EQUIPMENT
# Leasing&Finance
JANUARY-FEBRUARY 2023
THE MAGAZINE FOR INDUSTRY EXECUTIVES

# The Year Ahead:
## 6 forces shaping equipment finance and the U.S. economy in 2023


ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION


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JANUARY | FEBRUARY 2023


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EQUIPMENT
Leasing&Finance
THE MAGAZINE FOR INDUSTRY EXECUTIVES

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Information Management Network

ELFA
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The 22nd Annual Investors Conference on

# EQUIPMENT FINANCE

March 8, 2023 | New York, NY

**REGISTER FOR THE CONFERENCE AT EVENTS.IMN.ORG/EQUIPMENT**

## Conference Agenda

- Welcome Remarks & Top 10 Trends in Equipment Finance
- Keynote Presentation and Q&A
- Equipped for Anything: Market Overview
- Keynote & Industry Spotlight
- From Capitol to Capital: Legal & Regulatory Landscape
- Aviation Finance: Wheels-Up on Market Recovery
- Transport Assets: All Aboard for Esoteric Opportunities
- Tickets Please: Issuer & Investor Roundtable
- Networking Reception

## Confirmed Attending Investors/Issuers

- 777 Equipment Finance
- ALK Associates
- Alliance Funding Group
- Atalaya Capital Management
- Auxilior Capital Partners
- Capital Access Advisors
- Castlelake
- CEFI
- Charger Logistics
- Commercial Equipment Finance
- CV Holdings (Centra Funding)
- Dakota Financial
- Eagle Point Credit
- Elliott Management
- Gordon Brothers Equipment Finance
- Hembstead Capital
- Hudson Cove Capital Management
- Legal & General
- MetLife Investments
- Newmarket Capital
- Nexseer Capital
- North Coast Capital Corporation
- PIMCO
- QuickFi by Innovation Finance
- Regions Bank (Regions Securities)
- Securcor Financial Group
- Siemens Financial Services
- SLR Capital Partners
- SparkFund
- Sun Life Capital Management
- Swiss Capital
- TEQlease Capital
- TIAA Bank
- Varde Partners
- VenSource Capital
- Verdant Commercial Capital
- Wafra Inc.
- Weitz Investment Management
- Wells Fargo Capital Finance-Lender Finance
- Willis Lease Finance Corporation

**ELFA MEMBERS**

**CAN ATTEND THE CONFERENCE AT THE DISCOUNTED RATE OF $2,195.**

By Ralph Petta

# 2023: Ready, Set, Go!

**WELCOME TO 2023!** At ELFA headquarters, we're working to provide you and your business with greater benefits than ever in the year ahead. As we reported last fall, this year ELFA is launching a new long-range strategic plan that will serve as a roadmap for our association over the next five to seven years. The new plan specifies strategic goals in five key areas:

- **Advocacy** - Advance the legislative and policy interests of our members and the industry.
- **Business Intelligence** - Deliver data-informed insights that contribute to members' success.
- **Industry Awareness and Impact** - Raise awareness about this critical and evolving industry as an essential economic driver.
- **Member Engagement** - Meet the needs of members at every career stage and member organization.
- **Training & Education** - Create and deliver outstanding and timely content for all members.

We are excited about the goals and outcomes outlined in the plan and look forward to implementing them with the involvement of the Board, members and staff.

We have a lot in store for 2023 and we are fortunate to have a strong leadership team and active volunteers in place, including Chair Bob Neagle, who shares his priorities for the coming year in the "Member Spotlight."

One of Bob's priorities, which is a key initiative for the ELFA Board and our new Strategic Plan, is promoting and advancing diversity, equity and inclusion. In the following pages we invite you to read highlights from our inaugural Equity Forum, ELFA's first in-person event dedicated solely to an examination of DEI. In another DEI first, we are delighted to welcome Eboni Preston-Laurent to the ELFA staff as Director of Diversity, Equity and Inclusion. In this newly created position, Eboni will oversee and manage strategy development and implementation of the association's DEI initiatives.

**2023 Forecast:** What key factors will shape the economy and equipment finance industry in 2023? Find out in our cover story, "The Year Ahead" and check out ELFA's Top 10 Equipment Acquisition Trends for 2023 at www.equipmentfinanceadvantage.org/toolkit/10trends.cfm.

**Equipment Trends:** Delve into the state of asset management in the feature story "Equipment Management: Out on a Limb" and hear more on this topic at the Equipment Management Conference, Feb. 26-28 in Orlando.

**State of Funding:** Get a snapshot of the state of funding in the story "Funding Reaches a Tipping Point" and get the complete picture at Funding Conference, March 14-16 in Chicago.

Please don't hesitate to contact us at ELFA headquarters if you have any questions or you'd like to get involved. ☰

Ralph

**RALPH PETTA** is the President and CEO of the Equipment Leasing and Finance Association.


Watch Ralph's first-quarter message to the membership at www.elfaonline.org/news/Q1video2023.

# ELFA NEWS


## ELFA Releases Top 10 Trends for 2023

**ELFA IS FORECASTING** the leading trends driving capital acquisition this year in the Top 10 Equipment Acquisition Trends for 2023. Designed to help businesses with their strategic equipment acquisition plans, you can find the trends press release and infographic on ELFA's Equipment Finance Advantage website. Learn more.

## Win with the ELFA Engage App

**STAY CONNECTED** when you're on the go with the ELFA Engage app! The free app is your hub for events, information and collaboration 365 days a year. Join our Q1 contest today: Answer one of four ELFA trivia questions in the app, and you'll be entered to win a $25 Amazon gift card and ELFA swag. Details at www.elfaonline.org/app.

## Join the Conversation in ELFA Connect

**WISH YOU COULD CONNECT** with a community of equipment finance professionals with the click of your mouse? You can. Visit ELFA Connect to join up to five exclusive members-only discussion groups, including the newest addition, DataTalk. Pose questions to industry experts, participate in discussions on topics that impact your business and find colleagues who share your interests. Groups include:

- **AcctgTalk** – Discuss hot topics in accounting.
- ***New!*** **DataTalk** – Drill down into business intelligence.
- **LeaseTalk** – Stay connected to industry buzz.
- **LegalTalk** – Discuss legal subjects.
- **TaxTalk** – Engage members on tax issues.

ELFA Connect is part of the Knowledge Hub, ELFA's source for business intelligence on the equipment finance industry. Learn more.

## Kudos to the App Contest Winners!

**CONGRATS** to our latest ELFA Engage app contest winners, pictured L-R: Kirsten Dargy, Marketing Manager, LTi Technology Solutions; Kirk Phillips, President & CEO, Wintrust Commercial Finance; and Jenaleigh Lathrop, AEF Trainer, Arvest Equipment Finance.

## Membership Minute

**IT'S A NEW YEAR** filled with possibilities and opportunity. What a great time to get involved by volunteering on an ELFA committee. ELFA is a volunteer-driven organization and each year, hundreds of volunteers from ELFA member companies contribute their time and energy to drive the association's mission. If you would like to learn more about how to get involved and participate on a committee, contact Ed Rosen, Director of Governance, at erosen@elfaonline.org.

## Save the Date: 2023 ELFA Events

**TAKE ADVANTAGE** of a wealth of learning and networking opportunities available to you and your staff as part of your ELFA membership. Visit www.elfaonline.org/events to view the 2023 Event Calendar.

### 2023 ELFA Calendar of Conferences, Workshops and e-Learning Opportunities

**FEBRUARY**

February 16, 2023
**Innovation Roundtable**
*Virtual • 1pm ET*

February 26-28, 2023
**Equipment Management Conference & Exhibition**
Orlando World Center Marriott
*Orlando, FL*

**MARCH**

March 8, 2023
**22nd Annual IMN/ELFA Investors Conference**
Union League Club
*New York, NY*

March 14, 2023
**Bank Best Practices Roundtable**
**Captive and Vendor Finance Best Practices Roundtable**
**Independent Best Practices Roundtable**
**Small Ticket Best Practices Roundtable**
Palmer House Hilton
*Chicago, IL*

March 14, 2023
**Emerging Talent Networking Reception**
Palmer House Hilton
*Chicago, IL*

March 14-16, 2023
**34th Annual National Funding Conference**
Palmer House Hilton
*Chicago, IL*

March 26-28, 2023
**Executive Roundtable**
Omni Amelia Island Resort
*Amelia Island, FL*

**APRIL**

April 3-4, 2023
**Women's Leadership Forum**
Palmer House Hilton
*Chicago, IL*

April 26-28, 2023
**Principles of Equipment Leasing and Finance Workshop**
ELFA Headquarters
*Washington, DC*

**MAY**

May 7-9, 2023
*Hybrid Event – In-person & Virtual!*
**Legal Forum**
Marriott Sanibel Harbour Resort & Spa
*Fort Myers, FL*

May 18, 2023
**Innovation Roundtable**
*Virtual • 1pm ET*

May 24, 2023
**Capitol Connections**
Hilton Washington DC Capitol Hill
*Washington, DC*

**JUNE**

June 7-9, 2023
*Hybrid Event – In-person & Virtual!*
**Credit and Collections Management Conference & Exhibition**
Hilton Palacio Del Rio
*San Antonio, TX*

June 22-23, 2023
**Tax Best Practices Roundtable**
Offices of Huntington Equipment Finance, *Cleveland, OH*

**JULY**

July 13-14, 2023
**Emergence2023**
Hilton Baltimore Inner Harbor
*Baltimore, MD*

July 13, 2023
**Emerging Talent Networking Reception**
Hilton Baltimore Inner Harbor
*Baltimore, MD*

**AUGUST**

August 10
**Innovation Roundtable**
*Virtual • 1pm ET*

**SEPTEMBER**

September 11-13, 2023
**Operations & Technology Conference & Exhibition**
Sheraton New Orleans
*New Orleans, LA*

September 11-13, 2023
*Hybrid Event – In-person & Virtual!*
**Lease and Finance Accountants Conference**
Sheraton New Orleans
*New Orleans, LA*

September 13-14, 2023
**Equity Forum**
Sheraton New Orleans
*New Orleans, LA*

September 13, 2023
**People Power Networking Reception**
Sheraton New Orleans
*New Orleans, LA*

September 27-29, 2023
**Principles of Equipment Leasing and Finance Workshop**
ELFA Headquarters
*Washington, DC*

**OCTOBER**

October 22-24, 2023
**62nd ELFA Annual Convention**
JW Marriott Phoenix Desert Ridge Resort & Spa, *Phoenix, AZ*

**NOVEMBER**

November 16, 2023
**Innovation Roundtable**
*Virtual • 1pm ET*

ELFA ACADEMY

The ELFA Academy provides high-quality, interactive training and resources for you and your staff. For a complete listing of the online self-study courses and web seminars available through the ELFA Academy, go to: www.elfaonline.org/Events/eLearning/.

**For the latest information and updates go to: www.elfaonline.org/events**

## Join Equipment Managers in Orlando

**REGISTER TODAY** for the 2023 ELFA Equipment Management Conference, Feb. 26-28 at the Orlando World Center Marriott in Orlando, Florida. This is the premier event for equipment managers, appraisers and remarketers and is attended by over 300 people you need to meet. Get a sneak peek at the story "Equipment Management: Out on a Limb" in this magazine, and register and make your hotel reservations today! Learn more.

## Big Apple Hosts Investors Conference

**THE 22ND ANNUAL ELFA/IMN INVESTORS CONFERENCE** on Equipment Finance is scheduled for March 8 at the Union League Club in New York City. This one-day event focuses on educating investors and equipment finance companies about the latest industry trends and developments. Learn more.

## Funding Conference Set for March 14-16

**THE ELFA NATIONAL FUNDING CONFERENCE** is the most effective forum for connecting funding sources with some of the finest organizations in the equipment finance industry looking to establish relationships to fulfill their funding needs. This popular annual event returns in-person on March 14-16 at the Palmer House Hilton in Chicago. To learn more about the National Funding Conference and to register as a funding source exhibitor or attendee, visit www.elfaonline.org/events.

## Join Sector Leaders at March Roundtables

**BEST PRACTICES ROUNDTABLES** are small, one-day meetings designed to facilitate the exchange of information among peers. Don't miss your chance to problem solve, share best practices and network at the following roundtables on March 14 in Chicago—open exclusively to ELFA member companies: Bank, Captive and Vendor Finance, Independent, and Small Ticket. Enjoy a $200 discount when you register for both the National Funding Conference and a roundtable. Learn more.

## Executive Roundtable: Leadership with a Purpose

**IN THIS TUMULTUOUS CLIMATE** it has never been more critical for leaders to be purpose-driven, team players who advocate for change. At the Executive Roundtable, March 26-28 at the Omni Amelia Island Resort in Florida, our expert speakers will touch on subjects like conscious leadership, economic updates to enhance your business, and our current political climate. Learn more.

## Get Ready for the Women's Leadership Forum

**ARE YOU READY TO START** "Leading with Your Whole Self" in 2023? Then don't miss the Women's Leadership Forum, April 3-4 at the Palmer House Hilton in Chicago. This interactive event will focus on leadership development for women at all stages of an equipment finance career. The agenda will feature dynamic speakers and offer time for attendee networking with other industry leaders. The ELFA Women's Council hopes to see you there! Registration will open in late January at www.elfaonline.org/events.

## Innovate in 2023

**JOIN IN THE INNOVATION DISCUSSION** to shape the future of our industry in the year ahead. Register today for ELFA's 2023 Innovation Roundtables, which will be held on Feb. 16, May 18, Aug. 10 and Nov. 16 at www.elfaonline.org/events. Learn more in the story "Inspiring New Thinking About Technology and Innovation" in this magazine.

## Are You Following ELFA's LinkedIn Page?

**GET THE LATEST ELFA UPDATES,** share information and network with other members of the equipment finance community on the association's LinkedIn company page. All members are welcome to connect today at https://www.linkedin.com/company/115191/.

## Survey Respondents Reap Rewards

**MAKE SURE YOUR COMPANY PARTICIPATES** in the 2023 Survey of Equipment Finance Activity (SEFA) to take advantage of special benefits! Every company respondent will receive:

- A complimentary copy of the 300+ page SEFA and Small-Ticket SEFA reports (a $1,495 value).
- A personalized MySEFA interactive tool, which lets you track your company's operational and performance statistics and compare them against your peers.

Questions? Contact Bill Choi at bchoi@elfaonline.org or go to www.elfaonline.org/SEFA.

