2023 Survey of Equipment Finance Activity

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

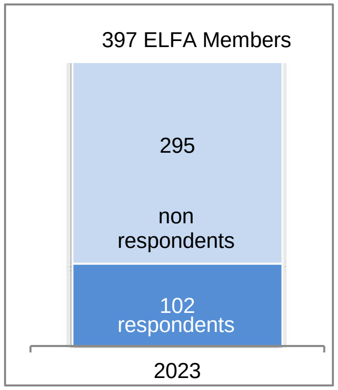
Table of Contents

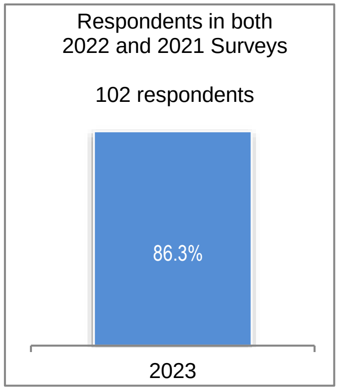
Table of Contents *... continued ...*

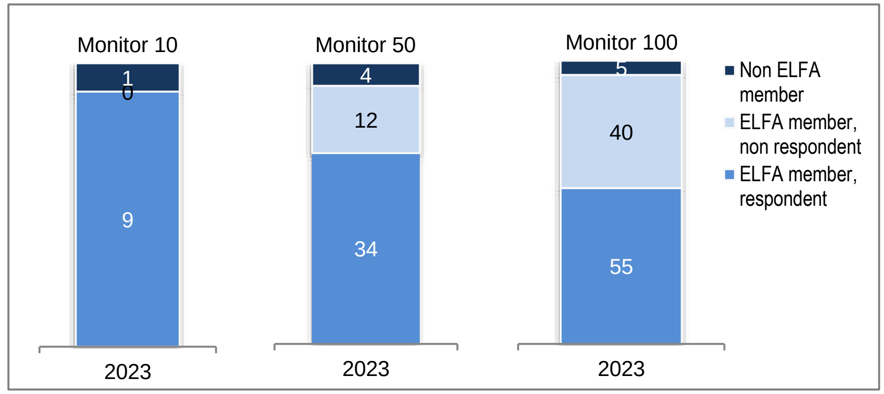
About The ELFA 2023 Survey of Equipment Finance Activity Report

Who Participates in This Survey?

ELFA Members participate in the Survey. Respondents to this survey represent the majority of the 2022 Monitor 100, with 77.6% 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.







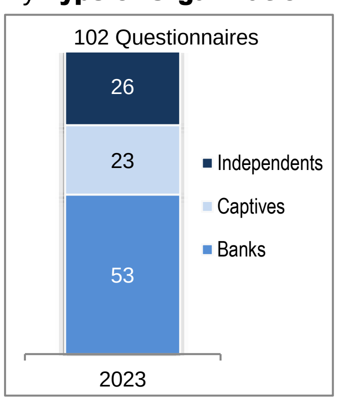
102 questionnaires were used to compile this Survey.

What Information Is Provided in This Survey?

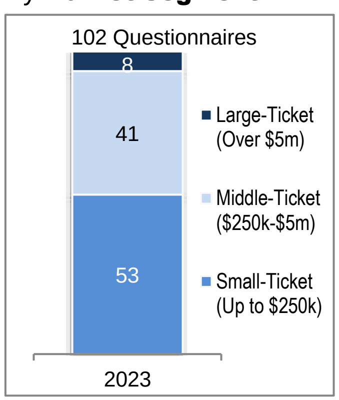
- Financial and Operational Information, covering New Business Volume (NBV), Financial Statements, Collections, Credit, Remarketing, Employee Levels.
- The data represents operations in the **United States** only.
- Respondents are asked to **exclude** dealer floorplan or wholesale financing, real estate 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 68 questions in the Survey. Note that each table shows the number of respondents included in that table.

How Are Respondents Categorized?

