

2022 Survey of Equipment Finance Activity



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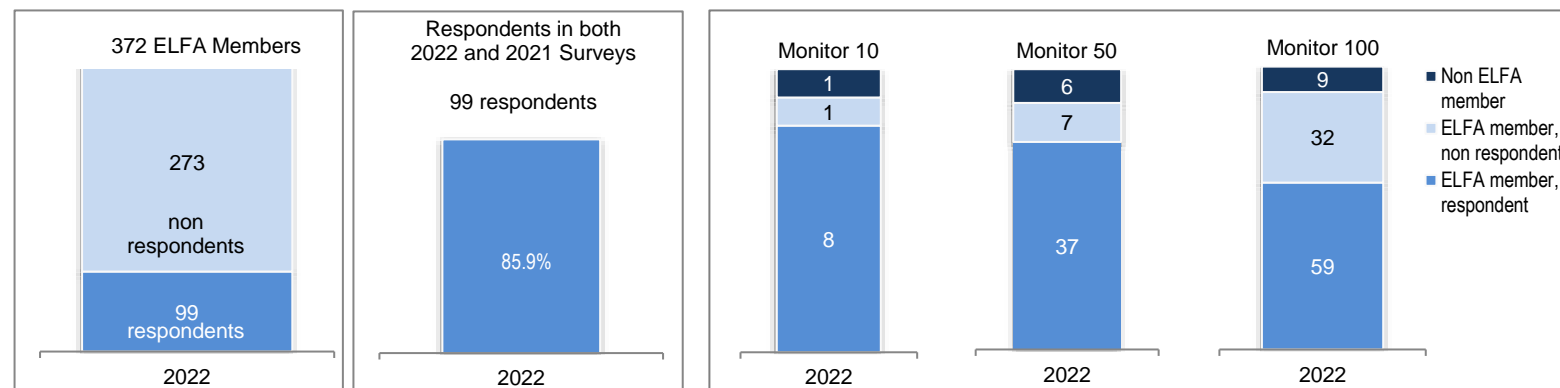
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About The ELFA 2022 Survey of Equipment Finance Activity Report

Who Participates in This Survey?

ELFA Members participate in the Survey. Respondents to this survey represent the majority of the 2021 Monitor 100, with 78.8% 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.

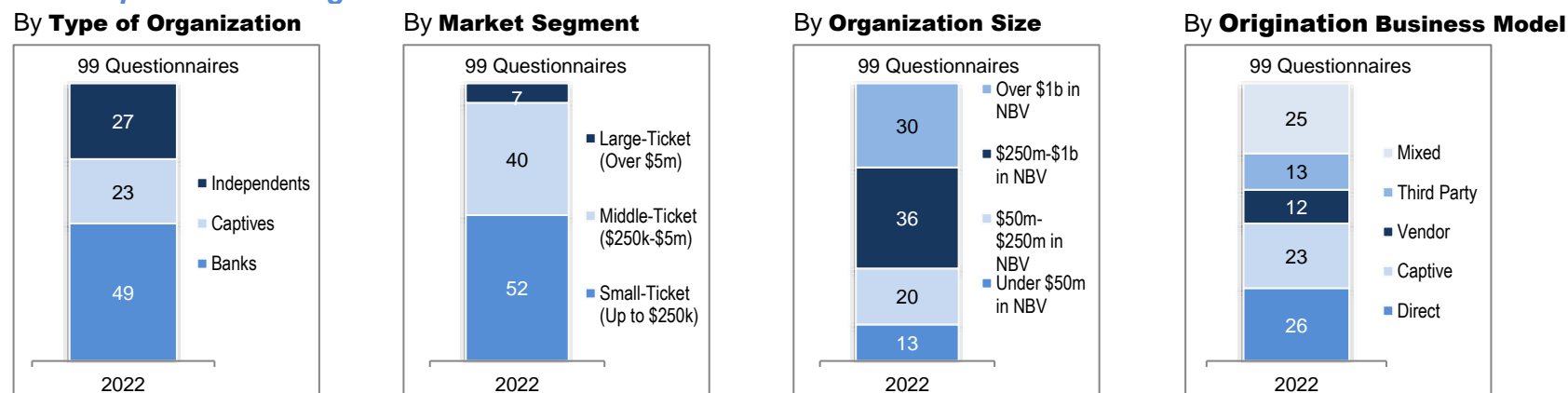


99 questionnaires were used to compile this Survey.