## Nominate a Leader

EQUIPMENT FINANCE HALL OF FAME
ELFA EQUIPMENT LEASING AND FINANCE ASSOCIATION

**THE EQUIPMENT FINANCE HALL OF FAME** annually recognizes individuals who have made significant contributions to the industry and the association. Learn about the 2023 nomination criteria and deadlines at www.elfaonline.org/hof.

## ELFA Hires Director of DEI

**EBONI PRESTON-LAURENT** has joined the ELFA staff as Director of Diversity, Equity and Inclusion, effective Jan. 17. In this newly created position, Preston-Laurent will oversee and manage strategy development and implementation of the association's DEI initiatives. She comes to ELFA from USA Lacrosse, where she served as Senior Director of Diversity, Equity, Inclusion and Opportunity.

"We are delighted to welcome Eboni to the ELFA team," said President and CEO Ralph Petta. "Promoting and advancing DEI in all areas of our association are key priorities for the ELFA Board of Directors and our new Strategic Plan. Eboni's experience, skills and knowledge in this area will be valuable assets as we work to advance a strong DEI agenda in support of the equipment finance industry."

## Last Chance to Renew for 2023

**THERE IS STILL TIME,** to preserve your ELFA membership benefits in 2023. Your membership ensures uninterrupted access to indispensable services and benefits, such as federal and state advocacy updates, industry information via ELFA's new Knowledge Hub, ELFA's members-only resources, discounted fees on professional development and more. Key contacts can expedite their dues payment by using the **Account Tools** section of the ELFA website (you must be logged in). Contact ELFA Membership at (202) 238-3400 or membership@elfaonline.org with questions.

# 5 Minutes with Bank Chair

**WHAT'S HAPPENING** in the bank sector of the equipment finance space? *Equipment Leasing & Finance* magazine caught up with Rob Seltzer, Chair of the Bank Business Council Steering Committee (BCSC), to take the pulse of this sector. Seltzer, Chief Commercial Officer at BciCapital, Inc. (BciC), is currently serving his first year as Chair of the committee, which represents bank-owned and bank-related organizations that use internal funding, including bank departments, divisions and affiliates, as well as divisions and subsidiaries of bank holding companies.

Robert A. Seltzer
Chief Commercial Officer
at BciCapital, Inc. (BciC).

## What do you feel are the most pressing topics for ELFA bank members this year?

Our bank members are faced with macroeconomic and political uncertainties that will have substantial impacts on our employers, our customers and the markets we serve. Inflation is having a material impact on our customers' business models, pressuring pricing of goods driven by sizable increases in input costs (labor and materials). Supply chain issues linger in the U.S., fueling inflation, delaying equipment deliveries and increasing equipment costs. Our government's current response, rapid change in monetary policy via increased interest rates and shrinking the Fed balance sheet, is driving up the cost of borrowing/leasing, putting stress on customers and driving up banks' costs and availability of deposits, which may result in increased spreads and reduced funding availability. The Fed moves are also leading many experts to predict a recession over the next six to 12 months. Foreign policy issues including Russia's actions in Ukraine and concern over China's intentions further add to the uncertainty. I expect healthy discussion in the Bank BCSC on making sure our existing portfolios stay safe and getting ahead of any customer/industry weakness, maintaining financing margins in a rising rate environment, and continuing to help customers through what may be difficult times.

## How did you get involved with the BCSC? Would you recommend it to others?

I have been in the industry for over 25 years, mostly at GE Capital, but was not really exposed to the broader industry until 2015 when I left GE and became a commercial leader for a bank equipment finance business. I started attending the ELFA Funding Conference and the Annual Convention and was able to network with great people across the industry, which got me interested in being more active with ELFA. Joining the BCSC was the logical next step and has provided me the opportunity to interact with my peers, consult each other through challenges (like the Covid pandemic) and develop my network and friendships. I highly recommend being engaged in the BCSC and attending the Bank Roundtable on March 14 and the Funding Conference on March 14-16.


### Join the Roundtables!

The Bank, Captive & Vendor Finance, Independent and Small Ticket BCSCs are planning best practices roundtables, to be held March 14 in Chicago. See details at www.elfaonline.org/events.

### About the BCSCs

The BCSCs represent ELFA's five key business segments: Captive and Vendor Finance, Bank, Independent, Service Providers and Small Ticket. Learn more at www.elfaonline.org/BCSCs. Interested in joining? Contact Ed Rosen at erosen@elfaonline.org.

*"This was an excellent workshop. Would highly recommend to future colleagues!!"*

*"I've sat in on meetings this week and recognized that I would not have been able to understand what was being discussed had I not attended the workshop last week. Thank you."*

*"Very glad I went to this workshop. I am new in the leasing industry and this made me understand it more than I ever thought. Thank you!"*

# ELFA PRINCIPLES OF EQUIPMENT LEASING AND FINANCE WORKSHOPS

**WHEN:** April 26-28 and September 27-29, 2023

**WHERE:** ELFA HQ, Washington, DC

**WHY:** Get a strong foundation on how the equipment finance industry works and where YOU fit in the workflow. You'll be led by one of our industry veteran instructors and the class size is kept small to maximize student-instructor interaction and attention.

To view the complete brochure and to register,
go to the Events and Training section of ELFA online:
https://www.elfaonline.org/events/principles-of-leasing-finance-workshops/POL.

For questions, contact: Alexa Carnibella at acarnibella@elfaonline.org

ELFA

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*Equipping Business for Success*

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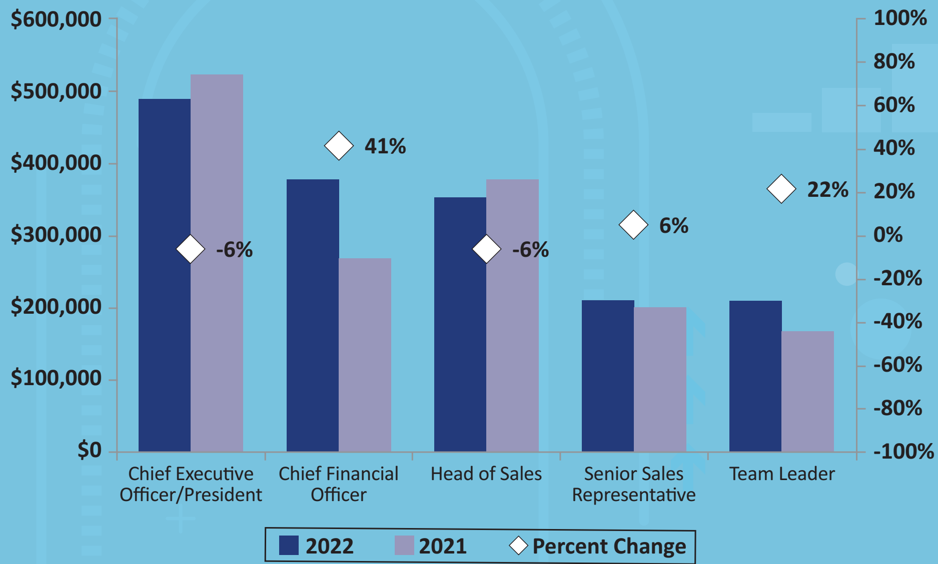
# INDUSTRY

## Spotlight on Industry Pay

5 Highest Paid Positions from ELFA's Small & Medium Enterprise Compensation Survey

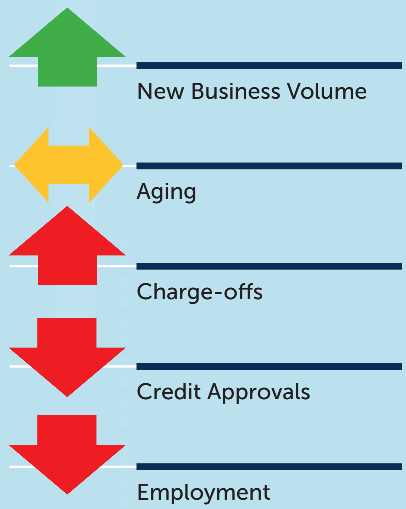



*Total compensation is based on average base salary and average bonus/commission*

Monthly Leasing and Finance Index Products

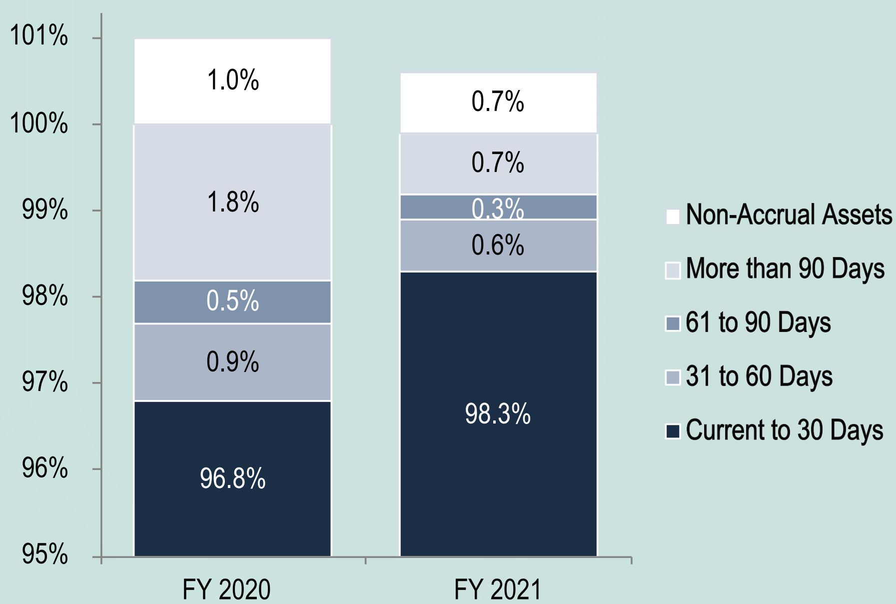
## October MLFI Year-Over-Year

See details at
www.elfaonline.org/data/MLFI




## Delinquency Picture

According to the 2022 Survey of Equipment Finance Activity (SEFA) and the SEFA Interactive Dashboard, delinquencies improved slightly and overall portfolios remained strong at 98.3%.



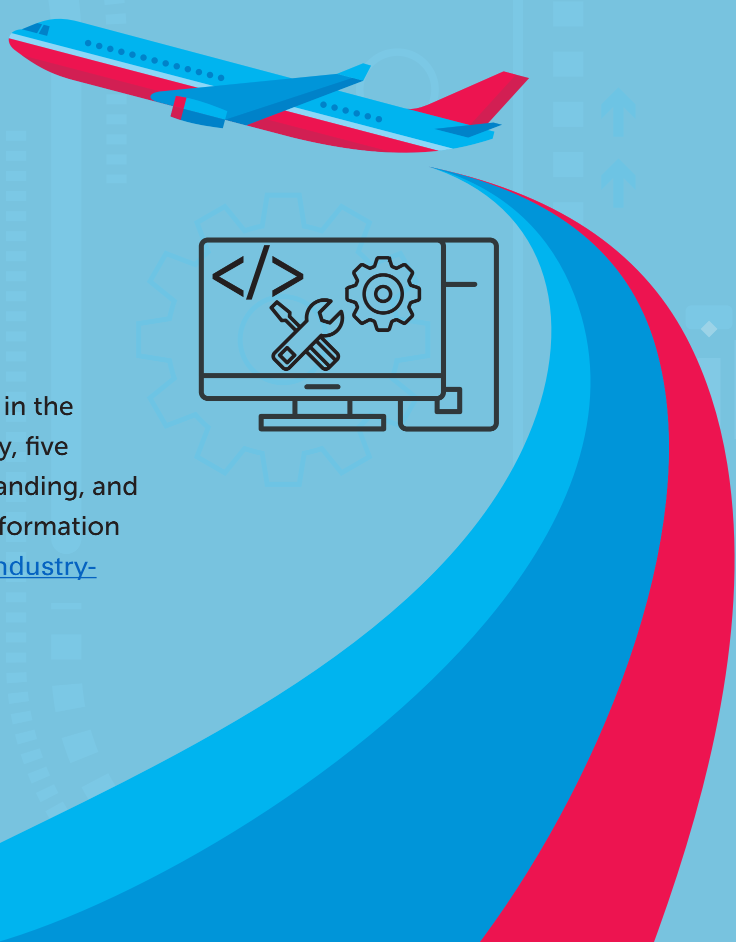
# DASHBOARD

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

## Mild Recession Incoming

That's according to the Foundation's 2023 Economic Outlook, which forecasts 0.9% GDP growth and 4.2% expansion in equipment and software investment growth for this year. The report now features a Recession Monitor, available on page 12 of the report.

Access it now at https://www.leasefoundation.org/industry-resources/u-s-economic-outlook/.



## Flying High

Aircraft and software are the best performing verticals in the Foundation's January Momentum Monitor. For January, five verticals are weakening, four are peaking, two are expanding, and one is recovering. Access the full report for detailed information on each vertical at https://www.leasefoundation.org/industry-resources/momentum-monitor/.

# The Year Ahead

**THE PAST 12 MONTHS HAVE BEEN A TURBULENT PERIOD FOR THE GLOBAL ECONOMY,** to say the least. In what was supposed to be a year of solid growth and a return to business as usual after two years of pandemic-fueled disruption, we instead experienced historic price spikes for energy, food and other commodities as geopolitical tensions escalated into war. Russia's invasion of Ukraine triggered an unprecedented economic and financial decoupling process as U.S. corporations scrambled to withdraw from the Russian market. U.S. consumers were forced to contend with the resulting sharp increases in gas prices and inflation, which was already above 7% Y/Y at the beginning of the year and ultimately rose to 9%, a level not seen since the early 1980s. The economy contracted in real terms during the first half of the year, and recession worries intensified.

Amid these headwinds, however, equipment and software investment boomed. Growth averaged over 9% (annualized) during the first three quarters of the year as supply chains improved and businesses were able to acquire equipment that had been unavailable for months or longer. Indeed, despite persistent recession fears, last year was one of the strongest in recent memory for equipment and software investment.

Here are six predictions and expected trends that we believe will shape the economy and industry in 2023.