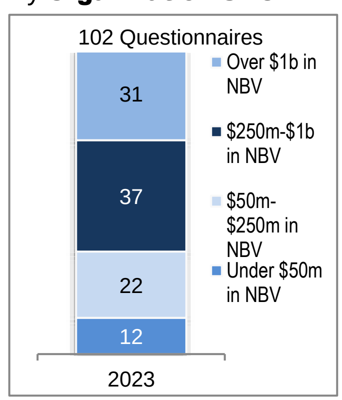
By **Type of Organization**



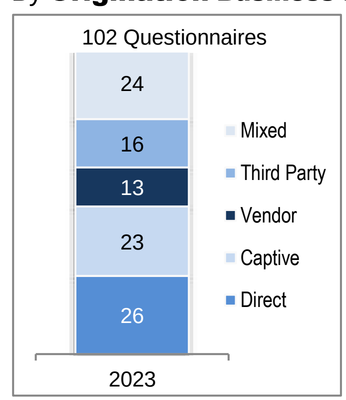
By **Market Segment**



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 2023 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 102 equipment leasing and finance companies.

The survey is of ELFA Members. The survey respondents cover 77.6% of the assets included in the 2022 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 continued to have a strong New Business Volume (NBV) in 2022, up 6.3% to $145.0 billion, although a modest drop from 2021's 7.4% NBV growth. Overall, more than 75% of SEFA respondents reported growth. [Tables 1a, 2a.]

As is typical, the NBV growth picture varied by Type of Organization. Banks increased NBV by 7.4% over 2021, while Independents, representing a much smaller group, saw a 29.4% increase. Captives remained flat, reporting $43.8 million in NBV in both 2021 and 2022.

Jump in Cost of Funds

One major takeaway to this year's report is the 211-basis-point (bps) jump in Cost of Funds between 2021 and 2022, prompted by Federal Reserve interest rate increases. [Table 10c.]

The 184-bps overall increase in Pre-Tax Yields did not offset this sharp rise. The result was a 27-bps overall decline in Pre-Tax Spreads. Managing this Cost of Funds increase will be a major emphasis as equipment finance companies make their way through the current higher-interest-rate climate.

Survey respondents are using several customer-facing tactics to manage this Cost of Funds increase. Overall, the two most popular tactics are "tie pricing to an index" (70%) and "update rate cards more frequently" (53%). (Note: respondents could select more than one response.) [Table 10h.]

Captives, however, cited "update rate cards more frequently" as their top choice (69%). They also were more likely to "lock in rates with no fee" (39%), a tactic only chosen by 26% of Banks and 4% of Independents.

End-User Industries, Equipment Types

Overall, Agriculture/Forestry/Fishing ($18.5 billion) and Construction ($11.1 billion) remained the top two End-User Industries in terms of NBV ranking. The third position, however, changed from Wholesale/Retail ($8.8 billion) in 2021 to Other Services ($9.9 billion) in 2022. [Table 5c.]

EXECUTIVE SUMMARY *… continued …*

Diving deeper into End-User Industries, these three had the most positive NBV dollar volume change from 2021 to 2022:
- Finance, Insurance, and Real Estate (up 28.1% to $9.1 billion)
- Truck Transportation (23.7% to $8.3 billion)
- Other Services, including data processing, administrative support, repair services, etc. (13.6% to $9.9 billion)

On the other end, the End-User Industries with the greatest NBV dollar volume declines from 2021 to 2022 were:
- State and Local Government (down 22.1% to $3.0 billion)
- Federal Government (-24.1% to $1.4 billion)
- Educational Services (-21.9% to 2.8 billion)

Examining year-over-year NBV dollar volume growth by Equipment Type, these three rose to the top:
- Trucks and Trailers (26.7% to $17.8 billion)
- Materials Handling (19.0% to $5.6 billion)
- Agricultural (4.6% in the second largest NBV equipment type, to $17.2 billion) [Table 6a]

Technology-related equipment types saw the largest NBV dollar volume declines. Overall, the entire IT and Related Technology Services equipment category decreased by 29.8% in NBV dollar volume, perhaps showing that companies currently have little need to upgrade so soon after massive pandemic-related buys. The equipment types showing the most NBV dollar volume declines were:
- Other IT and Related IT Services (down 43.9% to $2.2 billion)
- IT Storage (-86.4% to $217 million)
- Mainframes and Servers (-63.3% to $594 million)

On another note, Renewable Energy Equipment (wind, solar, etc.) NBV dollar volume rose 51.6% to $1.6 billion, perhaps showing increased environmental emphasis by governmental and commercial entities.

