2021 Survey of Equipment Finance Activity

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

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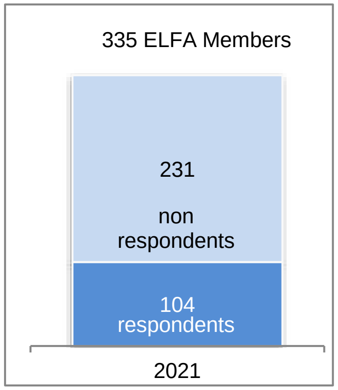
Table of Contents

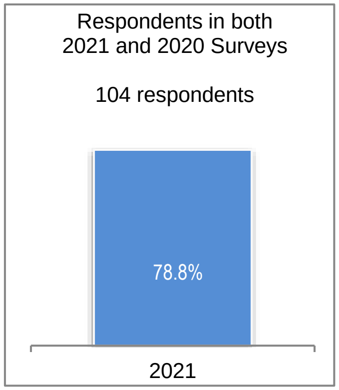
Table of Contents *... continued ...*

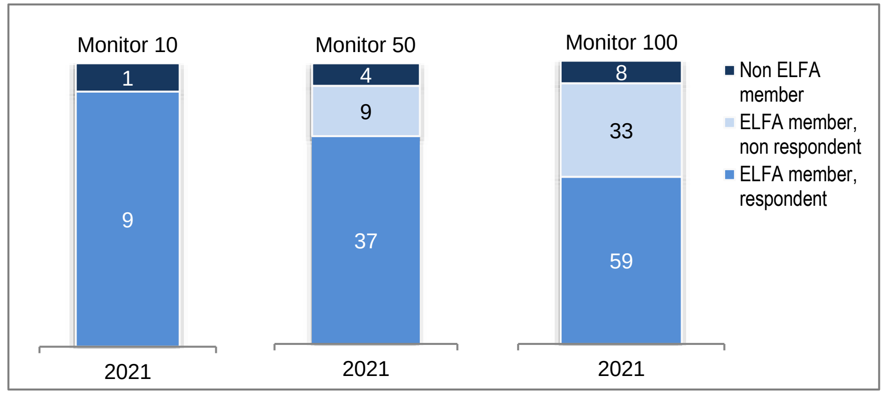
About The ELFA 2021 Survey of Equipment Finance Activity Report

Who Participates in This Survey?

ELFA Members participate in the Survey. Respondents to this survey represent the majority of the 2020 Monitor 100, with 81.8% 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.







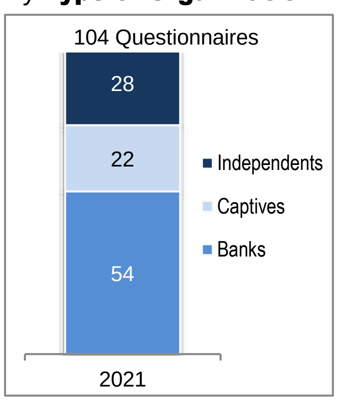
104 questionnaires were used to compile this Survey. One respondent is running off a portfolio and had no New Business Volume to report.

What Information Is Provided in This Survey?

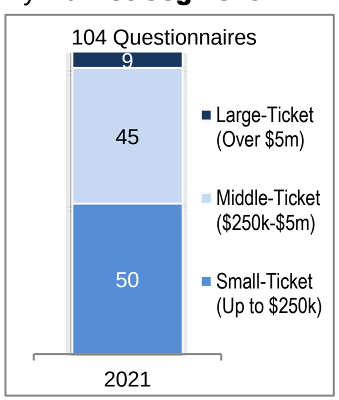
- Financial and Operational Information, covering New Business Volume (NBV), Financial Statements, Collections, Credit, Remarketing, Employee Levels.
- The data represents operations in the **United States** only.
- Respondents are asked to **exclude** dealer floorplan or wholesale financing, real estate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