## 1. The economy will enter a recession in 2023.

We expect that the combined effects of falling real incomes and higher interest rates will eventually force the U.S. economy into recession in 2023. The U.S. economy has been mostly resilient in the face of tighter monetary policy thus far, largely because the labor market has remained strong and consumers, who account for two-thirds of economic activity, have continued to spend money. However, change is in the air: pandemic-era accumulated savings are eroding, the personal savings rate has fallen to nearly an all-time low (and roughly one-third its pre-pandemic level), and consumers are increasingly turning to credit cards to meet spending needs. Further complicating matters for consumers, the labor market is likely to buckle under the strain of 450 basis points (and counting) of rate hikes in less than a year. With the housing market in freefall, several key trading partners heading toward recession, and the federal government understandably reluctant to buoy the economy with more stimulus and risk even higher inflation, we believe a recession is the most likely outcome, likely beginning in the late spring or summer. While we hope we are wrong about the economy's trajectory, we believe there are reasons for cautious optimism about the equipment finance industry even if a recession materializes.

## 2. Equipment and software investment will perform better than it normally does in a recession.

During previous recessions, equipment and software (E&S) investment has fallen 3–5 times more than overall GDP. However, though the U.S. economy is slowing, equipment and software investment remains strong, and several of the factors that propped up growth in late 2022 make us more optimistic than usual about E&S investment in a recessionary environment. For example:

# 6 forces shaping equipment finance and the U.S. economy in 2023

By Jeff Jensen and Desmond Dahlberg

- There is a significant backlog of equipment demand. Per the Census Bureau, as of late 2022 the backlog was at or near all-time highs in many end-use verticals, including industrial machinery, materials handling equipment, computers, and motor vehicles.
- The Infrastructure Investment and Jobs Act ("IIJA") should provide a boost to construction activity across the country and will also provide significant benefits to the manufacturing sector.
- The Creating Helpful Incentives to Produce Semiconductors ("CHIPS") and Science Act has already resulted in tens of billions of dollars in new investments in the semiconductor fabrication industry, which should provide tangible benefits to several equipment verticals.

Of particular relevance to equipment finance companies is the Equipment Leasing & Finance Foundation's 2023 Equipment Leasing & Finance U.S. Economic Outlook (jointly produced with Keybridge) which forecasts 4.2% growth in equipment and software investment this year. All told, we expect the combined effects of pent-up demand and legislative tailwinds to cushion the blow of a recession, though the effects may not be felt evenly across end-use markets.

## 3. CPI inflation will decline to about 4% by the end of the year, but further improvements will be hard to come by.

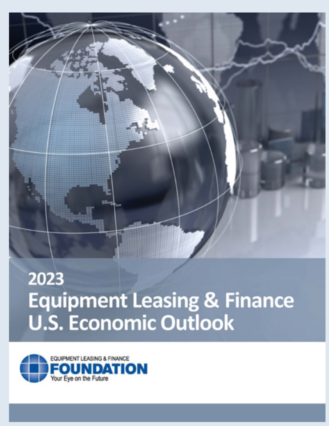
CPI inflation cooled substantially in late 2022, dropping from 7.7% in October to 7.1% in November. Much of this cooling can be attributed to easing energy and commodities prices, even as price pressures for shelter and services remain elevated. We expect price growth will continue to slow for things like medical, transportation, and recreational services as the economy cools, but there is one major factor that will likely put a floor on inflation: wage growth. Even though wages have lagged inflation for nearly two years, wage pressures are notoriously difficult to squeeze out of the labor market. When inflation falls to a level near that of wage growth — which was 4.6% Y/Y as of December — we expect that further progress on bringing down inflation will be much more difficult. We expect equipment finance firms will be operating in a higher inflation environment (e.g., 4-5%) for longer than may market-watchers expect. Industry leaders may wish to review Keybridge's Summer 2022 article in the Journal of Equipment Lease Financing for a look at what to expect in such an environment.

## 4. Equipment finance firms will have to contend with higher interest rates, for longer.

In our view, inflation is unlikely to return to the 7–9% range of 2022 (absent unforeseen geopolitical events), but we still believe the Fed will raise rates higher — and hold them there for longer — than markets currently anticipate. Indeed, toward the end of 2022, cooler-than-expected CPI readings gave financial markets reason for hope that the Fed might soon take its foot off the brake pedal. However, inflation is still running hotter than short-term interest rates, implying that the "real" fed funds rate is still negative (and thus accommodative). Chairman Powell has repeatedly emphasized the need to smother inflation and to make sure that it does not reemerge in the near term, and we believe the Fed's actions to date demonstrate its seriousness about the issue and willingness to stand firm, even if it leads to higher unemployment and/or a recession. We expect that the fed funds rate will have to hold above inflation for several months before the Fed will entertain the idea of cutting rates.

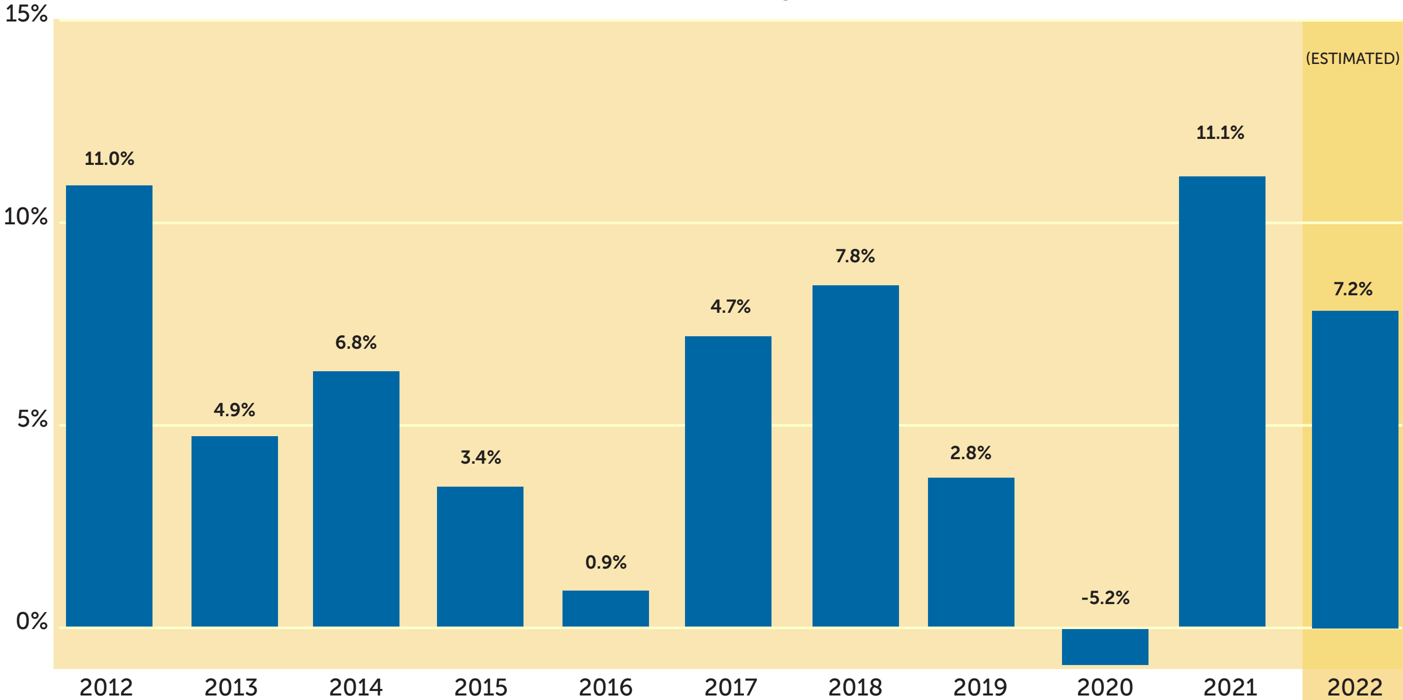
## 5. Re-shoring and near-shoring of industrial capacity will accelerate.

Last year, "onshoring and reindustrialization" was a key theme in Keybridge's economic outlooks, and we believe this trend will be even more important in 2023. The pandemic and ensuing supply




**Download your copy of the Equipment Leasing & Finance Foundation's 2023 Equipment Leasing & Finance U.S. Economic Outlook Report from www.leasefoundation.org/industry-resources/u-s-economic-outlook/.**

**U.S. Equipment and Software Investment Growth**
**Y/Y Percent Change**




Source: Equipment Leasing & Finance U.S. Economic Outlook

chain crisis set into motion a fundamental shift in how corporations source inputs and manage production, and Russia's invasion of Ukraine intensified this transition. The supply chain decoupling and realignment is well underway, and we believe it will be both historic and beneficial to domestic manufacturers. For example, in East Asia, China's COVID lockdowns and growing concerns about potential military action directed toward Taiwan have thrown supply chains into turmoil. To mitigate this risk, there will be growing need for producers to shorten and diversify their supply chains, which should lead to significant growth in manufacturing and other industrial capacity in the United States in 2023 and beyond.

## 6. Divided control of Congress will result in a possible government shutdown and debt ceiling brinksmanship.

In a story that we have seen play out several times in recent years, we anticipate an acrimonious political environment in a newly divided Congress with razor-thin majorities in both the House and Senate. A partial government shutdown sometime this fall is a distinct possibility, and while shutdowns typically don't have large or long-lasting economic impacts, the threat of a shutdown would likely increase economic uncertainty, reduce consumer confidence, and make a soft landing more difficult to achieve. A threat that is perhaps less likely but would possibly result in far larger economic consequences relates to the federal debt ceiling. If the debt ceiling were breached — something that has never happened in the United States — it would amount to a technical default by the U.S. government. Given that U.S. Treasuries are among the most important and highly liquid financial instruments in the world, the impact of a breach on the U.S. and global economy, while uncertain, could be devastating. Let us hope that cooler minds prevail, and political battles do not lead us into uncharted economic territory. ☰

**JEFF JENSEN** is Vice President and **DESMOND DAHLBERG** is Senior Economist at Keybridge Research.

# Equipment Management: *Out on a Limb*

**Equipment managers say shortages are good for business, but abnormal conditions present unique challenges.**

By Susan L. Hodges

**JANE RETHMEIER ISN'T ONE TO EXAGGERATE.** When talking about equipment finance, the CEO of Harbor Capital Leasing describes situations in a matter-of-fact manner and often has anecdotal or statistical information to back them up. But here's what she says this year about the current state of equipment management: "It's crazy! I've been doing this a long time, and I've never seen so many customers hanging onto equipment much, much longer than usual. We've written more renewals this past year than we have in the past five years combined, and in talking with other equipment managers, it doesn't matter whether we're dealing with IT, rail and marine, plastics or renewables—we're all seeing pretty much the same thing across markets."

Not only are supply chain issues continuing to slow the delivery of new equipment; Rethmeier says customers are also cancelling orders for new equipment because they're uncertain about the economy. "All of these renewals and extensions are really good for our business," she admits. "But at some point, this equipment is going to come back with a lot more hours and a lot more use, leaving us with even older equipment that has less remaining use."

One year after the waning of the Covid-19 pandemic, many suppliers of parts as well as new equipment are having trouble meeting demand. But the virus shouldn't get all the blame. Wade Whitenburg, Strategic Accounts Manager at Ritchie Bros. Auctioneers, says he recently learned that most of the wiring harnesses used in heavy-duty trucks traditionally came from Ukraine. "Because of the war, suppliers now have to realign to get these components—and not all of them have the physical or financial capacity to do that," he says.

Tony Gordon, Manager of Asset Management and Remarketing at Farm Credit Leasing, says a farmer who ordered a new tractor last August has

"We've written more renewals this past year than we have in the past five years combined."

JANE RETHMEIER
Harbor Capital Leasing

been told he "might" be able to take delivery in January. Meanwhile, pickup trucks are being delivered without backup monitors and/or cameras, and the wait for starters, seven-pin connectors and GPS devices can be longer than the wait for the asset itself.

"Waiting months for equipment is pretty common in the agricultural sector now, and it's putting a premium on high-quality used equipment," Gordon observes. One example: agricultural tractors with more than 7,500 usage hours, which are typically remarketed to under-developed nations. "Not anymore," says Gordon. "If they're in good condition, there's a strong market for them right here in the U.S."

No one knows how long these delays and shortages will last, but Gordon makes a salient point: "Most new equipment is more highly automated than its replacement, and that requires more semiconductors," he says. "I think there will be equipment shortages until there's a readily available supply of semiconductors."

## Ripple Effects

Consequences of the shortages run broad and deep. Rethmeier says many manufacturers are now in the unusual position of having to choose whether to put the parts they have in stock into new equipment or use it to keep older machines running. "We've never had to deal with this before," she says.

In the trucking market, Whitenburg says parts shortages are particularly hard on small fleets because repairs to a downed truck can take months instead of days. "So the fleet gets downsized but the bills stay the same, and smaller companies have to ask their finance companies what to do," he explains.

At the same time, Whitenburg says the dearth of new equipment deliveries is hurting the freight transportation market. "Smaller companies usually bid on one-time, less-than-truckload jobs, and because there's not as much inventory to move, these 'spot' rates are dropping precipitously," he says. As a result, carriers too small to negotiate fuel prices or other costs need financial help or risk going out of business.

Nick Coscia, Equipment Portfolio Manager, Asset Management for Construction, Transportation and Industrial at DLL, says low availability of new equipment has caused many DLL customers to keep their equipment longer or buy it, creating positive outcomes on residual values. "But some customers are having trouble getting their equipment repaired at lease end, because it's hard to find parts," he says, adding, "It's even harder to find mechanics."

## A Residual Balancing Act

The good news is that companies like DLL and Harbor Capital Leasing are realizing the residual values they booked three to five years ago. But the scarcity of new equipment has caused prices to soar for certain types of good-quality used equipment, and some customers buying it are seeking financing to help pay for it. Rethmeier describes the challenge: "Some used pieces previously worth $40,000 now cost $120,000—but what will they be worth three to five years from now? I'm very aware of not getting sucked into today's used inflated values for residuals on three- to five-year deals, because we don't know what the economy will look like in three to five years and we probably won't get those values. People want to finance a used asset, but they don't understand that it won't be worth the same as new equipment in three to five years."

Calculating residual values for new equipment is tough, too, not only because of current inflation but because technology is advancing so quickly. "New equipment definitely costs more than what it's replacing, and an asset manager needs to project what a new piece will be worth several years down the road," says Gordon. "But that value has to factor in future economic

"Waiting months for equipment is pretty common in the agricultural sector now, and it's putting a premium on high-quality used equipment."

TONY GORDON
Farm Credit Leasing

"Some customers are having trouble getting their equipment repaired at lease end, because it's hard to find parts. It's even harder to find mechanics."