Delinquencies and Net Charge Offs Remain Low

A positive picture in portfolio health continues. Overall, delinquencies that are current/under 30 days saw a small drop from 2021 to 2022, from 98.3% to 97.7%. [Table 20a.] This strong portfolio picture is especially evident in Banks, which were 99.2% current with their receivables, the same as in 2021. Captives were 97.5% current. Independents, however, dropped from 98.4% current in 2021 to 89.7% in 2022, something to watch. [Table 20e.]

Mining and Oil/Gas Extraction continues to be an outlier in End-User Industry delinquencies, with only 70.7% current. Wood/Paper/Chemical/Plastic manufacturers also underperform at 90.6% current. All other tracked named industries are above 97% current. [Table 20n.]

Net Charge Offs were a low 22 bps for 2022, due to a stronger recovery rate that was much higher than previous years' amounts. The Gross Charge Off figure did increased to 50 bps versus 37 bps for the prior year, something to watch as this year unfolds. [Table 20d.] Although favorable, Non Accrual assets as a percentage of receivables did deteriorate slightly to 90 bps in 2022 as compared to 70 bps the previous year. [Table 20f.]

EXECUTIVE SUMMARY *... continued ...*

Headcounts, Hybrid Work, Electronic Documents

All three organization types saw headcounts rise, with an overall increase of 3.8% in full-time employees. As a percentage, Independents saw the largest increase in full-time employees, rising 8.5% from 2021 to 2022. Captives saw the next largest increase at 4% and headcounts in Banks rose 2.5% year-over-year. [Table 29c.]

Full-time departmental functions seeing the largest percentage year-over-year increase include billing and cash applications (10.1%), marketing/product development (9.2%), inside sales/telesales (7.6%), a 6/9% boost for information systems and a 6.4% boost for booking activities. [Table 29b.]

In comparison, respondents decreased their full-time headcounts in legal (-4.0%), business development and program management (-2.6%), and human resources (-1.6%), among other functions.

Hybrid work arrangements show no sign of abating post-pandemic. Pre-COVID, 84% of the respondents' workforces went to the office fulltime. Now more than 90% said they spend some of their time working remotely; 36% report they spend fewer than five days a month working in a company office. [Table 29k.]

"We have generally migrated to a hybrid work location approach," said one ELFA member. "Customer-facing employees are encouraged to work their region remotely and spend time with clients," said another. "Non-customer facing employees primarily work in a hybrid model."

Another post-pandemic impact is seen in the growing adoption of electronic documents. Eighty-eight percent of respondents say that at least some of their NBV is documented via an electronic document. This reflects a significant rise from respondents who said this was the case in 2020 (72%) and 2021 (80%). [Table 15a.]

KEY FINDINGS BY ORIGINATION TYPE

Banks:

Banks had a healthy 7.4% NBV growth to $91.0 billion in 2022, more than double 2021's 3.5% increase. More than 73% of Banks said they experienced NBV growth during the year. [Tables 1a,2a.]

Banks and Captives tied in the weighted-average Cost of Funds basis point increase. Both saw a 212-bps increase. [Table 10c.]

Looking at Bank NBV by End-User Industry, Truck Transportation was at the top in terms of dollar volume change at 33.3%, and fifth ranked in overall NBV Ranking at $6.5 billion. The Finance/Insurance/Real Estate segment was in second place for both dollar volume change and overall NBV ranking. This segment saw a 26.6% increase in NBV dollar volume change, for a total of $8.4 billion. [Table 33e.]