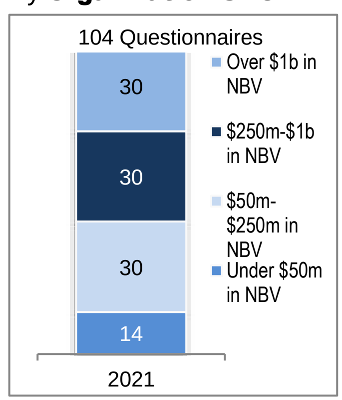
By **Type of Organization**



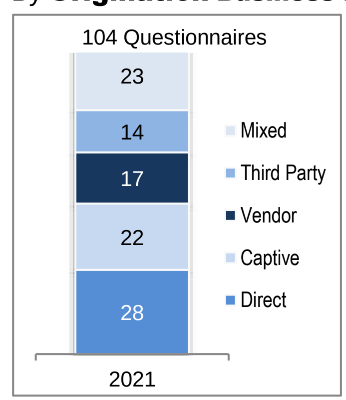
By **Market Segment**



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 2021 Survey of Equipment Finance Activity. The Survey is the most important source of statistical information available on the nearly $1-trillion equipment finance industry. This survey report covers key statistical, financial and operations information for 104 equipment leasing and finance companies.

The survey is of ELFA Members. The survey respondents cover 81.8% of the assets included in the 2020 Monitor 100 report and is representative of the US-based industry. The survey questionnaire asks respondents to provide two years of data ranging from new business volume, financial statement information, delinquencies, credit approvals, and headcount amongst other data. In some sections of the report, trends covering five or 10 years are shown. These trends show data from previously issued reports and have a different respondent base for each year. More information on respondents is included in the Appendix of the survey.

Equipment finance companies' worst fears failed to materialize in 2020 despite a pandemic that gripped the world and transformed businesses. New Business Volume (NBV) fell 7.0%, but this was less than the double-digit drop widely expected.

End-user industries leading overall growth were Agriculture (+ $1.6 billion year over year), Educational Services (+ $731 million), and Federal Government (+ $381 million). Equipment types generating the most growth were Agriculture (+ $1.6 billion), Corporate Aircraft (+ $522 million) and Office Furniture and Equipment (+ $310 million).

Most notable in major findings for 2020 were Delinquencies, which rose just 30 basis points overall to 2.3%. Mining/Oil & Gas and Industrial Manufacturing-Other had the highest delinquency rates. Defined as receivables over 30 days past due, delinquencies were held in check by Deferrals as companies contacted customers early in the pandemic and devised individual deferral plans as needed. In total, companies approved nearly $19 billion, or 7.4% of overall portfolio, in COVID-related deferrals. Customers accepted nearly $18 billion of that amount, or 7% of portfolio.

Net Full-Year Losses inched up to 0.48% of average receivables. Overall, however, the industry drew a collective sigh of relief. As one ELFA member observed, "It was a rough year, but deals still got done."

Key Findings by Sector

Banks:

Banks suffered the greatest loss in NBV in 2020. At -10.3%, the decline nearly neutralized the sector's + 12.8% growth of 2019 and resulted in lost market share as well. New business volume contracted in banks' top end-user industries (Wholesale/Retail and Services, Other), but grew in Educational Services, Agriculture, Federal Government, Other Industrial/Manufacturing, Telecommunications and Railroad Transportation. There were declines in all other end-user industries.

EXECUTIVE SUMMARY *... continued ...*

Of the three sectors, Banks experienced the largest decrease in Cost of Funds, dropping from 2.36% in 2019 to 1.05% in 2020. Pre-Tax Yields also declined nearly a full percentage point, and Pre-Tax Spreads rose by 38 basis points to 2.70%.

Banks also experienced the lowest delinquencies, at 2.2%. As in 2019, Mining/Oil & Gas Extraction and Industrial/Manufacturing led past-dues by end-user industry categories, each with totals exceeding 10%. Also as in 2019, the vast majority of delinquencies in Mining/Oil & Gas Extraction were more than 90 days delinquent. Net full-year losses for Banks rose to 0.48% from 0.24% in 2019. Overall, Banks' portfolio remained strong in 2020.

Captives:

Captives turned in a strong performance against the pandemic in 2020, their NBV declining just - 1.6% to $42.9 billion. Although the sector experienced the highest delinquencies at 3.1%, the rate improved 1.2% year-over-year and is still considered low. Captives usually support more delinquencies than other equipment finance companies due to relationships with their parent and customers.