NICK COSCIA, DLL

conditions and the fact that still newer gear will replace the equipment currently in use. The more expensive the equipment gets, the longer the customer will probably need to pay for it." Gordon says new reports he's seeing on replacement equipment make him think financing may soon need to extend for five to 10 years. "But our typical lease is 36 to 48 months," he says.

## Hot Markets

Of the new equipment now on order or being delivered, however, equipment managers see opportunity. Coscia says aerial work platforms are strong, as are cranes and forklifts. "This has to do with commercial construction starts and supply chains, which have pent-up demand and backlogs," he says. Also showing strength are robotics used in the healthcare space and any equipment having to do with electric mobility.

In the near term, though, Coscia says DLL has seen some price softening in used trucks and trailers as well as in certain construction verticals. "In some cases, we've noted that inventory is going up, so asking prices are going down," he says.

In the agricultural sector, Gordon expects innovative

# Learn More at ELFA's Equipment Management Conference!

If you still have questions about equipment management, make plans to attend ELFA's upcoming Equipment Management Conference, Feb. 26-28 in Orlando. "For equipment managers, going to the conference is probably the most efficient use of your time," says Tony Gordon of Farm Credit Leasing. "It's a great place to connect with service providers, it's convenient because everyone is in one place, and it's the best place to obtain the continuing education required to keep your professional designation."

The conference is also great for catching up with peers and hearing from experts in equipment finance. "You get to find out what others are experiencing and get different perspectives on the same job we're all doing," says Nick Coscia of DLL. "And the breakout sessions are always valuable to hear experts' take on how the market is going."

Jane Rethmeier of Harbor Capital Leasing says this year's meeting will have more opportunities for attendees to interact with speakers. "We've added some roundtable discussions about specific asset classes so we can have open conversations about what we're seeing," she says. After several years without equipment demonstrations, conference attendees will also have a chance to see trucks, generators and yellow iron in action during a visit to Ritchie Bros. Auctioneers. In addition to these features and attractions, Gordon says there's another reason to go to Orlando. "The conference is just a lot of fun," he says.

"Equipment managers who've seen economic cycles know not to set residuals based on today's prices, because they'll be unsustainable over the long term."

WADE WHITENBURG
Ritchie Bros. Auctioneers

products that increase efficiency and reduce costs for farmers to be hot throughout 2023. Examples include smart spraying systems that install on chemical applicators to limit their spray to weeds only, thereby reducing the chemicals used and the resulting run-off. Also gaining more acceptance: autonomous tractors that follow combines, and robotic weed-pullers. "Think about organic produce, which costs more because many of the processes, like pulling weeds, involve manual labor," Gordon says. "Now small pilot machines are being sold that pull or chop two rows of weeds at a time—and if you can make a two-row machine, you can make a 24-row weed-puller or a swarm of robots that eliminate the need for chemicals altogether."

Automation is also making gains in the material-handling space. "Most material-handling equipment is used in manufacturing or distribution centers, and we're seeing more customers trying out automated guided vehicles and robotic order-pickers," Rethmeier says. Not only do such centers have room to test self-guided machines; "If they aren't able to hire enough people to do the work, they'll have to rely on robotics," she observes. "I don't think the shift to robotics will be fast growing, but I do think we'll see more of it in the next few years," she adds.

Whitenburg has a different perspective. "A lot of markets are hot, but not for the right reasons," he says. "Equipment values aren't being driven by growth, but by lack of supply, and I don't think prices will come down until supply increases substantially."

## Outlook

Clearly, fluctuations in the economy and equipment availability will keep equipment managers hopping in 2023. "We'll be managing through this next year, and if there are increased repossessions or lease returns, we'll be working to maximize returns and minimize losses," says Coscia. "This will be a very big focus."

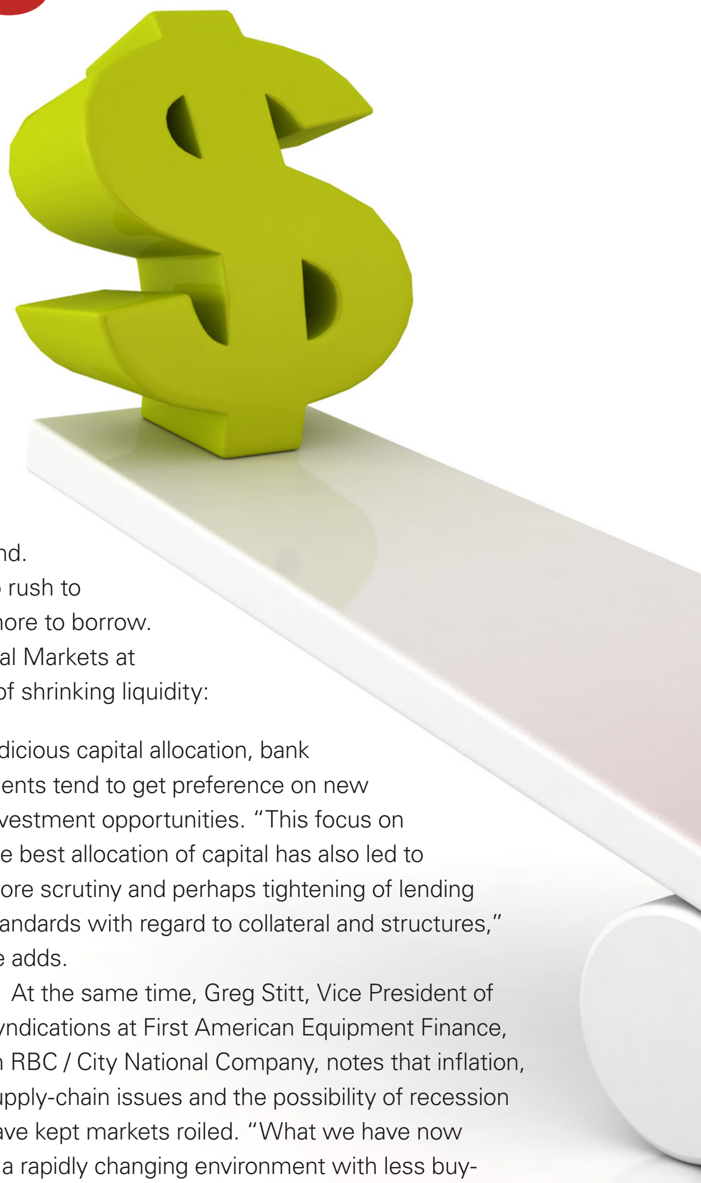
Gordon believes the pressure to produce ever more food will revolutionize agricultural equipment and operations. "I think in five to 10 years, farming will look completely different," he says. "The need to reduce chemical use and soil compaction are hot spots that will drive changes."

Whitenburg also expects continuing residual value challenges due to new technology. "Equipment managers who've seen economic cycles know not to set residuals based on today's prices, because they'll be unsustainable over the long term," he says. "But the industry has lost a lot of gray hair, and if you run your calculations with old-style modeling, you'll come up with numbers well above where they should be. A lot of effort is needed now to bring in data to support what future values will be."

Rethmeier is guardedly optimistic. "If you'd asked me in October, I'd have probably said I think the economy will tank soon," she reflects. "But as of late November, nothing has changed dramatically, and I'm hoping we'll ride out the current environment through 2023." Rethmeier's hope is a good one, because staying out on a limb requires very good balance. ☰

**SUSAN HODGES** writes about equipment finance from her office in Albuquerque, New Mexico.

# Funding Reaches a Tipping Point



By Susan L. Hodges

**FINALLY, IT HAS HAPPENED.** Six years of lush liquidity have given way to a new funding landscape in which the grass is still green, but there's less of it, and it's quite a bit more expensive. Experts say there's still ample capital to satisfy borrower/lessee demand. But fast-rising interest rates are causing funding entities to rush to get deals done, and customers are fretting about paying more to borrow. Keith Moore, Senior Vice President and Group Head-Capital Markets at Wintrust Commercial Finance, explains the phenomenon of shrinking liquidity:

"The Federal Reserve Bank's moves to increase interest rates over the past year have given traditional bank depositors alternative places to park their money to achieve higher returns with the same amount of liquidity and short-term access," he says. "This outflow of deposits has reduced the amount of capital banks have to lend. And the fairly steady flow of new lending, while not robust, has pushed average loan-to-deposit ratios to 90% or more. Capital markets are still open and functioning, but there's increasing selectivity on transactions and more discipline around pricing to achieve internal return target levels."

Similar to market conditions during the 2008-2009 Great Recession, Moore says that in light of more judicious capital allocation, bank clients tend to get preference on new investment opportunities. "This focus on the best allocation of capital has also led to more scrutiny and perhaps tightening of lending standards with regard to collateral and structures," he adds.

**"Capital markets are still open and functioning, but there's increasing selectivity on transactions..."**

**Keith Moore**
**Wintrust Commercial Finance**

At the same time, Greg Stitt, Vice President of Syndications at First American Equipment Finance, an RBC / City National Company, notes that inflation, supply-chain issues and the possibility of recession have kept markets roiled. "What we have now is a rapidly changing environment with less buy-side interest in certain deals, and a more selective approach from funding sources than we're used to seeing," he says. "These factors, along with the inverted yield curve, have resulted in varying opinions of how deals should be priced."

## A String of "Wobbles"

Indeed, everything happening in funding seems tied to climbing interest rates. Almost one year

**Deals are still being funded but rising interest rates have changed nearly everything.**

has passed since the Fed announced the first of what would become half a dozen hikes in the short-term interest rate in 2022. Bob Blee, Global Capital Markets Leader at Healthcare Financial Services, GE Healthcare, shares his perspective: "The rapid and significant rise in rates made for a very choppy and challenging funding environment in 2022. We began the year with the five-year swap rate at 1.47%, and by late November, it was 4.05%."

**"We're seeing pockets of the market with decreased funding capacity or tightened requirements for certain deals."**

**Greg Stitt**
**First American Equipment Finance**

Along with rising swap rates, Blee says credit spreads have widened across all classes, most noticeably in non-investment grade. "Those of us on the capital markets side have had to move quicker to get deals funded and rely on interest-rate locks to protect ourselves as well as our customers," he says, adding, "Customers are anxious, and everyone has become more conscious of getting deals done."

Capital markets professionals emphasize that deals are still getting done; they just cost significantly more than they did in 2021 and early 2022. But Nick Colvin, Vice President-Indirect Originations at Fifth Third Bank, National Association, is seeing differences in behavior between larger and smaller lenders. "In general, some of the looming economic uncertainty seems to have caused a bit more pressure on liquidity premiums," he says. Liquidity premiums are internal buffers lenders add to their pricing to ensure a minimum level of profitability on a transaction. "My sense is that there are a number of smaller institutions that operate as coupon players and are saying as long as they're getting a 6% rate, that's acceptable, because it's above their average portfolio return," he continues. "Conversely, larger institutions, which closely monitor the daily fluctuations in their cost of funds, are more tightly wound. Larger lenders are more focused on their overall liquidity and the granularity of returns on each individual deal in their portfolio."

Colvin also sees funding entities using different benchmark interest rates. "For the first time in a long time, a variety of indices are being used to index deals," he says. "LIBOR swaps, SOFR swaps, Treasuries and benchmarking to Internal Cost of Funds are all somewhat common." The development has created less consistency in the way institutions price deals to their customers, which can create challenges in the capital markets space. "Depending on what pricing governors your institution is bound by, it has the potential to give a competitive advantage to those lenders able to be more flexible."

Moore, on the other hand, says the majority of traditional lessors and lenders use average-life swaps as their benchmark for pricing, and their cost of funds is usually a function of that rate plus a liquidity premium allocated by their internal treasury groups. "So as swaps and treasuries have risen, banks' costs of funding has quickly followed suit," he concludes.

## Pockets, or the Lack Thereof

On the borrower side, several funding professionals say transactions with higher-than-average risk are seeing the highest price increases. Stitt says proper structuring and pricing are key. "We're seeing pockets of the market with decreased funding capacity or tightened requirements for certain deals," he notes. "In general, there's still a lot of uncertainty out there."

**"Lenders have already begun seeing the negative impact that rising operating costs are having on businesses in their portfolios."**

**Nick Colvin**
**Fifth Third Bank, National Association**

Moore senses cautious optimism surrounding the oil and gas space. "It's a bit early, and given the ongoing war in Ukraine and the uncertainty with the current administration's position on the industry, there could be opportunity here when the outlook becomes a little clearer," he suggests.

Others see consistent conditions across markets and geographic areas. "I think what's happening is universal," says Colvin. "I haven't heard of any areas where lending is particularly robust."

**"[At ELFA's Funding Conference] buyers and sellers gather under one roof, and there's no better conference in the industry."**

**Bob Blee, GE Healthcare**

## What's Coming

Because the Fed has said rate hikes will continue in 2023, sources interviewed here expect funding instabilities to continue. But Blee thinks the worst of the choppiness will have passed. "Rates may peak early in the year, and we'll have to manage with where we are," he says. "But I don't think we'll be dealing with a 200 basis-point rise in swap rates. Everyone doing business on a fixed-rate basis either goes with Treasury or swap rates, and most equipment finance business is fixed-rate."

Blee thinks tighter underwriting conditions will persist nonetheless. "Shorter terms, more collateral and possibly other requirements will have an overall impact on liquidity for capital markets and for markets in general," he says. "I don't think there will be a recession, but growth may be so anemic it will feel like a recession. But if inflation comes under control, we're all going to feel a little wealthier," he adds. "We may be making the same wages, but if inflation drops to a more comfortable level, we'll feel like we're doing better."

Colvin thinks the economy is in for a rough ride. "Over the last couple quarters, lenders have already begun seeing the negative impact that rising operating costs are having on businesses in their portfolios," he says. Rising costs tend to tighten liquidity as lenders brace for still more uncertainty if interest rates keep rising and inflation remains high. "All of a sudden, growth opportunities that were fueled by low interest rates over the last few years become detrimental as operating costs get much more expensive," Colvin explains. As a result, he expects more businesses will be forced to consider lay-offs and expense reductions, spawning a re-focus on unit economics instead of growth.

Moore believes the amount of capital will still be sufficient in the coming months. "Banks have yet to see any meaningful decrease in credit quality or increase in problem loans, and so will still be actively looking to grow assets through investments in the equipment finance market," he says. "I also expect that once the calendar turns and the industry begins a new year, everyone starts back at zero with new budgets to achieve, so demand for equipment loans and leases should firm up as we start the new year."