Other top End-User Industries in terms of positive dollar volume change were Truck Transportation, which rose by 33.3% to $6.5 billion, and Other Services, which rose 12.8% to $8.6 billion.

EXECUTIVE SUMMARY *... continued ...*

Captives:

After experiencing a significant 14.6% NBV increase in 2021, Captives remained flat this year, showing $43.8 million in NBV in 2022, the same as in 2021. More than 69% of Captives said they experienced NBV growth in 2022, the lowest percentage of all three organization types. [Tables 1a, 2a.]

Following the pattern of the previous year, Captives booked and funded/sold 75.1% of approved applications in dollar terms in 2022. This is in comparison to 56.8% booked/funded/sold application approvals for Banks and 51.9% for Independents. [Table 21a.]

Captives are primarily concentrated in the Agricultural/Forestry/Fishing and Construction industries. Both End-User Industries rose in NBV dollar volumes by healthy percentages: the Agricultural group rose 7.6% to $13.4 billion, and Construction increased 5.8% to $3.4 billion [Table 34e.]

Smaller end-user industries for Captives saw significant decreases, however. These include Federal, State and Local Governments (down 21.7% to $156 million) and Telecommunications (-40.4% to $819 million).

Independents:

The smallest group in the survey continued its double-digit gains, growing NBV by 29.4% to $10.3 billion in 2022 after a 16.4% increase in 2021. Nearly 85% of Independents said they experienced an increase in NBV. [Tables 1a, 2a.]

In addition to NBV gains, Independents are making small market share increases, moving from 5.2% in 2020 to 7.1% in 2022. [Table 1i.]

Looking at Charge-offs as a Percentage of Full-Year Receivables, Independents saw a weighted-average YOY increase, from 0.66% in 2021 to 1.21% in 2022. By comparison, both Banks and Captives saw decreases in this number. [Table 20e.]

In 2022, Independents saw Truck Transportation – it’s No.1 NBV-ranked End-User Industry – rise by 23.1% in NBV dollar volume to $1.7 billion. Also notable was Other Industrial Manufacturing, which rose 229% in NBV dollar volume to $675.1 million, and Other Services, which rose 22.1% in NBV dollar volume to $961 million. [Table 35e.]

Delving into Equipment Type, Independents increased their NBV dollar volume in Trucks and Trailers by 16.2% to $2.3 billion. Other equipment types showing NBV dollar volume increases included IT and Related Services at 11.2% to $816, million and Construction at 37.3% to $707.4 million. [Table 35g.]

ADDITIONAL TAKEAWAYS

In what seems to be an indicator of inflation and perhaps supply chain issues, the number of submitted applications went down in 2022 (1.69 million from 1.78 million in 2021), yet the total dollars of booked and funded/sold applications rose from $81.9 billion in 2021 to $85.7 billion in 2022. [Table 21a.]

The Small-Ticket market segment showed NBV dollar volume growth, rising 7.3% to $55.8 billion. The Middle-Ticket segment also grew by 7.3% to $69.5 billion and Large-Ticket tracked a modest 0.2% rise to $19.8 billion. [Table 1b.]

EXECUTIVE SUMMARY *... continued ...*

Return on Average Assets – now at 1.7% – continued to improve in 2022, building on 2021's recovery after the 2020 plunge. Return on Average Equity dipped from 13% in 2021 to 11.1% in 2022. Income Before Taxes as a Percent of Total Revenues, however, increased from 29.4% to 33.2% year-over-year. [Table 18a.]

Overall, Total Assets increased by 4.3% to $306.7 billion in 2022, in line with the 4.6% increase in Net Earning Assets. Operating Lease Assets declined by 4.3% to $31.4 billion, driven by Banks, which saw Operating Lease Assets decline by 7.9%. Net Income increased by 23.4% to $5.3 billion in 2022, compared to 2021. [Tables 16a, 16b, 17a.]

Participants

A total of 102 questionnaires were submitted by ELFA member companies for the 2023 Survey. Participants represent the majority of firms listed in the 2022 Monitor 100 and just under 78% 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 86.3% of the 102 respondents also participated in last year's survey.