Cost of Funds plummeted by 149 basis points for Captives, but Pre-Tax Yields fell as well. As a result, Pre-Tax Spreads climbed 107 basis points to 2.95%, slightly higher than Banks' 2020 Pre-Tax Spreads.

Approving nearly 90% of credit applications submitted, Captives led in this metric and in Booked and Funded Credit Applications (70% compared to 62% overall). Although Net Full-year Losses crept up 0.03%, the increase was by far the lowest of the three sectors. The Captive portfolio continued strong entering 2021.

Independents:

Independents fared best with NBV in 2020, growing 2.5% to $6.9 billion. As in 2019, End-User Industries leading growth were Wholesale/Retail, Wood/Paper/Chem Manufacturing and Truck Transportation Services. Also, for the second consecutive year, PCs & Workstations, Agriculture and Trucks led NBV by equipment type as businesses upgraded their technology to accommodate remote work and other pandemic-induced changes.

At 2.6%, delinquencies increased just 0.1% over 2019 rates. Health Services and Trucks easily led delinquencies over 90 days. Independents also approved the highest percentage of Net Earning Assets (12% or $1.2 billion) in Deferrals, and customers accepted most of that (11% or $1.1 billion).

Although Cost of Funds fell sharply for all three sectors, Independents experienced the smallest decline of 80 basis points. Combined with the pressure of decreasing yields – trying to remain competitive in a market of declining volumes – Independents actually saw a decrease in Pre-Tax Spreads to 6.31% in 2020, from 6.60% in 2019.

EXECUTIVE SUMMARY *... continued ...*

Overall Trends

The Large-Ticket segment experienced a double-digit decline in NBV, with the Middle-Ticket segment close behind with a 9.2% decline. Small-Ticket maintained NBV levels from 2019. Overall, 52% of respondents' volume declined in 2020.

Vendor Originations took the largest hit of Origination Channels, dropping over 16% as customers stayed home, and equipment finance companies worked remotely during the pandemic.

At the same time, federal government incentives and negative borrowing rates abroad combined to produce a 131-basis-point drop in the Cost of Funds. A smaller decrease in Pre-Tax Yields provided relief for customers, and a 54 basis-point overall increase in Pre-Tax Spreads, driven mostly by the lower cost of funds, gave encouragement to equipment finance companies. Yet, only 71% of companies realized this increase in spreads, perhaps due to fears of sharp losses in new business volumes unless spreads beat spreads offered by competitors. For these companies, maintaining volume likely took precedence over increasing spreads.

Net Adjusted Revenue declined by 4.2%, reflecting the decrease in NBV and a drop off of 17.6% in Excess Residual Values Received. Despite the drop in NBV, Net Lease and Loan Revenue dropped by only 0.5%, helped by the reduction in Cost of Funds. Overall expenses also rose 14.4%, despite reductions in General and Administrative Expenses. Provision for Bad Debt more than doubled from 2019 levels. These increases notwithstanding, companies remained stalwart in an uncertain environment, reducing headcount by just 2 percent.

Nevertheless, Return on Average Assets fell to 0.7 %, the lowest level in more than a decade, reflecting a sharp 35.6% drop in Income Before Taxes. This drop in Income Before Taxes was primarily the result of 130% increase in Provision for Bad Debt expense and a drop in Excess Residual Values Received. Commented one ELFA member, “We did have a decline, but not a fall off the cliff.”

Despite pressures on NBV and profit, equipment finance companies maintained portfolio stability in 2020, and balance sheets appeared to remain healthy.

EXECUTIVE SUMMARY *... continued ...*

Participants

A total of 104 questionnaires were submitted by ELFA member companies for the 2021 Survey. Participants represent the majority of firms listed in the 2020 Monitor 100 and just under 82% 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. A total of 78.8% of the 104 respondents also participated in last year's survey.