Stitt feels similarly. "I think there's still plenty of liquidity out there, just not as ample as six months ago," he says. And while much will be determined by the Fed's manipulation of interest rates, "the latest inflation reports are encouraging," Stitt adds. "And thanks to our sales professionals, who've had important conversations with our clients, they understand the situation." ☰

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**SUSAN HODGES** writes about equipment finance from her office in Albuquerque, New Mexico.

### Grow Your Connections at the Funding Conference!

Given the dynamic market conditions affecting the funding environment, Greg Stitt thinks attending ELFA's 2023 Funding Conference March 14-16 in Chicago is more important than ever. "The environment we're currently in requires high levels of communication and a clear understanding of what's being looked for in the market," he says. "There's no doubt that networking is even more valuable than before."

Bob Blee says the conference stands out among meetings for funding professionals. "Buyers and sellers gather under one roof, and there's no better conference in the industry," he says. "It is a very efficient forum and always good to see our business partners in person."

Colvin cites the opportunities to deepen relationships. "It's so valuable to sit across the table and have a conversation with someone, and that's integral to how this industry functions," he says. "People do business with people, and in addition to making those in-person connections, you get a lot of great resources: speakers and the organizational structure of the conference add a lot of value. You might run 24-7 when you're there, but you meet people and foster relationships that help generate opportunities for the rest of the year."

# Diversity, Equity and Inclusion: An Answer?

**The Equity Forum in November was the first ELFA in-person venue dedicated solely to an examination of DEI.**

By Scott Thacker

**RIGHT NOW,** it sure seems as if our world is undergoing tidal shifts from several viewpoints. The war in Ukraine with its various twists and turns and surprises, the divisiveness on the political stage, the rise of what some would call fringe social ideas, the popularity and convenience of working from home, the growing popularity of smaller cities, the accelerating move to electric vehicles, the spectacular rise and recent nail-biting fall of crypto currencies, rising interest rates along with the possibility of a recession, mental illness seemingly on the rise, homelessness now prevalent in many cities, the increasing impact of tech tools and the use of social media on peoples' thinking. It's quite a bit to absorb. How much stress does all of this put on each of us, and how does that stress manifest itself?

The USA is evermore a land of many peoples—from all cultures and probably all countries—living together and calling the USA home. So, let's ask a similar question: Does this impact our view of how we should act as a society, and how does that manifest itself?

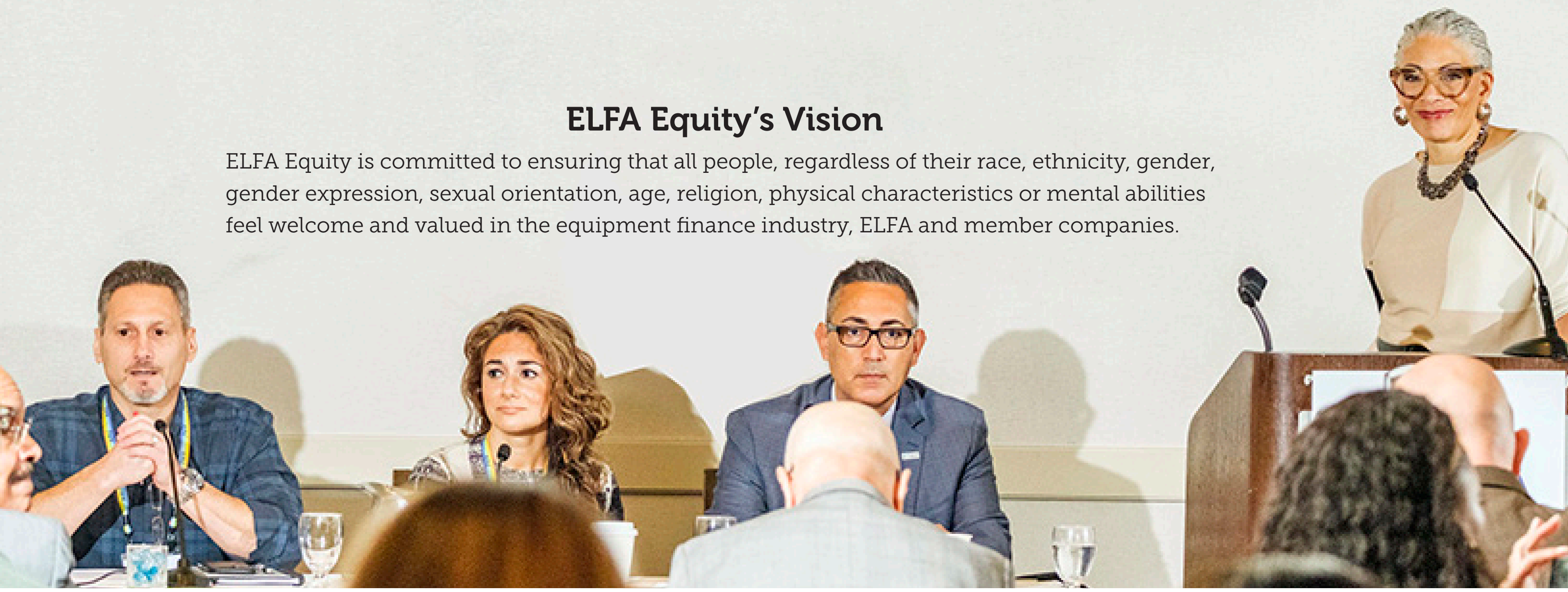
In the midst of all of these forces, in our professional and in our personal lives, we hear an almost ubiquitous conversation about diversity, equity and inclusion—or DEI for short—and how we all could bridge our various divides and problems by embracing DEI. Is the focus on DEI at the right level, or is it overblown?

Consider the adage, in its many forms, "two hands are better than one," "we are stronger together than apart," "a group is better than an individual." Now let's add on some complexity—the idea that diversity of thought results in better outcomes. There have been many studies conducted by the top consultancies in the world such as McKinsey, BCG, Accenture, Deloitte, etc. during the past 10 years that have demonstrated that companies that embrace diversity create greater shareholder value, higher employee engagement scores and greater customer satisfaction ratings than their competitors who do not. Take a look at these studies located in the ELFA Equity Committee's ToolKit on ELFA's DEI webpage.

Do you think that the stresses and their manifestations discussed above could be addressed in a positive, powerful and engaging manner? Do you think that the diversity analyzed in those consultancy studies could be embraced to create positive outcomes every day, all of the time? Do you think that, in fact, embracing DEI is the bridge we all need? Could we perhaps acknowledge that storms in life are normal and instead of looking the other way, we could sit with them and discover how

## ELFA Equity's Vision

ELFA Equity is committed to ensuring that all people, regardless of their race, ethnicity, gender, gender expression, sexual orientation, age, religion, physical characteristics or mental abilities feel welcome and valued in the equipment finance industry, ELFA and member companies.



Equity Forum speakers Wayne Super, Julia Gavrilov. Joseph Hernandez and Ginny Clarke.

they can teach us to grow? Isn't a part of sitting with them in fact a focus on DEI?

Answering those questions was the goal of the Equity Committee when it hosted its first ELFA Equity Forum in November in Washington, DC. The focus of the day-and-a-half confab was to experiment and to see how people from far-ranging backgrounds could move in sync, happily for the good of each attendee and the good of the whole—the attendees and, more broadly, our industry. The overriding goal was to talk about and experience diversity, equity and inclusion in all of its real and raw facets and emotions, and to brainstorm about how the fundamental and foundational concepts of DEI could be brought to each company operating in the equipment finance industry and, by the way, in everything ELFA does, too.

Since its official beginning at the ELFA Annual Convention in 2019, the ELFA Equity Committee has brought together people of all races and genders, people from the LGBTQAI+ community, people who are neuro-diverse and people who are military veterans to talk about and suggest ways that DEI can be embraced by all businesses and all people working in the equipment finance industry. The Equity Forum was the first ELFA in-person venue dedicated solely to an examination of DEI.

I have been attending ELFA events since 1999. The Equity Forum was unique. A panel discussion entitled "Creating a DEI Focus and Launching DEI Initiatives in Your Business" featured four women of color which was, to my knowledge, a first. Another panel, comprised of one gay and two Black professionals, focused on the power of telling your story and how it makes you feel. Again, a first for an ELFA event. Multiple members of the LGBTQAI+ community conversed about how to have a successful career and how to handle micro-aggressions at work. Usually, I'm one of only a couple of members, and often the only one, of the LGBTQAI+ community in attendance. Multiple people told their very personal, and often heart-wrenching, stories of how they overcame discrimination and their personal obstacles to succeed in the equipment finance industry, and most importantly, how telling their story made them feel. Yes, a few tears at an ELFA event. Every session ended with a room full of people continuing the discussions and enjoying sharing their stories, rather than rushing out to take a break. A room full of people of all ages, multiple races, many with diversities—some obvious, but mostly not—and many without. An ELFA event, but not a typical one. Hopefully, a new look for an ELFA event.

Most importantly, I had never met, nor ever seen, many of the attendees at another ELFA event. I've never experienced so many people coming up to me and introducing themselves by saying something along the lines of, "This is the best ELFA event I've ever attended—thank you for creating a safe space where I could be myself, tell my story and think about how to further DEI."


Attendees Catherine Springis, Vishal Mistry, Beth Henderson and Beverly Brinkley.

The Equity Forum's keynote speaker, Ginny Clarke, first set forth her perspectives on DEI at the 2022 ELFA Annual Convention. For the Forum, she targeted her remarks more specifically to people who self-identify as diverse—how they could be more successful and happier at work and how they could encourage their companies to increase their focus on DEI. At the upcoming 2023 ELFA Executive Roundtable, March 26-28 in Amelia Island, Florida, she will join us again, and will orient her remarks toward encouraging leaders to embrace DEI in all its facets.

Ginny was joined by two luminaries outside of our industry who gave us slightly different perspectives on how to approach DEI from a diverse person's perspective: Lisa Haynes, D&I Officer of the Mortgage Bankers Association, and Darlene Slaughter, Chief Diversity Officer of the March of Dimes. Melissa Donaldson, Senior Vice President & Chief Diversity Officer of Wintrust Capital, weighed in on how to create and what it means to be a successful DEI-focused financial institution.

During the Forum, there was considerable discussion about how to have a successful career—the career you want. A number of salient points emerged:

1. Have a mentor
2. Be trustworthy
3. Be competent and inquisitive
4. Learn to empathize really well—truly care
5. Volunteer readily
6. Do as much of your boss's job as possible
7. Create a safe space for others
8. Tell your story not because it's about you but because it will influence another person

At the end of the day-long event, everyone engaged in an open discussion about what they learned and what they wanted to accomplish in their organizations.

Let's look at some of the learnings and action items as well as questions that were raised.

Lead with Equity and Accountability
- Be respectful
- Meet people where they are
- Listen with the intent to learn
- Set boundaries on what's acceptable from the top down

Be Respectful
- Speak up; confront if necessary
- Stop justifying
- Be aware
- Be brave

Tell Your Story
- Share your vulnerabilities
- Say what you want/need
- Don't judge a book by its cover letter
- Have the courage and patience to start the conversation

How To Best Handle Folks with Different Opinions
- Embrace vs exclude
- Where do you draw the line?
- What responsibilities do you have within that relationship?
- Importance of engaging with respect

Become One with the Business
- Use accountability to drive economic success
- Don't let production excuse behavior
- Empower lower-level employees to raise issues
- Capture exit interview data and learn from it

Thoughtful Questions
- How do smaller companies realistically implement, develop and sustain DEI initiatives?
- How do we as leaders create a safe-place culture where employees can feel safe addressing microaggressions?

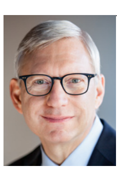
Leigh Ann Fagan, Quentin Cote, Christopher Johnson and Nancy Robles.

What does all of this mean and how was the Forum impactful and successful? Can DEI create a bridge to bring us all closer together? Here are my takeaways from the Forum:

- **Tell Your Story.** Diverse or not, tell your story in a way that the listener—your ally—can empathize with you. Understanding one another is more than half the battle to acceptance. At the Forum, hearing the stories people thoughtfully shared was eye-opening and made me think, How could this have possibly happened to that person?
- **Be a Leader.** Take responsibility for spreading DEI throughout your organization. Whether you have just joined your organization or are the longest-tenured person, make something positive happen. Whether you have just started your career or are in the C-Suite, make something positive happen.
- **Embrace Incrementalism.** Successful and permanent change happens slowly. Introduce that which you and your organization can absorb.
- **Encourage Energy.** The energy and positivity in the room during the Forum was palpable. Think about what all that energy could do if focused on your business.
- **Plan on attending** the 2023 ELFA Equity Forum Sept. 13-14 in New Orleans!

In closing, a comment that exemplifies many of the comments I heard at the Equity Forum indicates that the 2022 Equity Forum was successful: "As a 50+ white male, I was concerned my perspective would not be valued as I was a minority in the audience. I also realized the other attendees would have likely felt this way at every conference I have attended in the last 25 years. It was an enlightening experience, and I commit to be an ally for DEI."

We thank the six corporate sponsors of the Forum, the 19 members of the Equity Committee who had a hand in organizing the Forum and our ELFA staff liaisons Lisa Ramirez and Emily Winkler, without whom it would not have occurred. ☰



**SCOTT THACKER, CPA, CLFP,** is Chief Executive Officer, Ivory Consulting Corporation and Founding Chair, ELFA Equity Committee.

*Disclaimer - This article reflects the author's opinions, not those of Ivory Consulting Corporation.*

Nate Gibbons, Ralph Petta, Kinna Pattani and Scott Thacker.

Melissa Donaldson, Lisa Haynes, Darlene Slaughter and Nancy Robles presented a session on "Crucial Conversations."

Attendees Patrick McLamore, Thomas Bessinger, Quan Hounshell, Katie Crawford and Brad Peterson.

# Inspiring New Thinking About Technology and Innovation

## ELFA's Innovation Advisory Council is helping the equipment finance industry be "future-ready."

By Deborah Reuben, CLFP

**INNOVATION IS A LOADED WORD** conjuring up different images for each of us. For some, it's developing the next big product or service. For others, it's improving processes, creating efficiencies and driving down expenses. And for others still, it's completely rethinking a business model. Whatever it means to you, one thing is certain: Innovation is essential for survival in today's uncertain and rapidly shifting business environment. The trouble is that we can get so insular and stuck in our day-to-day that we don't connect with new ideas and possibilities for the future and risk being left behind. Even worse, without an awareness of what is going on outside your company, you may be shaping your tomorrow with yesterday's thinking.