Of this year's participants, 52% categorize themselves as Banks, while 25% define themselves as Independents, and 23% classify themselves as Captives. By market segment, 52% specialize in small-ticket transactions (up to $250,000), while 40% focus on middle-ticket transactions ($250,000 to $5 million). Just 8% 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 2021, while another 37 participants reported NBV of $250 million to $1 billion. Yet another 22 respondents reported doing $50 million to $250 million, while just 12 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 24 companies reported using mixed origination models, while 13 said they use the vendor model, and 16 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

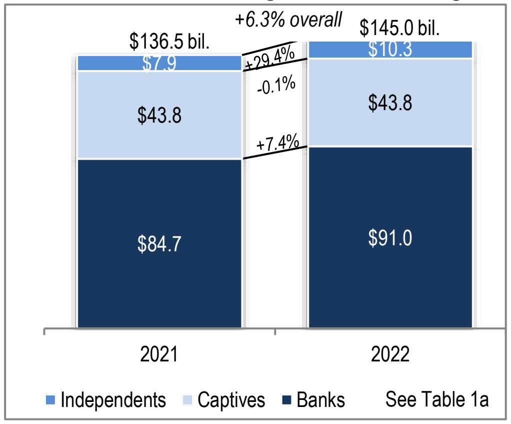
The annual Survey of Equipment Finance Activity is the largest and most important source of statistical information about the equipment finance industry. Participation in the SEFA is a benefit of membership in ELFA. Member-respondents receive a complimentary copy of the survey report. They also receive 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.

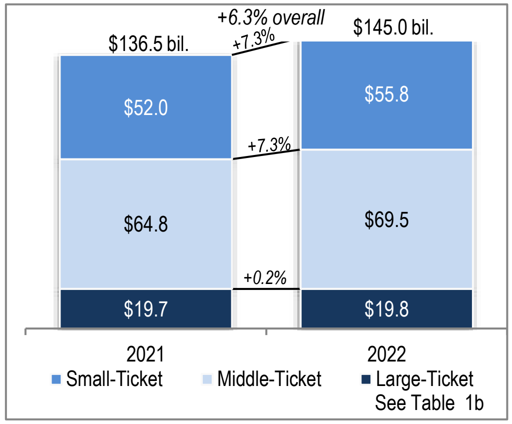
In addition, a selection of key findings are published in the SEFA Interactive Dashboard, a powerful online platform that provides a decade of industry benchmark data. This tool allows users to filter on a small or wide range of years, and the look at the various categories or subcategories to sort their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

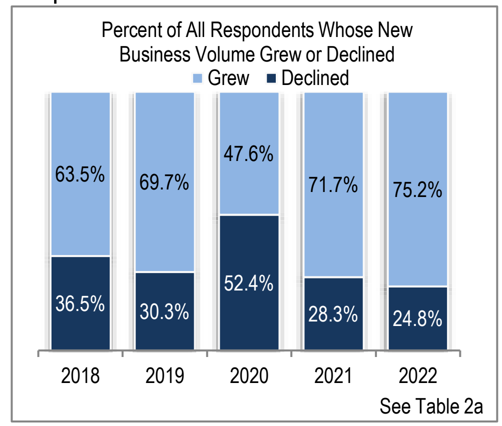
For more information about the report, please visit www.elfaonline.org/SEFA.

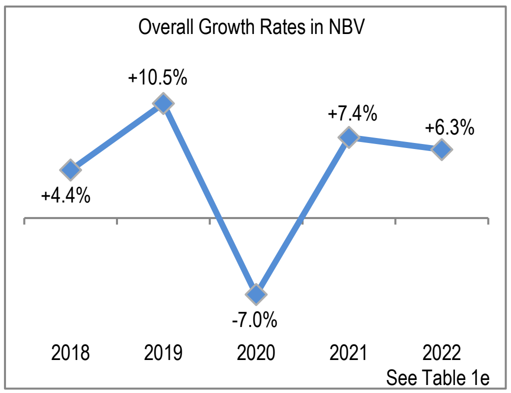
MAJOR FINDINGS

New Business Volume (NBV) **increased by 6.3%** in 2022 compared to 2022. Banks grew by +7.4% in NBV; Captives did not grow at all. Independents had larger increases in NBV by +29.4%, though from a lower base. Both the Middle-Ticket and Small-Ticket segments slightly outperformed the overall growth rate with +7.3% growth. The Large-Ticket segment showed just a 0.2% increase. 75.2% of respondents' volume increased in 2022.