Of this year's participants, 52% categorize themselves as Banks, while 27% define themselves as Independents, and 21% classify themselves as Captives. By market segment, 48% specialize in small-ticket transactions (up to $250,000), while 43% focus on middle-ticket transactions ($250,000 to $5 million). Just 9% work principally in the large-ticket segment (over $5 million).

In terms of new business volume, 30 participating companies reported doing over $1 billion in 2020, while another 30 participants reported NBV of $250 million to $1 billion. Yet another 30 respondents reported doing $50 million to $250 million, while just 14 participants reported under $50 million in NBV. Classifying participants by origination business model, 28 companies reported doing business directly, while 22 said they use a captive model. Another 23 companies reported using mixed origination models, while 17 said they use the vendor model, and 14 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

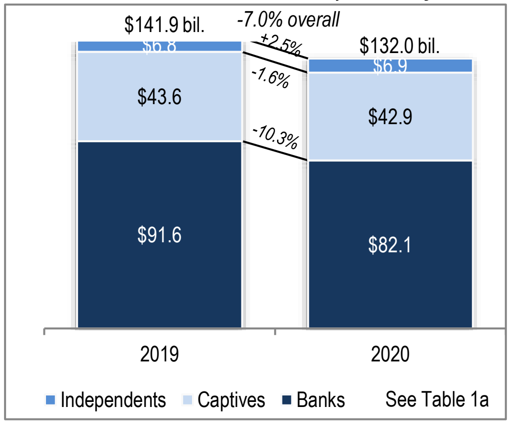
The annual Survey of Equipment Finance Activity is the largest and most important source of statistical information about the equipment finance industry. Participation in the SEFA is a benefit of membership in ELFA. Member-respondents receive a complimentary copy of the survey report. They also receive a free, personalized MySEFA report, an innovative tool that lets respondents track their own operational and performance statistics and quickly and easily compare them against their peers.

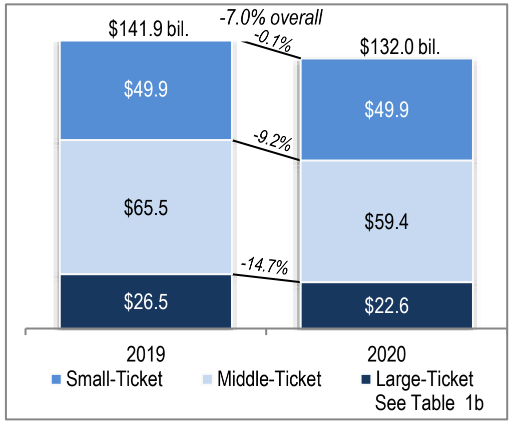
In addition, a selection of key findings are published in the SEFA Interactive Dashboard, a powerful online platform that provides a decade of industry benchmark data. This tool allows users to filter on a small or wide range of years, and the look at the various categories or subcategories to sort their data.

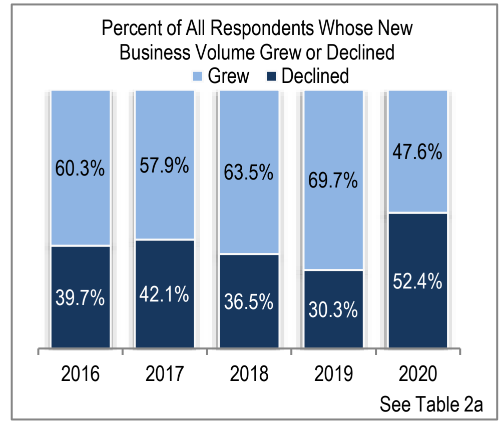
For more information about the report, please visit www.elfaonline.org/SEFA.