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?



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



ELFA 2022 Survey Results: Executive Summary

EXECUTIVE SUMMARY

The Equipment Leasing and Finance Association is pleased to present the 2022 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 99 equipment leasing and finance companies.

The survey is of ELFA Members. The survey respondents cover 78.8% of the assets included in the 2021 Monitor 100 report and are 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, to delinquencies, credit approvals, and headcount among 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' hopes and expectations for renewed growth were rewarded in 2021 as New Business Volume (NBV) rose by 7.4% overall. When compared to the -7.0% decrease in NBV in 2020, the turnaround is all the more impressive. Of all respondents to this survey, nearly 72% experienced an increase in volume in 2021.

End-user industries leading overall growth were Agriculture (+ \$2.6 billion year over year), Construction (+ \$2.2 billion), and Finance (+ \$1.4 billion). Equipment types generating the most growth were Construction (+ \$3.1 billion), Agriculture (+ \$2.6 billion) and Transportation-Trucks & Trailers (+ \$776 million).

Over the last four years, Pre-Tax Yields have declined by 134 basis points (bps) with Cost of Funds declining by 194 bps which resulted in Pre-Tax Spreads actually going up by 60 bps for the period.

In another interesting juxtaposition, Assets Under Management inched down by 0.4% between 2020 and 2021, and Net Earning Assets grew by 2.3%. While Net Earnings assets saw strong growth in dollar terms, the other components of Assets Under Management – Off Balance Sheet Assets and Operating Lease Assets – both declined.

Return on Average Assets climbed sharply in 2021 to 1.6% from 0.7% the previous year; Return on Average Equity also more than doubled year over year, vaulting to 13% in 2021 from 5.1% in 2020. This was driven by Net Income, which more than doubled. A significant contributing factor: the momentous decrease in Provisions for Bad Debt, down over 80% in 2021 from the 2020 position. In 2020, amid the uncertainty, Provisions for Bad Debt were greatly raised, assuming significant credit losses were coming. As those losses failed to appear, the reserves were reversed, pushing up earnings. Another contributing factor: the 4% drop in General and Administrative Expenses. Said one ELFA member, "We haven't seen a decline in Total Expenses since the economic shock following the Great Recession of 2008."

Delinquencies also declined in 2021 to 1.6% overall, from 3.2% in 2020. Mining/Oil & Gas and Transportation-Railroad continued to experience the highest rates of delinquency, defined as receivables over 30 days past due. Net Full-Year Losses improved in 2021 to 0.25% of average receivables, compared to 0.43% the previous year.



ELFA 2022 Survey Results: Executive Summary

EXECUTIVE SUMMARY ... continued ...

KEY FINDINGS BY ORIGINATION TYPE

Banks:

Banks had the smallest growth of the three organization types in 2021 with a 3.5% increase in NBV. The rise is significant, however, when compared to the Banks' -10.3% decline in NBV in 2020. More than 67% of Bank respondents experienced an increase in NBV.

When classifying NBV by End User Industry; Finance, Insurance and Real Estate; and Construction led NBV growth at Banks in dollar terms in 2021. NBV in the End User Industries of Wholesale/Retail and Other Industrial & Manufacturing contracted the most.

Banks led the overall improvement in delinquencies, with just 0.8% of portfolio over 30 days past due. End-User Industries with the greatest percentage of delinquencies for Banks were Mining/Oil & Gas, Printing, and Federal Government.

Pre-tax Spreads decreased overall in 2021; 63% of Banks reported a decrease in Pre-Tax Spreads compared to 53% of Captives and just 35% of Independents. Of note is Banks' year-over-year increase in Net Income: at 159%, Banks easily led the other two organization types in this result. Banks also decreased Total Expenses more than Captives and Independents, with a 27.8% decline compared to 24.4% overall. In other findings likely related to Net Income, Banks also lowered headcount by 0.3% while both Captives and Independents raised headcount.