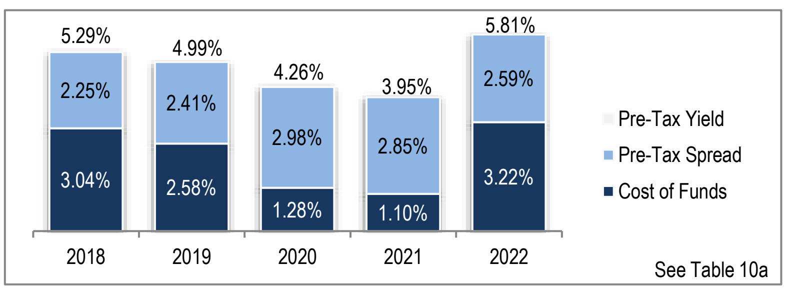
End-User Industries with Most NBV Growth (in $ vol.):
- Finance, Insurance, Real Estate
- Truck Transportation
- Other Services

End-User Industries with Greatest NBV Decline (in $ vol.):
- State & Local Government
- Educational Services
- Federal Government

Equipment Types with Most NBV Growth (in $ vol.):
- Trucks & Trailers
- Materials Handling
- Agriculture

Equipment Types with Greatest NBV Decline (in $ vol.):
- Other IT & Related IT Services
- IT Storage
- Mainframes and Servers

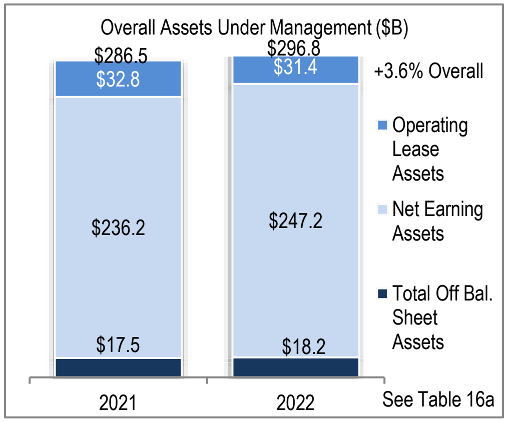
Note that these lists reflect growth and decline rates of respondents who provided two years of data.

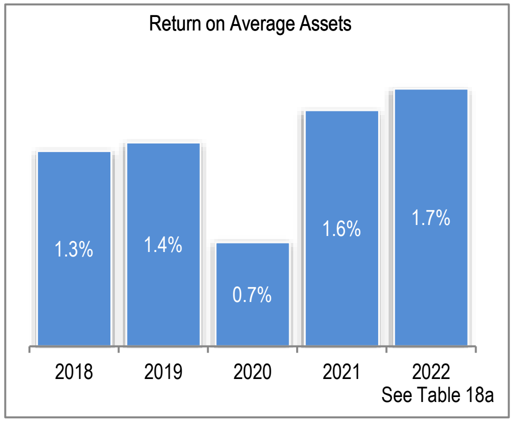


Looking at five-year trends, with varying respondent bases, the significant change in 2022 is the **212 basis points** (bps) **jump in Cost of Funds**. While **Pre-Tax Yields did increase, it was only by 186 bps** in the last year, not enough to offset the rise in Cost **of Funds.** This resulted in a **decline in Pre-Tax Spreads by 26 bps overall.**