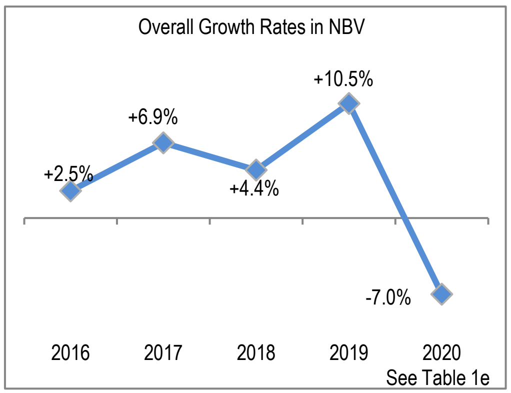
MAJOR FINDINGS

New Business Volume (NBV) **declined by 7.0%** in 2020 compared to 2019. Banks suffered the greatest loss in NBV by percentage, at -10.3%; Captives had smaller declines in NBV by -1.6% while Independents grew slightly by +2.5%. The Middle-Ticket and Large-Ticket segments felt similar declines in NBV at -9.2% and -14.7% respectively; Small-Ticket maintained their NBV levels. 52% of respondents' volume declined in 2020.









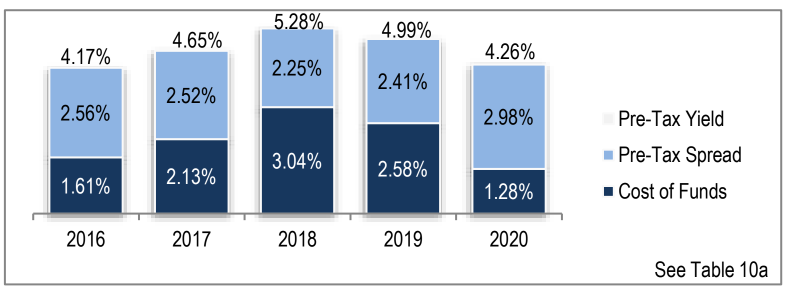
End-User Industries with Most Growth in NBV:
- Agriculture
- Educational Services
- Federal Government

End-User Industries with Greatest Decline in NBV:
- Wholeale / Retail
- Other Services
- Truck Transportation

Equipment Types with Most Growth in NBV:
- Agriculture
- Corporate Aircraft
- Office Furniture & Equipment

Equipment Types with Greatest Decline in NBV:
- Trucks & Trailers
- PC's and Workstations
- Railroad

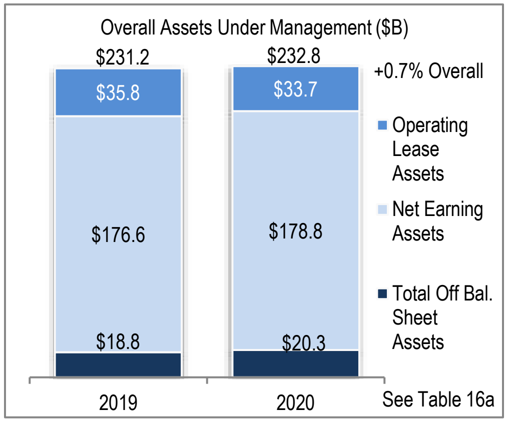
Note that these lists reflect growth and decline rates of respondents who provided two years of data.

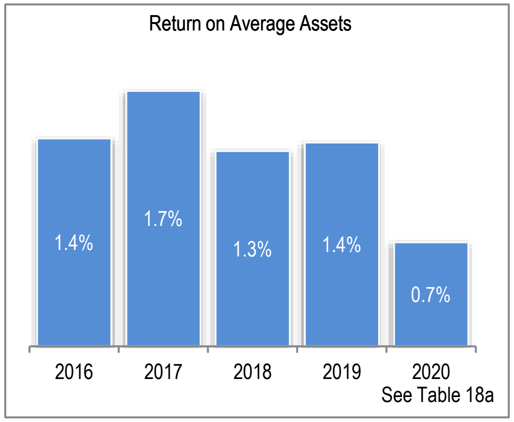


Looking at five-year trends, with varying respondent bases, Pre-Tax Yields increased initially then in the last two years **Yields decreased by 73 basis points** in 2020 compared to the previous year. Over the same period, there was a significant **decrease in Cost of Funds of 130 basis points.** This resulted in an actual **increase in Pre-Tax Spreads by 57 basis points**, the second increase in Spreads in a row; Spreads hadn't increased previously since 2009 compared to 2008.