That's why we have convened an innovation-focused working group of senior industry leaders representing a cross-section of our industry for the past four years. Each month, in a facilitated trend-scanning session, we discuss top trends and future considerations and what they mean for equipment finance. The mission and vision of the group are to inspire new thinking about technology and innovation among equipment finance industry leaders.

To include more voices in these conversations, we host quarterly virtual Innovation Roundtables. These events provide an opportunity to connect peer-to-peer and gain fresh insights on hot technology innovation trends and how to be future-ready.

Since it launched in January 2019 as an experiment, the group has evolved and continuously catalyzed industry-level innovation discussions. For 2023, ELFA has converted the working group into a formal committee, the "Innovation Advisory Council."

# 2023 Outlook

We asked a few members of the Innovation Advisory Council to share their thoughts on hot topics for the coming year, and here's what they shared:

"COVID has accelerated the need for lessors to digitize their lending operations and enable their distributed workforce to manage all aspects of the customer lifecycle on a single platform. In 2023, lessors will begin leveraging AI tools like Salesforce Einstein and Genie. With these tools, lessors can analyze data models and advanced analytics to automate aspects of the lease lifecycle, proactively suggest finance products or product add-ons, improve operational efficiency, and simplify the experience for lessees."

– *Martin Klotzman, Ivory Consulting Corporation*

"In 2023, it will be impossible to have a business conversation without considering technology. This is not to say that technology should drive our business decisions; however, in today's world, the B2B market is acting more like a consumer market. Doing business in a non-automated, non-predictive way will not be sustainable or tolerated by our customers. The key will be to find a way to provide a personal touch when interactions may not involve a human."

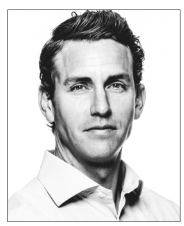
– *Tawnya Stone, GreatAmerica Financial Services*

"As we move into 2023, it is more important than ever that organizations revisit their digital strategy, ensuring that it reflects the latest digitally driven solutions while remaining equally focused on the mission they wish to achieve. With advances in AI, IoT and machine learning capabilities, it's easy to get distracted. Companies that figure out how to link digitally-enabled solutions most closely aligned to their organization and customers' needs will be innovators within the equipment finance industry, building more complete and personalized products from beginning to end."

– *Lisa Fitzgerald, CIT*

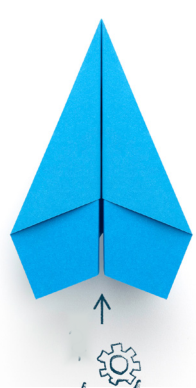
"Digital transformation continues to be at the forefront of our industry—with an emphasis on bringing along our customers for the journey. Equipment finance companies have gotten better at tackling digital challenges in the last few years; however, new digital stressors continue to emerge. How do we transform fast enough? How do we speed up innovation cycles while sustaining a competitive edge? Organizations will need to remain agile and work to digitize in a way that empowers customers and provides solutions that help transform their respective industries. That's technology with a purpose."

– *Katie Thompson, Siemens Financial Services, Inc.*



"Digital innovation will be responsible for greater revenue generation in 2023. Self-service delivery models enabled by AI will become the preferred channel for equipment buyers seeking financing. Increasing compliance requirements will reward efficiency over personalized selling. Lenders partnering with fintechs will be common practice as new business models take hold driven by the consumerization of enterprise tech. Embedded Finance will take root for equipment sales. Vendors will uplift their finance and insurance (F&I) capabilities following consumer auto dealers. The prevalence of IoT and equipment telematics will be leveraged to optimize billing models and better manage credit risk. Electrification of commercial equipment will shift buyer paradigms regarding traditional equipment ownership models driven by OEM's introduction of subscription-based models."

– *Beckham Thomas, Trnsact*



## 2022 Achievements

In 2022, our working group contributed technology and innovation content to ELFA webinars, conference sessions, social media posts, articles and research, as well as the Equipment Leasing & Finance Foundation's Industry Future Council. The group also hosted ELFA's quarterly virtual Innovation Roundtables on technology, innovation and future topics, which featured diverse industry representation.

The Innovation Roundtables are carefully designed to bring cutting-edge, hyper-relevant technology innovation discussions to a broader audience throughout the year. Top-of-mind innovation topics are selected by the working group four to six weeks before the roundtable, enabling us to dive into what is top of mind now (see box).

## 2022 Roundtable Recap

March's Innovation Roundtable theme was Digital Adoption. The session kicked off with a message from 2022 ELFA Chair Mike DiCecco. Panelists Tawnya Stone, Beckham Thomas, Moto Tohda and David Giamvu shared insights on overcoming digital adoption challenges and building an innovation culture for future readiness. The big takeaway: We must keep customer and business outcomes in mind and consider shifting demographics as we shape the future of digital customer experience.

May's Innovation Roundtable kicked off with a lively welcome message by Nancy Pistorio, Chair of the Equipment Leasing & Finance Foundation. Panelists Robert Preville, Eldon Richards, Barry Beer, Rafe Rosato and Lisa Fitzgerald led a spirited discussion exploring the question: Is the traditional equipment finance "portal" a notion of the past? What's the future of the equipment finance customer experience? The big takeaways: We need to meet customers where they are, not where we are. More and more customers expect a digital experience in their pocket. Privacy, security, compliance and convenience are a delicate balance; we need to think differently to design excellent digital customer experiences.

The August Innovation Roundtable kicked off with a message from Ralph Petta, ELFA's President and CEO. Panelists Tawnya Stone, Tina Cartwright, Jillian Munson and Denis Stypulkoski led a fascinating discussion on digital transformation realities in equipment finance. The big takeaways: It takes strong leadership to create roadmaps for the future. We must elevate to ecosystem thinking—employee, customer and partner—as we consider the future. Innovation, by definition, works against typical finance culture; it's fundamentally different for everyone at some level. We need to challenge long-held assumptions about digital transformation and customer experience.

November's Innovation Roundtable started with an inspiring message from 2023 ELFA Chair Bob Neagle, sparking a great pre-Thanksgiving discussion about the technology that has most impacted our lives. Panelists John Cooper, Beckham Thomas, Jen Martin and Roman Gajda led a discussion on top-of-mind customer experience trends and overcoming current innovation challenges in our industry. Industry leaders share a common goal of providing the best customer experience, and to do this we must understand the customer's specific needs (whether lessor/borrower or vendor/dealer). We must recognize that customers and dealer salesforces

## 2023 Innovation Advisory Council Members

Deborah Reuben, TomorrowZone (Chair)
Michael Baez, Leasepath
Barry Beer, Dell Financial Services
Tina Cartwright, US Bank
Bill Choi, ELFA
John Cooper, CNH Industrial Capital LLC
Andrew Cotter, Somerset Capital Group
Lisa Fitzgerald, CIT
Roman Gajda, ENGS Commercial Finance
Kaheres Hahn, Finova Capital, LLC
Martin Klotzman, Ivory Consulting Corporation
Jen Martin, Key Equipment Finance
Jillian Munson, QuickFi by Innovation Finance USA LLC
Tyson Norman, Caterpillar Financial Services Corporation
Sheila Oliver, John Deere Financial
Robert Preville, Approve
Eldon Richards, Solifi
Rafe Rosato, DLL
Tawnya Stone, GreatAmerica Financial Services
Denis Stypulkoski, Reimagine Advisors
Beckham Thomas, Trnsact
Kaitlin Thompson, Siemens Financial Services
Moto Todah, Tokyo Century (USA), Inc.

## Join the Innovation Discussion

Help shape the future of our industry in the year ahead. Register today for ELFA's 2023 Innovation Roundtables, which will be held on Feb. 16, May 18, Aug. 10 and Nov. 16 at [www.elfaonline.org/events](www.elfaonline.org/events).

With a combination of large and small group guided discussion, these are not one-way "talking head" webinars. They are facilitated, highly engaging peer-to-peer idea exchanges going beyond the surface, allowing you to dive into hot innovation topics for today. Connect and share your ideas and questions, find out what other leaders are thinking and doing about innovation, and become future-ready.

are evolving, adopting digital and driving significant changes in customer experience expectations. With the aging sales force and the changing of the guard, we urgently need to adopt new technologies and training. C-suite support for innovation and a straightforward process for harnessing and bringing the most valuable ideas to life is vital. When leaders understand, support and encourage innovation and enable their team with the capability, skills and behaviors to do so, it promotes a culture empowered to innovate.

We hope you will join in the innovation discussion to shape the future of our industry in the year ahead. Register today for ELFA's 2023 Innovation Roundtables, which will be held on Feb. 16, May 18, Aug. 10 and Nov. 16 at [www.elfaonline.org/events](www.elfaonline.org/events). ☰

**DEBORAH REUBEN**, CLFP, DES is CEO & Founder of TomorrowZone and Chair of ELFA's Innovation Advisory Council.

Knowledge Hub

# 5 Trends in Equipment Finance Pay

## With two openings for every job seeker, pay across financial services firms is under pressure.

By Diane Johnson

**THE RESULTS** of ELFA's Equipment Leasing and Finance Compensation Survey were featured during the association's recent webinar, "Compensation and Workforce Trends in Financial Services." The event examined compensation issues and challenges, as well as survey responses from more than 80 equipment finance companies representing a cross section of the equipment finance sector, including independents, banks and captives. The following are among the webinar highlights.

### 1 Biggest challenges for HR leaders.

The four key areas where HR leaders are focusing are talent and staffing, return to office, managing compensation expectations and continuous improvement. Recruitment has been strong, with financial services firms hiring at all levels of the organization this year. Employee motivation and engagement, particularly getting new or junior employees up to speed, and building collaboration and comradery continue to be issues as work from home policies are still front of mind. Diversity and inclusion are also important across all organizations. HR departments are working to ensure they are sized and structured properly.

### 2 Higher compensation at all levels.

Total compensation increased notably, especially at senior levels. In the latest survey, top producers received 10-20% total compensation increases, levels which haven't been seen in some time. Both median salary increases of 3% and 6% salary increases at the 75th percentile are also quite notable for the equipment finance industry, which is heavily focused on a commission-based approach. Total compensation generally increased by 5-10% year over year.

### 3 Infrastructure total compensation reaches 10-year high.

Infrastructure salary increases in 2022 averaged 6-8% across functions—about 75-80% of total compensation spend—and compensation will continue higher despite flat or downward pressure on the incentive pool.

### 4 Outlook for year end.

2022 was an aggressive year of hiring new employees into organizations, with headcount up mid to high single digits, higher expenses to hire new employees, higher salaries and pressure on incentives after a strong 2021. With two openings for every job seeker, pay across financial services firms is under pressure, and salary spends are high for the second year in a row.

### 5 Guidance for the pay year.

The panel also provided insights to help HR professionals navigate the compensation and workforce challenges they face.

- Internal equity and pay disparity challenges exist in organizations. Many firms are conducting pay equity audits to understand where there are differences and developing a plan to correct them.

- Equipment finance firms continue to hire and there's always a demand for the best talent. Retaining your existing talent through development, engagement and culture should be a priority.
- Pay transparency regulations for salary ranges for new organizational roles exist in some states like New York. Striking the right balance between attracting new hires and not disrupting existing employees presses the need for more structure, discipline and rigor to your compensation program.
- Assess and articulate your organization's compensation philosophy.
- Managing expectations is important going into 2023, so communicate well and often.

The webinar featured Bill Choi, ELFA VP of Research & Industry Services, with speakers Steven Hurd, Partner, Aon Human Capital Solutions, and Dave Rosenthal, Senior Consultant, Aon Human Capital Solutions. Aon PLC subsidiary McLagan has partnered with ELFA in preparing the annual compensation survey for over a decade. ☰

**DIANE JOHNSON** is a Senior Consultant at Four Leaf Public Relations LLC and has been working with the equipment finance sector since 2002.

## View Compensation Trends in Equipment Finance

Wondering about trends in pay in the equipment finance sector? The ELFA Knowledge Hub offers two ELFA surveys:

- The **Equipment Leasing and Finance Compensation Survey** measures compensation rates for more than 90 executive, front-office and support positions and 10 levels of seniority, reported by more than 80 equipment finance companies from across the sector. Read highlights from the survey, access the webinar recording and slides or order the full report.
- The **Small and Medium Enterprise Compensation Survey** reveals data—including salaries, bonuses, benefits and commission—for 19 specialized revenue and support positions at 46 equipment finance companies. View highlights from the survey or order the full report.

# Meet the New ELFA Board Chair

## Bob Neagle on Strengthening the Beacon that Guides ELFA Members

By Gwen Moran

**IF YOU MEET ROBERT "BOB" NEAGLE AT A NETWORKING EVENT,** finding a conversation topic likely won't be an issue. The new ELFA Board Chair not only has more than 30 years of senior management experience in the equipment finance industry. He also is an amateur food critic and golfer who earned a Ph.D. in 18th century English literature. So, he is just as comfortable chatting about sauces, or golf, or the works of Jonathan Swift as he is about current industry conditions.

Neagle's extensive career experience includes roles at leading industry companies. He is currently President and CEO of Finova Capital, LLC, which he founded in July 2021. Prior to launching his latest venture, he led his previous business, Ascentium Capital Merchant Finance, for more than five years. He has also held leadership positions at the First Data Global Leasing unit at First Data (now Fiserv) and finance units at Bell Atlantic Capital (now Verizon), among others. While at AT&T Capital, he launched a franchise finance business that provided U.S. Small Business Administration (SBA), construction, real estate and enterprise value lending programs. As a longtime association volunteer, Neagle has served on the ELFA Board of Directors since 2016.

### Working with a committed ELFA staff and board

Now, Neagle brings his multifaceted background to lead ELFA. He says he's ready to continue the tradition of excellence created by the leaders before him. "The association has a long history of helping members respond to peaks and valleys in the economy," he says. So, while members may face lingering pandemic disruption, higher interest rates and other challenges, ELFA is an important resource. After all, the association has helped members weather the Great Recession and periods of inflation and high interest rates in the past, he says.