Captives:

Captives' NBV growth chased close on the heels of Independents with a 14.6% increase in 2021. Agriculture, Construction and Services-Health led growth in NBV when classified by End User Industry, while Mining/Oil & Gas contracted the most. When assessing NBV by Equipment Type, Construction and Trucks & Trailers equipment ranked first and second, respectively, in total volume.

Captives had the highest delinquencies in 2021, at 3.9% of portfolio over 30 days past due. Mining/Oil & Gas, Transportation-Freshwater, and Transportation-Railroad suffered the greatest percentage of past-dues. Delinquencies nonetheless fell 1.9% year over year, with the greatest improvement occurring in receivables over 90 days compared to Banks and Independents.

Captives' Average Pre-Tax Yield fell in 2021 to 3.75% from 4.47%, or 72 bps, the previous year. But Cost of Funds also dropped 36 bps overall for Captives, softening the decline in Spreads to only 36 bps.

Among the states, Ohio easily led Captive NBV volume growth with a 120.1% increase year over year. NBV also grew strongly in dollar terms for Captives in Texas, Illinois and California.



ELFA 2022 Survey Results: Executive Summary

EXECUTIVE SUMMARY ... continued ...

Independents:

The smallest organization type in terms of total volume, Independents, captured the largest share of growth in 2021 as their NBV soared 16.4% over that of 2020. Market share for Independents has increased in four of the last five years, reaching 6% in 2021. NBV grew for almost 90% of Independents.

End-user Industries leading volume growth were Transportation-Truck, Mining/Oil & Gas, and Construction, closely followed by Arts & Recreation Services and Agriculture. End-user Industries where NBV contracted most for Independents were Finance, Wholesale/Retail and Agriculture.

Equipment Types with the most NBV growth for Independents were Transportation-Trucks & Trailers, Office Machines, Machine Tools and Construction.

Delinquencies improved for Independents, declining to just 1.3% of portfolio in 2021, compared to 2.5% in 2020. Government-Federal easily led End-User Industries with the highest percentage of Delinquencies.

When looking at Small-Ticket transactions, Independents had the lowest amount of credit applications approved without a scorecard; just 1.7% of volume compared to 11.3% overall. In line with automating credit decisions and bookings, fully 48% of Independents' NBV was documented electronically in 2021, compared to 41% in 2020. This is in line with rates seen by Captives, but much higher than the overall average of 38%; Banks only saw 30% of their NBV documented electronically in 2021.

OVERALL TRENDS

The Small-Ticket Segment ran away with NBV growth in 2021, rising 17.0% year over year. Middle-Ticket NBV trailed with an increase of 3.1%, and the Large-Ticket segment saw a decline for the second consecutive year. But at -1.0%, Large Ticket NBV experienced a marked improvement from the double-digit losses it suffered in 2020.

Direct Origination eclipsed other origination channels in NBV in dollar volume in all but the smallest organizations. In organizations with NBV over \$1 million, Direct Originations were 33.7% of total volume in 2021. Non-Tax-Oriented Leases & Term Loans composed 66% of NBV, continuing a multi-year rise interrupted only in 2020. The percentage of tax-oriented leases supplying NBV declined from 28% to 23% year over year. But ELFA members noted the significant increase in financing used equipment in 2021, caused by the overall shortage of new equipment. Said one member, "You tend not to do operating leases for used equipment." Tax-Oriented Lease volume could increase in the future assuming supply-chain problems ease, and the availability of new equipment increases.

Overall Net Income more than doubled in 2021 compared to 2020, fueled by falling expenses, greater use of technology and a 19-basis-point decline in the Cost of Funds.

Pre-Tax Yields inched down, decreasing by 31 basis points (bps) in 2021, compared to a larger drop in 2020. But Pre-Tax Spreads fell by just 11 bps as the decrease in Cost of Funds offset the decrease in Yield.



ELFA 2022 Survey Results: Executive Summary

EXECUTIVE SUMMARY ... continued ...