MAJOR FINDINGS *… continued …*

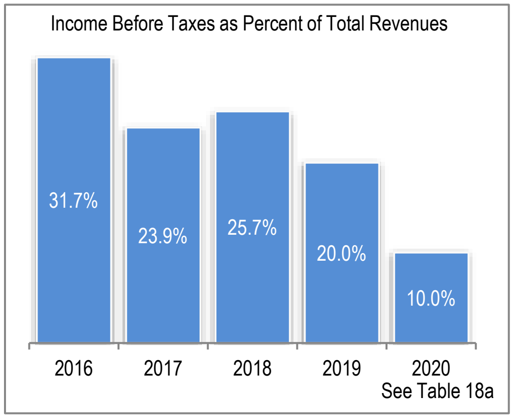
Assets Under Management inched up by 0.7% between 2019 and 2020; Net Earning Assets increased slightly more by 1.2%. **Return on Assets dropped sharply** to 0.7% in 2020 from 1.4% in 2019, driven by a sharp drop in Net Income by 32.8% overall. Banks saw the greatest drop in Net Income in 2020, by 46.6%, compared to Independents' and Captives' decline of 23.5% and 4.3% respectively.

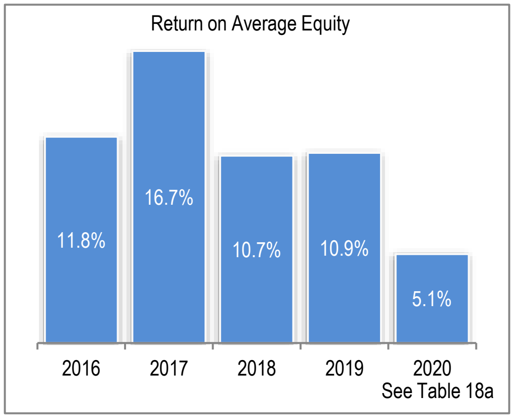




Balance Sheet strength was maintained in 2019. Though Reserves for Losses grew by 10.1%, this was partially offset by a 4.1% increase in Other Assets. In addition, Net Worth was reinforced and increased by 18.6% between 2019 and 2020.

Return on Average Equity (ROE) **also dropped sharply** year-over-year. Concurrent with a sharp increase in Net Worth by 18.6%, Net Income dropped significantly. Both of these movements contributed to the decrease in ROE. Net Lease and Loan Revenues dropped by 0.5% overall, contributing to a decline in Net Income. At the same time, Total Expenses increased by 14.4% overall, due to a sharp increase in Provisions for Bad Debt in both dollar terms and percent changes. Combined, these explain the sharp decline in Net Income.