To give members the support they need, ELFA has a number of existing initiatives designed to help strengthen the organization and the industry as a whole. Neagle plans to maintain the strong momentum of these programs—including the new Knowledge Hub center for business intelligence and the Career Pathways leadership development program—by relying on the skills and experience of a great Board of Directors. After all, notes Neagle, "The Board is made of up of members who volunteer to have an impact on the association."

The Equipment Leasing & Finance Foundation is also prepared to make a difference, says Neagle. Specifically, he points to the Foundation's Industry Future Council, which predicts trends, as well as Foundation research, which helps members understand current and future market conditions that may affect their businesses. "Looking back over what the Foundation has done over the past 10 years, it's all been connected to the evolving state of the world," he says.

Another one of Neagle's priorities is to support and expand initiatives designed to attract a broader, diverse pipeline of talent to the industry. He favors building upon current success and momentum to engage women, underrepresented candidates and emerging talent in the early stages of their careers. "I think there's an opportunity for the association to support younger people, and more diverse people, with meaningful and affordable training," he says. "The Board has spent time discussing career development initiatives linked to that end that we plan to put in play."

Some of the efforts that Neagle mentions align with his background as a college professor and his love of education. He notes

Neagle hosting a Q&A session with keynote speaker Peter Zeihan at the ELFA Annual Convention.

that the Board likes the idea of making ELFA events more affordable for and accessible to young people. In addition, he points to the development of digital options as an opportunity to expand training access and help more people develop their careers in equipment leasing and financing.

## Remembering a legend

When Neagle reflects on his unlikely entry into the industry and his longtime involvement with ELFA, he thinks of his mentor, Equipment Finance Hall of Fame member and former Chair Bob Stubbs, who passed away in January 2020. Neagle started working for Stubbs's company as "a grunt," he says. After he read the company newsletter, Neagle went to the accounting department and found out how much the firm was paying a New York City agency to produce it. He wrote to Stubbs and offered to write it for half the price.

From that point on, Stubbs became a mentor to Neagle. When Stubbs sold his company to Bell Atlantic (now Verizon), Stubbs entrusted Neagle with training roughly 600 salespeople. "That's how I learned the business, by putting together a training manual and then delivering it," he recalls. Eventually, he saw how lucrative sales positions could be and gravitated to that side of the business.

## Creating a legacy

More recently, Neagle's work has had a concentration in the small business sector where relationships are crucial, he says. "In my 30 years in equipment financing I have seen how important relationships are," he says. "In the payments industry, you end up having even more meaningful personal relationships with clients. I have had numerous clients for more than 15 years in this space. You get to help, grow with them and enjoy the journey," he says.

Neagle with fellow Board member and former ELFA Women's Council Chair Deb Baker at the ELFA Annual Convention.

Neagle is also devoted to his family, which includes his wife Marilyn, four children, 11 grandchildren and two more grandchildren on the way. The family vacations together often, enjoying hiking and boating, and sometimes enjoying the benefits of their patriarch's cooking classes. "I am quick to point out that while I enjoy food and cooking classes, Marilyn will tell you truthfully that I don't cook as much as I should," he says.

Two of Neagle's sons are U.S. Marines. At a Basic School graduation ceremony that Neagle attended, a colonel with decades of experience addressed the crowd by saying, "You probably wonder what we do here at the Basic School at Quantico…. We make leaders who inspire me." That comment resonated with Neagle, and he hopes to do the same in his company and in the association, by drawing young leaders into the industry. Perhaps one of them will turn out to be the next Bob Stubbs, making a difference in an association and industry that have been so good to him.

"Imagine some guy with a PhD in 18th century literature coming into an equipment financing business and being around caring people who coached me, encouraged me and challenged me," he muses. "They were there to help when I stumbled and explain why I tripped. It was a remarkable, absolutely remarkable experience." And now, Neagle wants to do the same thing for the next generation of ELFA members. ☰

**GWEN MORAN** is a New Jersey-based freelance business and finance writer.

Neagle advocating for the equipment finance industry at Capitol Connections with former ELFA Board Chairs Dave Schaefer and Adam Warner.

By Brad Salyer

# Florida UCC Filings Require Absolute Precision

**WHEN FILING A FINANCING STATEMENT** to perfect a security interest in collateral, failing to satisfy the legal requirements of filing could result in an otherwise secured lender ending up with an unsecured loan. A recent case decided by the Florida Supreme Court highlights the importance of employing absolute precision in a debtor's name on a financing statement.

## Basic Secured Transaction Backdrop

It is a common scenario: a customer wants a loan to finance collateral and the lender wants a first lien in its collateral. If the lender cannot obtain, or does not wish to rely on, a purchase-money security interest, it obtains and verifies the debtor's legal name and then runs a Uniform Commercial Code (UCC) search on that name in the applicable state's Secretary of State's records. This determines whether filing a financing statement will result in a first-priority security interest or whether other secured parties of record may claim a senior interest in the collateral.

When the search result reveals no filings against the debtor covering the lender's collateral, the lender can be certain that by filing a financing statement, it is acquiring a first-priority interest in its collateral. This is how Article 9 of the UCC is intended to work.

The UCC also specifies how to determine the debtor's correct "legal name," and that is the name to be used in a financing statement filed to perfect a security interest against the debtor. Requiring the exact legal name provides commercial certainty to UCC filers (who need only ascertain the correct legal name and can disregard name variations and nicknames) and for UCC searchers (who need only search the records for the debtor's correct legal name).

However, this requirement can also lead to harsh results in cases of errors in the debtor's name. As a safe harbor for such mistakes, the UCC provides that if a search of the debtor's correct legal name, using the filing office's "standard search logic, if any," discloses a UCC filing against the debtor with an incorrect debtor name, the filing is not "seriously misleading" and the related security interest is perfected despite the incorrect name.

But what happens when the search of the debtor's correct legal name does not produce clear results? This was the problem presented in the case of *In re: NRP Lease Holdings, LLC, et al.,* where the Florida Supreme Court answered the questions presented by the Eleventh Circuit Court of Appeals.

## The NRP Case

Like so many UCC legal questions, this case arose from a bankruptcy. The bankrupt debtor was indebted to Live Oak Banking Company ("Live Oak") on two U.S. Small Business Association ("SBA") loans totaling $3 million, which Live Oak purportedly secured by filing blanket liens on all the debtor's assets. The financing statements identified the debtor as "1944 Beach Blvd., LLC" instead of its correct legal name of "1944 Beach Boulevard, LLC" as listed in its Articles of Organization filed with the Florida Secretary of State.

The debtor filed an adversary proceeding in bankruptcy alleging that the Live Oak UCC filings were "seriously misleading" pursuant to Florida's version of UCC 9-506, and therefore unperfected, because they failed to sufficiently provide the name of the debtor. The lawsuit alleged that a search of the UCC records using the debtor's legal name did not reveal the existence of the Live Oak UCC filings.

*Seems easy enough under the bright-line standard detailed above, right?* Simply run a UCC search using the debtor's exact legal name. If the Live Oak UCC filings appear in the search, then they are properly perfected (even with an improper debtor name under the safe-harbor rule). If they do not appear the filings are seriously misleading, and the liens are unperfected.

## The Florida Twist

But there's a twist. Florida has a unique UCC search function (the "Registry") that reveals UCC filings by debtor name in a search result in alphabetical order—***every UCC filing in the system***. The search itself takes the searcher to 20 indexed filings in the alphabetical spot in which the search lands, with the debtor's exact name at the top if it appears. The 20 prior alphabetical results are accessible by a pressing a "previous" tab and the 20 succeeding alphabetical results are accessible by pressing a "next" tab.

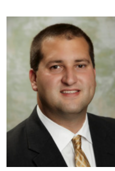
This unique Florida search feature had created judicial confusion and led to questionable results. Previous cases on the issue have come to very different conclusions. One court concluded that a defective financing statement is not seriously misleading if a search of the Registry under the debtor's correct legal name would produce the defective statement on the page preceding the initial search results using a "reasonable diligence" standard. In a second case, the court concluded that the only relevant page for the safe harbor is the initial search result page of the Registry indicating the first 20 results, expressly rejecting a "reasonableness" test under the text of the UCC.

The bankruptcy court in NRP granted judgment to Live Oak, finding that its financing statements fell within the safe harbor because the search revealed the filings on the page immediately preceding the initial search result page. The court determined that it was "reasonable" to press the "previous" tab a single time to locate the UCC filings in question.

On appeal, the Eleventh Circuit – noting that the UCC enables predictability, certainty and stability in commercial transactions – certified questions of Florida state law to the Florida Supreme Court. The Florida Supreme Court focused its inquiry on the zero-tolerance rule for failure to use the debtor's correct legal name, and the exception to that rule found in the safe harbor, which requires use of the Registry's standard search logic, "if any." The Court noted that the Registry's search function does not employ any search logic that yields "particular hits," but rather, only directs the searcher to an alphabetical point in the entire index of filings.

Determining that the Florida filing office does not currently use any standard search logic, the Court held that the zero-tolerance rule meant that a financing statement must use the debtor's precisely correct legal name, or else the security interest is seriously misleading and therefore not perfected. The Eleventh Circuit subsequently reversed the bankruptcy court's judgment in favor of Live Oak.

In other words, there is currently no safe harbor in Florida UCC filings—making it particularly imperative to use precision in identifying and inputting a debtor's correct legal name on a Florida UCC filing. ☰



**BRAD SALYER** is Senior Vice President and Associate General Counsel for U.S. Bank National Association.

By Joe Sebik

# Tax Law Updates, Including the Inflation Reduction Act

**THIS ARTICLE WILL HIGHLIGHT** only *some* of the key items affecting income taxes, including scheduled changes in selected tax rules as well as new laws passed in the Inflation Reduction Act (IRA). It will not address the very detailed and numerous changes in alternative energy production (solar and production tax credits) or refueling facilities at this time.

## Scheduled and Highlighted Changes

**Section 45W Credit for Qualified Commercial Clean Vehicles** – The IRA introduced a tax credit for "Commercial Clean Vehicles." The credit is more targeted to commercial vehicles as opposed to personal use vehicles, which are covered under IRS Sec 30D and Sec 25E. IRS Sec 30D has numerous limitations and requirements pertaining to the source of the materials as well as where the asset is manufactured, whereas Sec 45W does not.

The Sec 45W credit is the lesser of (a) 15% of the taxpayer's basis in the vehicle and appears to be mostly targeted at hybrid vehicles, and (b) 30% for vehicles powered by other than gasoline or diesel, such as electricity, natural-gas or fuel cells. The credits are capped at $7,500 for vehicles with a weight rating of less than 14,000 pounds (mostly cars and light trucks) and the lesser of $40,000 or the incremental cost of the vehicle compared to a gas/diesel powered vehicle. The larger Sec 45W credit is aimed at larger alternative clean fuel, fuel cell and electric vehicles, such as heavier general-purpose trucks and Class 8 tractors.

The credit casts a wider net however and is expected to also include other "mobile machinery" such as forklifts and even commercial lawn mowers, so it opens a wider range of asset classes.

The Sec 45W credit has less restrictions than the Sec 30D credit pertaining to critical mineral or battery components. This may mean that cars which otherwise might have limited credits under Sec 30D may have larger credits when leased to consumers, because they are being depreciated for tax purposes. This should be resolved when the Regulations are issued; initial experience has indicated that a fair amount of confusion exists in the application of the credits.

**Interest expense deduction limitation** – IRS Sec 163j - Commencing Jan. 1, 2022, the limitation of net interest expense deductibility for entities with a three-year average annual gross receipt over $25 million switched to a *Tax* Earnings Before Interest & Taxes ("Tax EBIT") benchmark. *In general*, a taxpayer that has interest expense (net of interest income) greater than 30% of Tax EBIT would be unable to currently deduct the interest expense above the 30% threshold. The non-deductible interest is carried forward to be utilized if or when the reverse situation occurs. Many capital-intensive entities such as manufacturers and operating lessors are often leveraged such that they will inevitably have currently non-deductible net interest expenses and may be carrying a non-deductible amount for either an extended period or perhaps indefinitely.

A taxpayer can either (i) change their capital structure, for instance by leveraging at a lower level, (ii) explore the effect their bonus depreciation election has on the calculation and/or (iii) use tax lease financing to finance some of their assets as a lessee, thus converting interest expense to rental expense. Each of these actions has an inherent counter effect which must be considered.

This situation may provide lessors with a new opportunity to provide tax-oriented leasing to address this tax situation.

**Bonus depreciation phase down** – Bonus depreciation phases down to 80% for most assets placed in-service after Dec. 31, 2022 (exceptions apply). Initial analysis indicates that this decrease in bonus depreciation has little economic impact, but the change should be incorporated into all pricing and analyses.

**Introduction of Book Alternative Minimum Tax** – The IRA introduced the "book" Alternative Minimum

Tax ("BAMT"). This applies to U.S. taxpayers with a consecutive three-year-average book income exceeding $1 billion for U.S. companies or $100 million for U.S. subsidiaries of multi-nationals. Morgan Stanley estimates between 70-100 entities fit these definitions.

These entities would be required to calculate their taxes using both the statutory approach with a 21% rate and the BAMT approach using 15%. BAMT disallows certain items but not bonus depreciation. The taxpayer then pays the higher of the two calculations and if they must pay the BAMT, the excess paid over the statutory tax amount is carried forward for potential future application when the opposite scenario occurs. Effectively it is a pre-payment of taxes.

Note that if a taxpayer is subject to BAMT, its accelerated tax depreciation is only deducted at 15%; if one identifies a candidate subject to BAMT, they may be a potential lessee if the time value of the 6% difference is large enough. Further, if a taxpayer has tax-exempt income, it is unclear at this point if that income will then become taxed; the final regulations are being released shortly.

## Conclusion

The equipment finance industry is presented with great opportunities to invest in these alternative energy opportunities. This article described only a fraction of the tax incentives now in the Tax Code. The challenge continues to pertain to understanding the complex economic nature of the tax incentives and incenting marketing staff to make those investments.

**JOE SEBIK** is a CPA in NYS and has been active in the equipment finance industry for over 40 years. He is a member of ELFA's Financial Accounting Committee and Alternative Energy Subcommittee and is Chair of ELFA's Federal Income Tax Committee. He works as a Director of Tax Reporting for Siemens Financial Services and can be reached at joseph.sebik@siemens.com.

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 By Andy Fishburn

# Light and Heat in 2023

**2023 COULD BE ONE OF THOSE YEARS** that we look back upon as the last year before everything changed—or not. It's always risky to write a "What to Expect in the Year Ahead" article. Last year's version of this article recommended that companies review how they would get ready for Section 1071 and invite their Members of Congress to visit their facilities. Show of hands for how many of you did both? That article also predicted a Republican takeover of the House and proved correct, but only by a slim margin.