Credit Approvals of Applications Submitted increased year-over-year, as did the percentage of those Approved Applications being Booked. Both the number of applications and the dollar volume increased; the percentage of transactions decided automatically increased across all organization types as well.

Employment Levels edged up overall, with Independents growing their headcount by nearly 9%. Captives also increased personnel, by 4.3%, while Banks tightened marginally with a decline of -0.3%. After a pandemic-induced hiatus, the industry is strong and growing in 2021, its risk factors of delinquency and losses reduced.

Participants

A total of 99 questionnaires were submitted by ELFA member companies for the 2022 Survey. Participants represent the majority of firms listed in the 2021 Monitor 100 and just under 79% 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 85.9% of the 99 respondents also participated in last year's survey.

Of this year's participants, 49% categorize themselves as Banks, while 27% define themselves as Independents, and 23% classify themselves as Captives. By market segment, 53% specialize in small-ticket transactions (up to \$250,000), while 40% 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, 30 participating companies reported doing over \$1 billion in 2021, while another 36 participants reported NBV of \$250 million to \$1 billion. Yet another 20 respondents reported doing \$50 million to \$250 million, while just 13 participants reported under \$50 million in NBV. Classifying participants by origination business model, 26 companies reported doing business directly, while 23 said they use a captive model. Another 25 companies reported using mixed origination models, while 12 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

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.

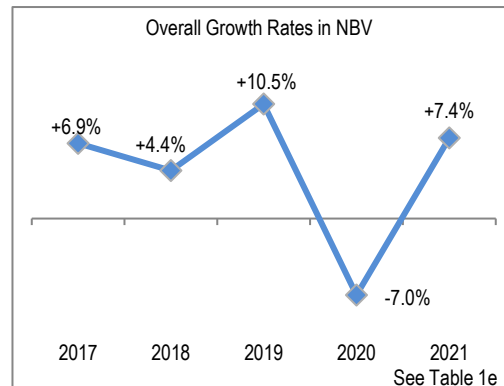
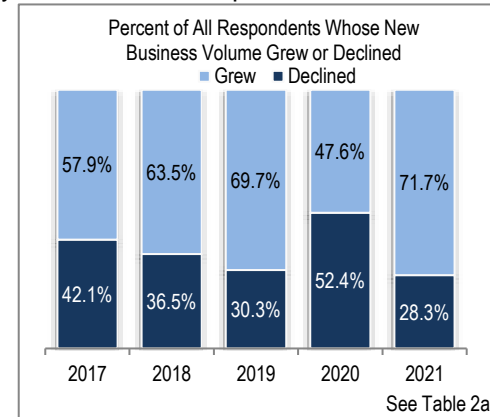
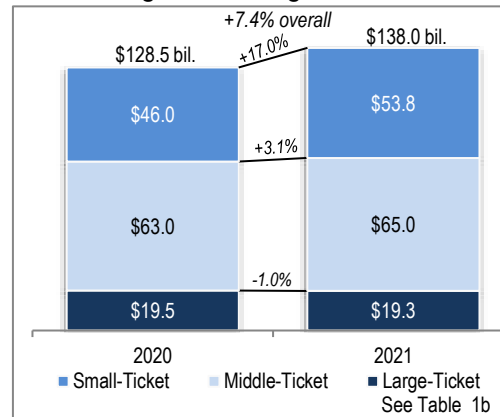
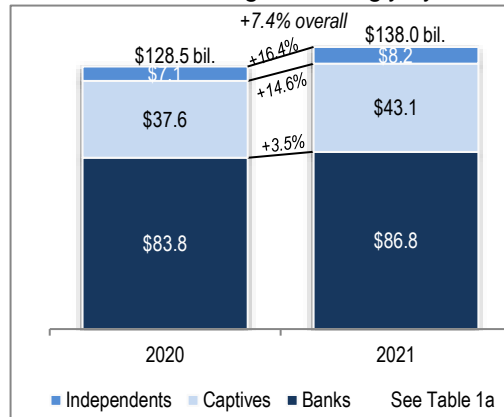
For more information about the report, please visit www.elfaonline.org/SEFA.