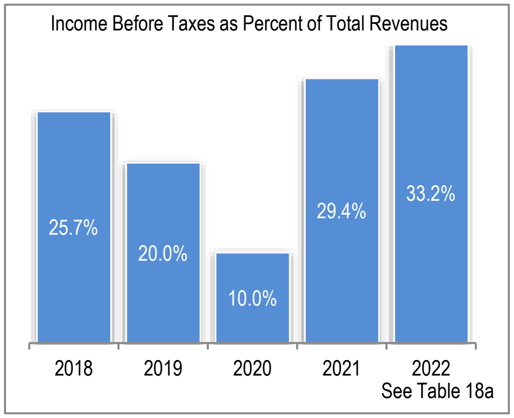
MAJOR FINDINGS *… continued …*

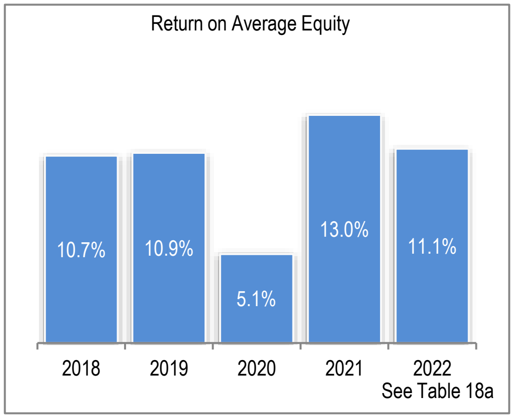
Assets Under Management increased by a healthy 3.6% between 2021 and 2022; Net Earning Assets increased by 4.6%. Operating Lease Assets declined by 4.3%, but Total Assets are driven by Net Earning Assets. **Return on Assets increased** modestly to 1.7% in 2022 from 1.6%. Net Income increased by 23.4% overall, with increases in Net Adjusted Revenue outpacing increases in Total Expenses. Banks, who control 74% of Assets Under Management, saw their Net Income grow by 27.9% in 2022.





Return on Average Equity (ROE) **decreased moderately** year-over-year. While there was a modest drop in Net Worth by 0.3% overall, this was driven by Captives whose Net Worth declined by 11.7%. Banks saw their Net Worth increase by 1.2%. In terms of Net Income, despite an increase in Interest Expense by 17.0%, overall Net Income increased by 23.4% driven by an increase in Adjusted Revenue by 12.0% and an increase in Other Revenue by 19.6%. This outpaced the growth Sales, General and Administrative (SG&A) Expenses by 3.4%.