So, what does 2023 hold for the equipment leasing and finance industry? First, and by far the biggest change, will be that the CFPB has agreed to a court-enforced March 31, 2023 deadline for issuing final rules under Section 1071 of Dodd-Frank. These rules, once in place, will dramatically change the credit process for equipment finance companies of all types by requiring the collection of demographic information about customers, and provision of transaction level details to the government regardless of whether the customer wants to opt out. These rules, if the proposed effective date timeline holds, would be effective 90 days after they are published, and will begin to be enforced 18 months after they are published. In other words, October 2024 deserves to have a big red circle around it on everyone's calendar.

**October 2024 deserves to have a big red circle around it on everyone's calendar.**

The coming year provides equipment finance companies the opportunity to get ready for this change, especially once the rule is published. Look for webinars and other educational opportunities to be coming out frequently from ELFA. Additionally, start working with your credit and legal teams to develop processes to give yourself the best chance for an efficient transition to this new environment. And lastly, talk to the service providers involved in your origination process to see how their systems will be changing to accommodate the new rules. (If you are one of those service providers, flip that sentence around!)

In the tax space, it's too early to tell as of press time whether any tax provisions will be given an extension, but it's looking likely that the tightening of the interest deductibility rules to an EBIT standard will remain in place, and that 100% expensing will become 80% expensing. On the latter of those, one could reasonably expect that if the change from 100% to 80% was relatively anti-climactic, the scheduled change to 60% a year from now might be just as uneventful. While the under-appreciated change to the depreciation rules has proven to be the expansion to used equipment, the ramping down of the expensing rules will have an impact on customers' propensity to utilize cash versus finance or lease. These two provisions interact, with the lowering of the first year's depreciation making losing the depreciation add-back on the interest limitation calculation a little less harsh. One could make the economic argument that both of these factors may incentivize operating leases, as long as the lessor has sufficient interest income to not get caught by the interest deductibility limitations.

Where the political meets the policy fronts there could be a lot of light and heat. The light will be generated by the burgeoning 2024 race for the White House and the Congress. The heat will be brought by the serious consequences of debt limit politics. The last time these games were played for real, the result was a downgrading of U.S. Treasuries. This year's path has all the markings of a winding road ahead that may have a lot of bumps and hazardous conditions.

All these items have the potential to significantly change the landscape in which equipment finance companies operate. Each of them has the potential to fizzle out, but also to scale up, and if they go big, each could have tectonic effects on that landscape. Buckle up! ☰

**ANDY FISHBURN** is ELFA Vice President of Federal Government Relations.

 By Scott Riehl

# ELFA Partners with NOBEL Women and Witnesses History in Maryland

**ELFA IS A PROUD SPONSOR AND CORPORATE ADVISOR** to the National Organization of Black Elected Legislative Women (NOBEL). NOBEL hosted their 2022 annual meeting in early October and ELFA was there to support their Girls, Gigabytes and Gadgets program, and discuss the Equipment Leasing & Finance Foundation's scholarship program. We also witnessed Maryland history in the making as NOBEL celebrated Adrienne Jones, the state's first female and first Black Speaker, and Melony Ghee Griffith, the first Black woman elected as President Pro Tempore for the Maryland Senate. Listen to what our friends at NOBEL were saying:

> *"As the current NOBEL President, I want to applaud ELFA for its support and commend its outreach to bring greater diversity to the banking and finance industry via the Foundation's college scholarship program."*
> - Alabama Rep. and NOBEL Women President Juandalynn Givan

> *"I have counted ELFA's Scott Riehl a friend for many years. When I was about to become President of NOBEL Women, I asked him to consider joining our group and without hesitation he did so, only asking if ELFA could dedicate their support to NOBEL's Girls, Gigabytes and Gadgets initiative."*
> - Tennessee House Minority Leader and Memphis Mayoral Candidate Karen Camper

> *"As the first woman and first Black Speaker of the Maryland House of Delegates, I commend ELFA's ongoing support of NOBEL Women and was very happy to introduce to ELFA's Scott Riehl the historic slate of Black women leading both the House and Senate in the State of Maryland."*
> - Speaker of the Maryland House of Delegates Adrienne Jones

(L-R:) Alabama Rep. and NOBEL Women President Juandalynn Givan, Scott Riehl and Alabama Rep. Laura Hall, former NOBEL President and current National Black Caucus of State Legislators President

Tennessee House Minority Leader Karen Camper and Scott Riehl

(L-R:) Scott Riehl; Adrienne Jones, first Black Speaker of the Maryland House of Delegates; and Melony Ghee Griffith, Maryland's first Black Woman Senate President Pro Tempore

Scott Riehl at the NOBEL annual meeting

For more information, contact ELFA Vice President of State Government Relations **SCOTT RIEHL** at sriehl@elfaonline.org.

By Charlie Visconage

# An A+ Way to Give Back

**HERE AT THE EQUIPMENT LEASING & FINANCE FOUNDATION,** you might have heard that we rely on charitable contributions from readers like you and the organizations you represent for 100% of our budget. Our fantastic volunteers don't just donate their money; they donate another precious resource: their time.

Volunteers donated their time delivering 12 guest lectures at colleges and universities across the country in 2022, and many have plans to deliver lectures in 2023. It's all part of the Foundation's Guest Lecture Program, inspired by our mission to keep your eye on the future.

What is the Guest Lecture Program, exactly? It's a way to inspire the next generation by informing students all over the country about the many employment opportunities in the equipment finance industry. Many students are not even aware that a career in our field is possible let alone lucrative, especially compared to starting salaries in many other industries. And who better to share this with them than seasoned industry experts.

The process for delivering a guest lecture could not be easier. First, contact the school you're interested in working with, focusing on a department chair or course instructor for business and finance programs. If you have any existing contacts, don't be afraid to reach out to them. If you have any interns, check with them to see if they'll receive any extra credit for helping to facilitate the lecture. Unsure of how to open that dialogue? The Foundation has a sample letter you can customize.

**Foundation Scholarship applications open in February! Be sure to share the announcement with any student groups or your alma mater.**

Once you've set a date for your guest lecture, take some time to prepare. Download the slide deck and customize it to your experience and expertise. Tell your personal story and how you ended up in the position you have today to make it relevant and interesting. You don't have to go it alone, either. Bring along colleagues and industry peers to present your lecture together. If

## Industry leaders present the Guest Lecture Program

EQUIPMENT LEASING & FINANCE
**FOUNDATION**
Your Eye on the Future

you have interns, invite them to speak directly to students about their experiences at your company.

Finally, hang around and follow up with any interested students. Allow students to ask questions they may have been too shy to ask in front of their group. Offer to connect with students on social media or share your email address. And be sure to encourage students to apply for the Foundation Academic Scholarship! The application opens in February 2023, offering five $5,000 scholarships to qualified students.

Ready to deliver a guest lecture this spring? Visit the Foundation's website for our ready-made slide deck, introductory letter, and handy FAQ form for any remaining questions. Already have a guest lecture planned? Let us know! ☰

**CHARLIE VISCONAGE** is Director of Marketing, Communications and Development for the Equipment Leasing & Finance Foundation.


**Listen to Foundation volunteers share their experiences delivering guest lectures on the Foundation Podcast.**


By Brett Davis

# Data Comes from Somewhere, So Let's Protect It

**CUSTOMER INFORMATION SECURITY** is top of mind today in the equipment finance industry. We are constantly reminded about securing sensitive data, and we have had webinars and ELFA Annual Convention sessions, etc. on this topic. It is great that there is industry-wide awareness, but we still have a long way to go.

I remember in 2014 as I was returning from an overseas assignment in Brazil, taking over the role of President at CNH Industrial Capital from a retiring mentor and friend, Steve Bierman. While attending my first dealer meeting, a distraught dealer approached me and said that he was cited by our auditors for not complying with credit compliance rules. I was shocked to learn that we required our dealers to maintain the signed paper credit application. Furthermore, our auditors periodically checked to see if every submission had a signed paper application. The dealer told me that his salespeople regularly got the applications from the customer, but often forgot to turn them in so that they could be stashed away in a filing cabinet. To say the least, I was flabbergasted, realizing that as one of the largest equipment lenders in North America, we did not have a better solution for our dealers.

After some additional research, I discovered this was a "normal" industry practice. I met with my team, and we decided to modify our rules and encouraged our dealers to send the paper applications to us along with the retail or lease contracts for safe and secure storage. Then a dealer could destroy the sensitive material. That was a quick fix, and it turned out to be somewhat effective.

Now fast forward to 2022 when customer information security is more important than ever. Recent updates to Gramm-Leach-Bliley and some state laws define harsh penalties for lack of compliance. Small businesses are encouraged to have insurance to protect themselves, but they will quickly learn that they do not have the tools or processes to comply. (Insurance will not cover breaches where dealers were non-compliment in how sensitive customer data is captured, stored and/or transmitted.)

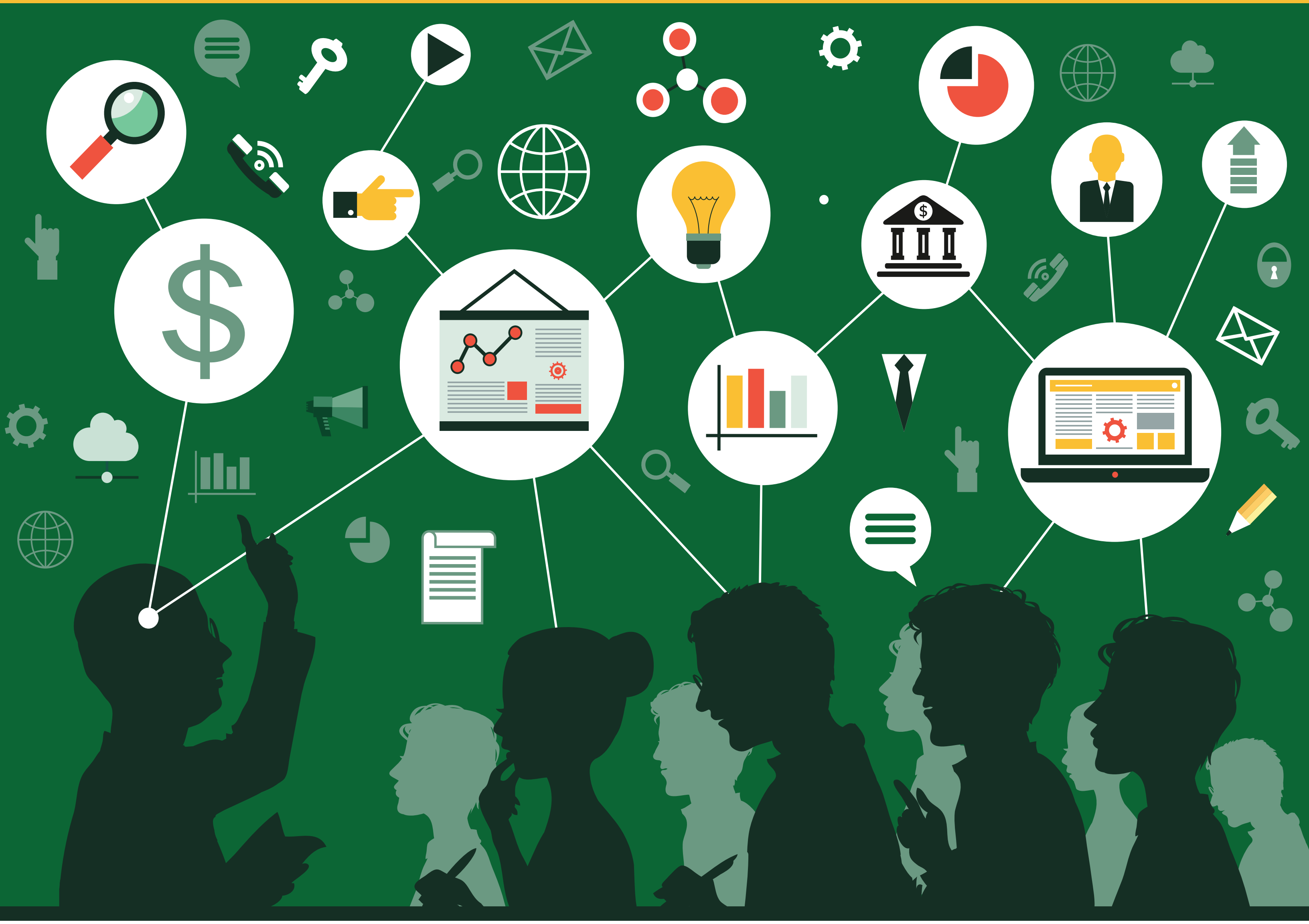
While breaches have not been commonplace in the equipment industry yet, we have plenty of easy targets. Keep in mind 15 years ago breaches were not common in the dealer automobile industry. Today walk into a car dealer and try to find customer information or paper credit applications. The auto industry has learned the hard way. Platforms like DealerTrack and Route One got their start by solving how to easily protect sensitive customer credit information. Now they are mainstay providers for the auto industry.

So, you are asking, why am I writing this article focused on equipment dealers? Well, it is simple. Lenders have taken a hands-off approach in our industry. It does not matter if you are a bank, independent or captive lender. Sure, dealer data may come through a secure portal, but the information originated somewhere, most likely a paper or PDF form credit application containing unprotected sensitive customer credit, either obtained in person or received via email. And often not secured properly to protect against misuse or theft. It is time for us to take a closer look, and help our dealers comply. Systems and processes need to be improved to mitigate a breach. If the customer (the dealer) is damaged, we are all damaged, reputation or otherwise. It is easier to be proactive today rather than reactive later.

**BRETT DAVIS** is Managing Director with Rinaldi Advisory Services.

# Best Practices Roundtables

*Problem Solve • Share Best Practices • Network*



# March 14, 2023

## Bank Best Practices Roundtable
## Captive and Vendor Finance Best Practices Roundtable
## Independent Best Practices Roundtable
## Small Ticket Best Practices Roundtable

Designed to bring senior executives from ELFA member companies together for information sharing and critical thinking about the issues they are facing as leaders of their organizations.

To register, go to: **www.elfaonline.org/Events/Calendar/**

For more information, contact Alexa Carnibella at acarnibella@elfaonline.org

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