ELFA 2022 Survey Results: Major Findings

MAJOR FINDINGS

New Business Volume (NBV) increased by 7.4% in 2021 compared to 2020. Banks had the lowest growth in NBV by percentage, at +3.5%; Captives had larger increases in NBV by +14.6% while Independents grew even more by +16.4%. The Middle-Ticket segment felt similar increases in NBV to Banks +3.1%; Small-Ticket grew strongly by +17.0% while the Large-Ticket segment declined slightly by -1.0%. 72% of respondents' volume increased in 2021.



End-User Industries with Most NBV Growth (in \$ vol.):

- Agriculture, Forestry, Fishing
- Construction
- Finance, Insurance, Real Estate

End-User Industries with Greatest NBV Decline (in \$ vol.):

- Wholesale / Retail
- Telecommunications
- Other Industrial / Manufacturing

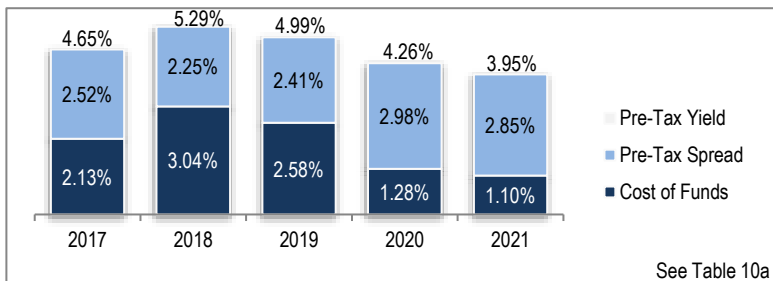
Equipment Types with Most NBV Growth (in \$ vol.):

- Construction
- Agriculture
- Trucks & Trailers

Equipment Types with Greatest NBV Decline (in \$ vol.):

- Tablets, Smart Phones and Other Mobile Devices
- Office Furniture & Fixtures
- Materials Handling

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



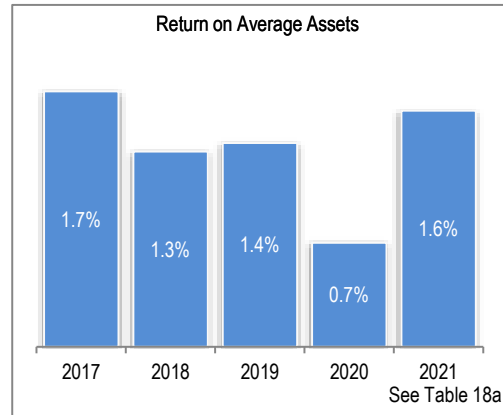
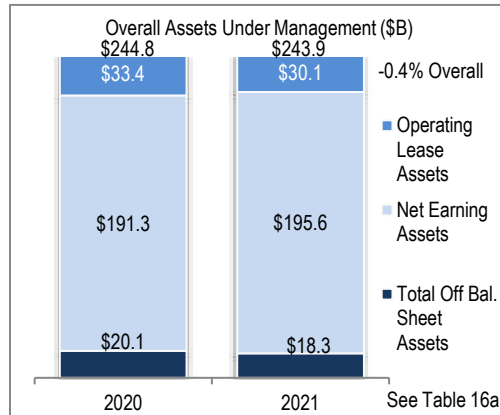
Looking at five-year trends, with varying respondent bases, **Pre-Tax Yields** have **decreased** the last four years by **134 basis points (bps)**. **Cost of Funds decreased by 194 bps** over the same four-year period. This resulted in an actual increase in **Pre-Tax Spreads of 60 bps overall**. In 2021, Pre-Tax Spreads declined slightly by 11 bps in 2021 compared to 2020, giving back a slight portion of the gains.



ELFA 2022 Survey Results: Major Findings ... continued ...

MAJOR FINDINGS ... continued ...