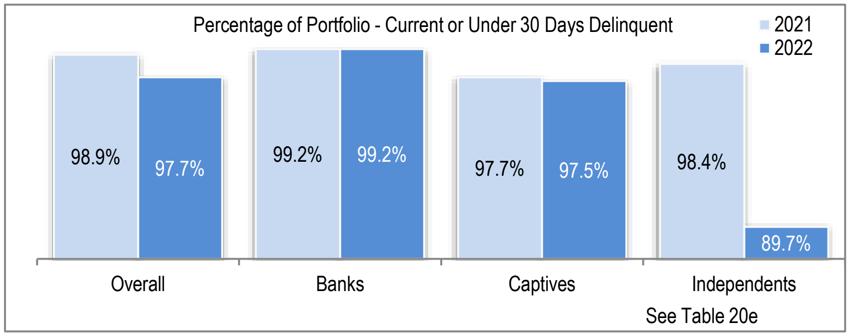


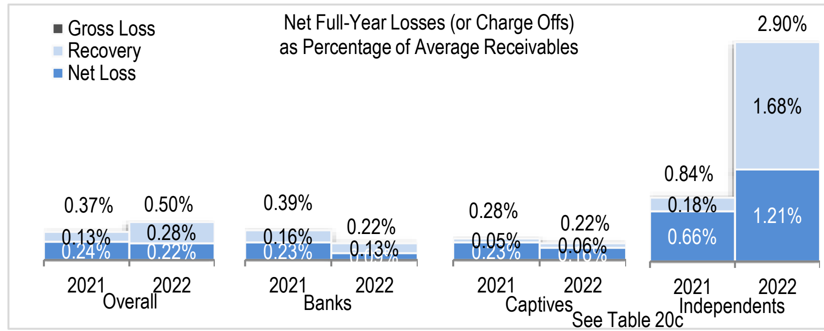


MAJOR FINDINGS *… continued …*

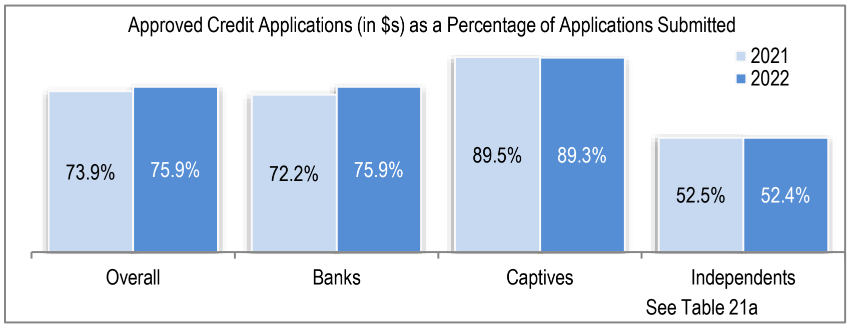
Overall, **Delinquencies increased in** 2022 compared to 2021; 2.3% of receivables are over 30 days past due compared to 1.1% the previous year. Banks have the lowest delinquencies with 0.8% of their overall portfolio over 30 days past due. Delinquencies jumped for Independents. Delinquencies continue to be a significant issue for certain industries, especially Mining/Oil & Gas Extraction; and Transportation-Railroad.

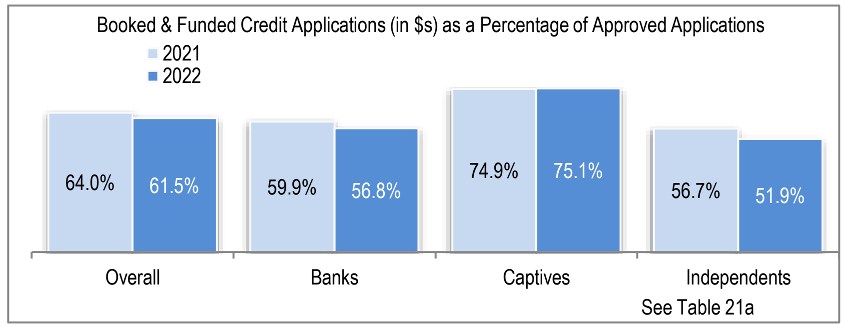
Net Full-Year Losses or Charge-Offs decreased slightly to **0.22% of average receivables in 2022**; Independents saw the highest loss rate.

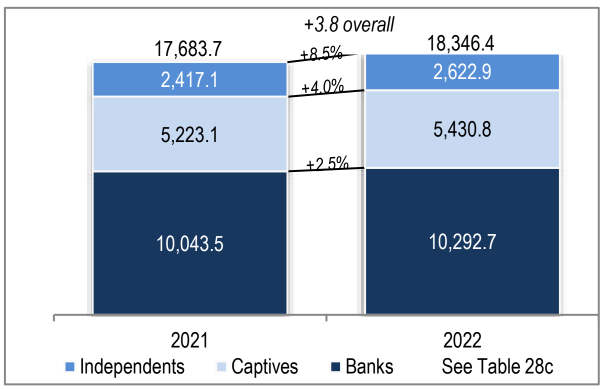




Credit Approvals of Apps Submitted increased year-over-year, the percentage of those approved applications being booked declined slightly. While the number of applications decreased in 2022, the dollar volume increased, an indicator of the inflation the overall economy is experiencing.







Employment Levels increased by 3.8%, Independents and Captives increased their headcount by 8.5% and 4.0% respectively. Banks increased by 2.5%.

Some respondents were willing to share their Covid-related changes in work arrangements over the past three years. Working Remotely is in decline, but it has not resulted in a return to the office full time. Instead, Hybrid arrangements of work from home and from the office now dominate.