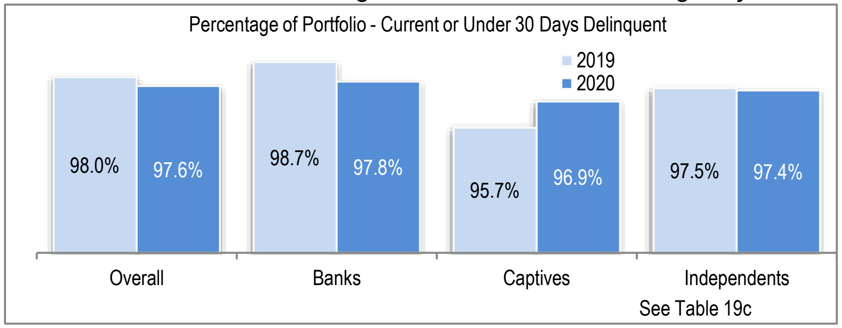


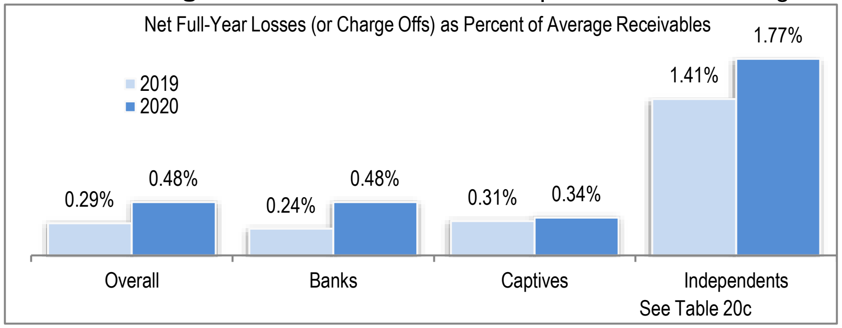


MAJOR FINDINGS *… continued …*

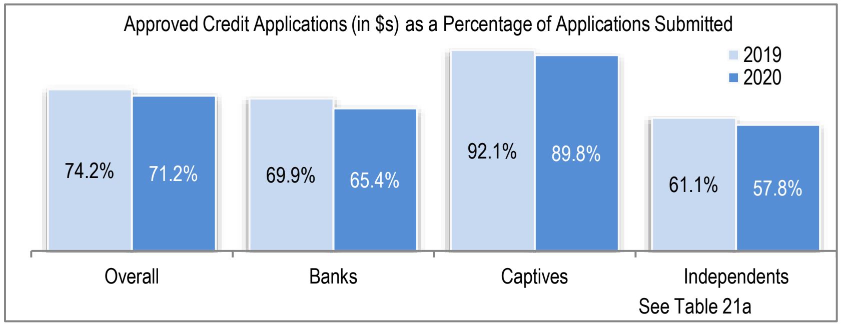
Overall, **Delinquencies increased in** 2020 compared to 2019; 2.3% of receivables are over 30 days past due compared to 2.0% the previous year. Delinquencies have been on the rise since 2013 when only 1.2% of receivables was over 30 day past due. Banks have the lowest delinquencies. Delinquencies continue to be a significant issue for certain industries, especially Mining, Oil & Gas Extraction; and Railroad Transportation. Respondents approved a significant amount of deferrals, keeping receivables current during the Covid-19 shutdown so that delinquencies would not spike sharply.

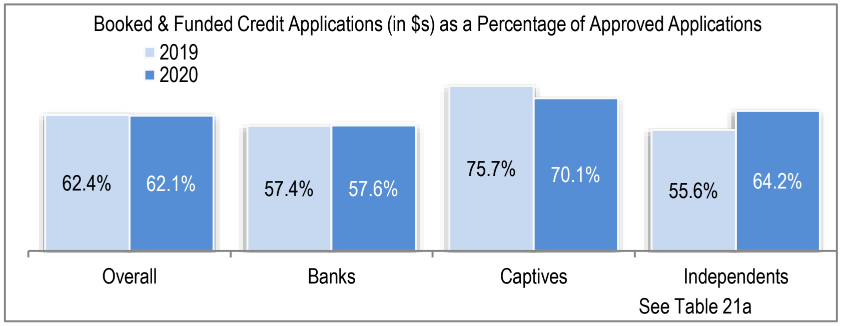
Net Full-Year Losses or Charge-Offs also increased marginally overall to **0.48% of average receivables in 2020**; Independents saw the highest rates.

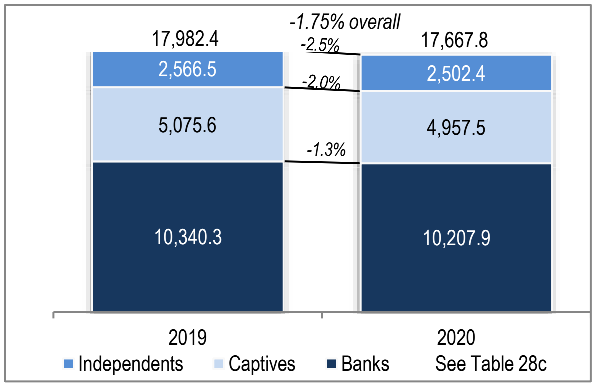




Credit Approvals of Apps Submitted remained steady year-over-year, as did the percentage of those approved applications being booked. Though the percentages remained steady, there was a sharp decrease in both the number of applications and the dollar volume from 2019 to 2020.







Employment Levels declined slightly by (1.75%), Independents and Captives declined similarly by (2.5%) and (2.3%) respectively. Banks declined by (1.3%). Despite Covid-19 restrictions, respondents seemingly made adjustments so that remote working did not result in a significant decline in employment.