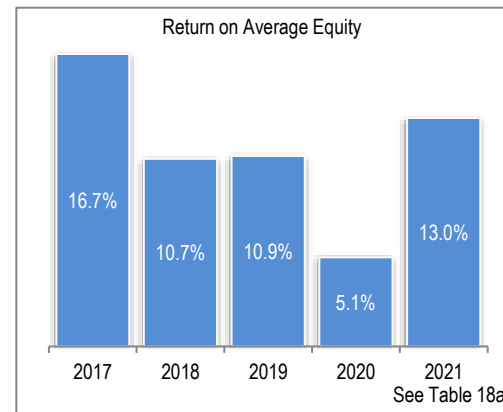
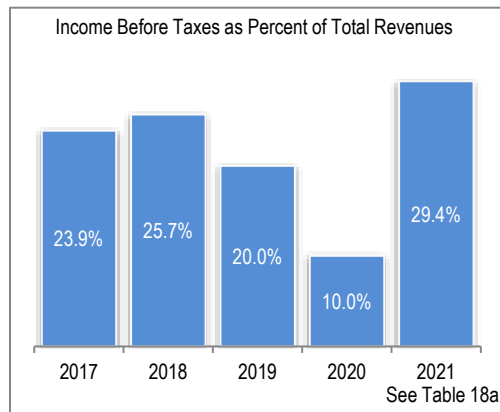
Assets Under Management decreased slightly by 0.4% between 2020 and 2021; Net Earning Assets increased slightly by 2.3%. This gain was offset by



a decline in Operating Lease Assets and Off Balance Sheet Assets. **Return on Assets increased sharply** to 1.6% in 2021 from 0.7% in 2020, driven by Net Income more than doubling in 2021 compared to 2020. Banks saw the greatest increase in Net Income in 2021, by 159.3%, compared to Independents' and Captives' increased of 101.7% and 74.0% respectively.

Balance Sheet strength was maintained in 2021. Reserves for Losses declined by 25.7% overall. And while Operating Lease Assets declined by 10%, Net Earning Assets grew by 2.3%; in dollar terms, the \$3.3 billion reduction in Operating Lease Assets is offset by the \$4.3 billion increase in Net Earning Assets.

Return on Average Equity (ROE) also increased sharply year-over-year. Concurrent with a sharp increase in Net Income, there was a modest drop



in Net Worth by 8.5%. Both of these movements contributed to the increase in ROE. Net Lease and Loan Revenues increased by 15.1% overall, contributing to the strong improvement in Net Income. At the same time, Total Expenses decreased by 24.4% overall, due to a sharp fall in Provisions for Bad Debt in both dollar terms and percent changes as well as a decrease in overall Sales, General and Administrative (SG&A) Expenses by 4.1%.

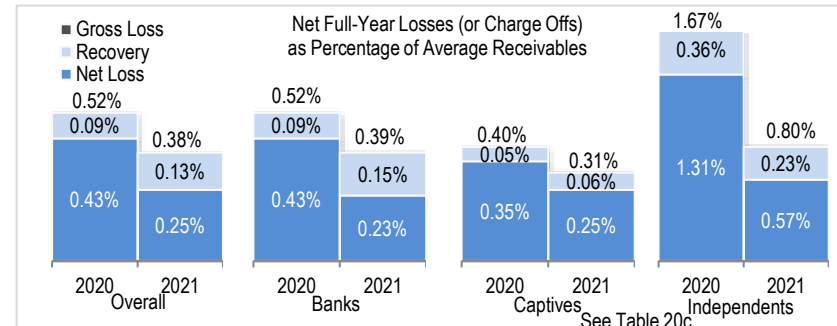
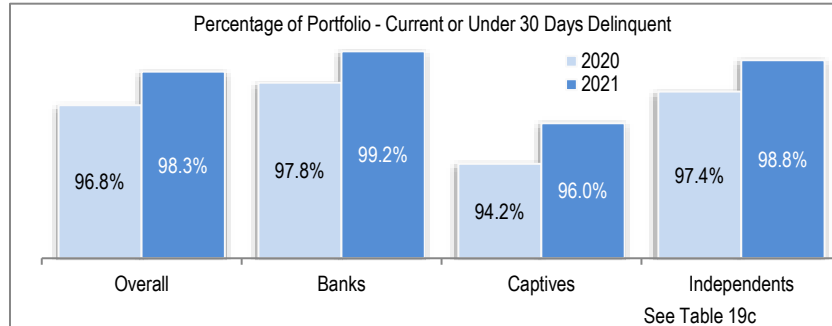


ELFA 2022 Survey Results: Major Findings ... continued ...

