** 2019 compared to 2018; 2.1% of receivables are over 31 days past due compared to 1.9% the previous year. Delinquencies have been on the rise since 2013 when only 1.2% of receivables was over 31 day past due. Banks have the lowest delinquencies.
Net Full-Year Losses or Charge-Offs also increased marginally overall to **0.3% of average receivables in 2019**; Independents saw the highest rates.





Delinquencies continue to be a significant issue for certain industries, especially Mining, Oil & Gas Extraction; and Railroad Transportation.
Credit Approvals of Apps Submitted remained steady year-over-year, as did the percentage of those approved applications being booked. There was an increase in total dollars booked.





Employment Levels grew slightly by 1.2%, with Independents growing the strongest at 9.2%, though from a lower base.