MAJOR FINDINGS ... continued ...

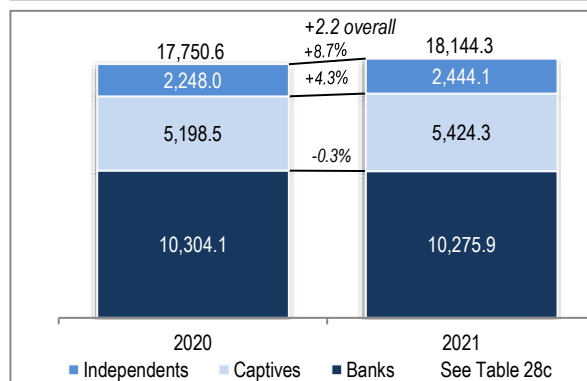
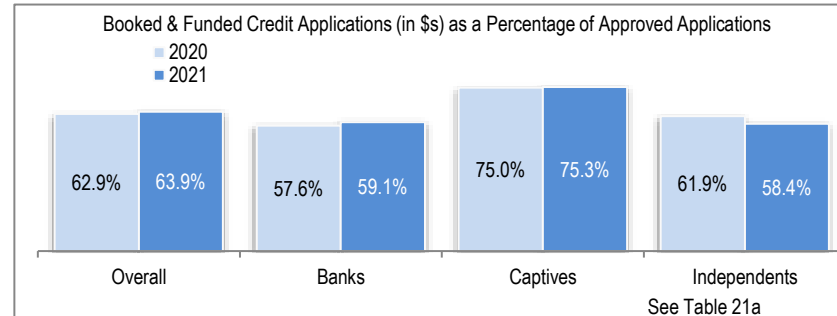
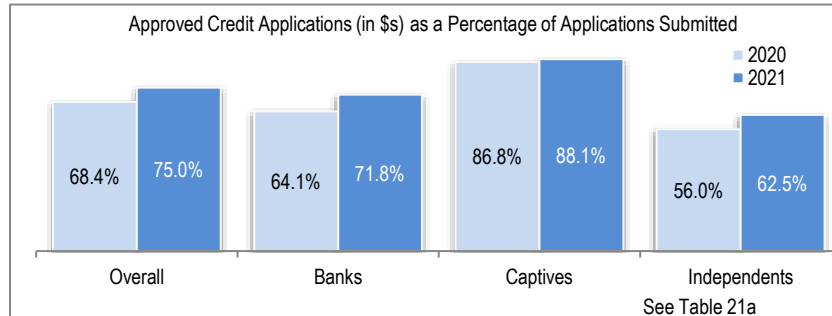
Overall, **Delinquencies decreased in 2021** compared to 2020; 1.6% of receivables are over 30 days past due compared to 3.2% the previous year. Banks have the lowest delinquencies with less than 0.8% of their overall portfolio over 30 days past due. Captives have the highest delinquencies. Delinquencies continue to be a significant issue for certain industries, especially Mining/Oil & Gas Extraction; and Transportation-Railroad.

Net Full-Year Losses or Charge-Offs also improved overall to **0.25% of average receivables in 2021**; Independents saw the highest loss rate.



Credit Approvals of Apps Submitted increased year-over-year, as did the percentage of those approved applications being booked.

In line with the increase in New Business Volume overall, there was an increase in both the number of applications and the dollar volume from 2020 to 2021.



Employment Levels increased slightly by 2.2%, Independents and Captives increased their headcount by 8.7% and 4.3% respectively. Banks declined marginally by -0.3%.

Some respondents were willing to share their Covid-related changes in work arrangements over the past three years. While Working Remotely remains the majority work arrangement, Hybrid work with some work in office is gaining some traction.

