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## LEASING & FINANCE NEWS UPDATE

February 2010

*Get the Law Firm Advantage to Debt Recovery ...*

### Equipment Leasing Industry Sees 22% Drop in New Business Volume



Issue 10

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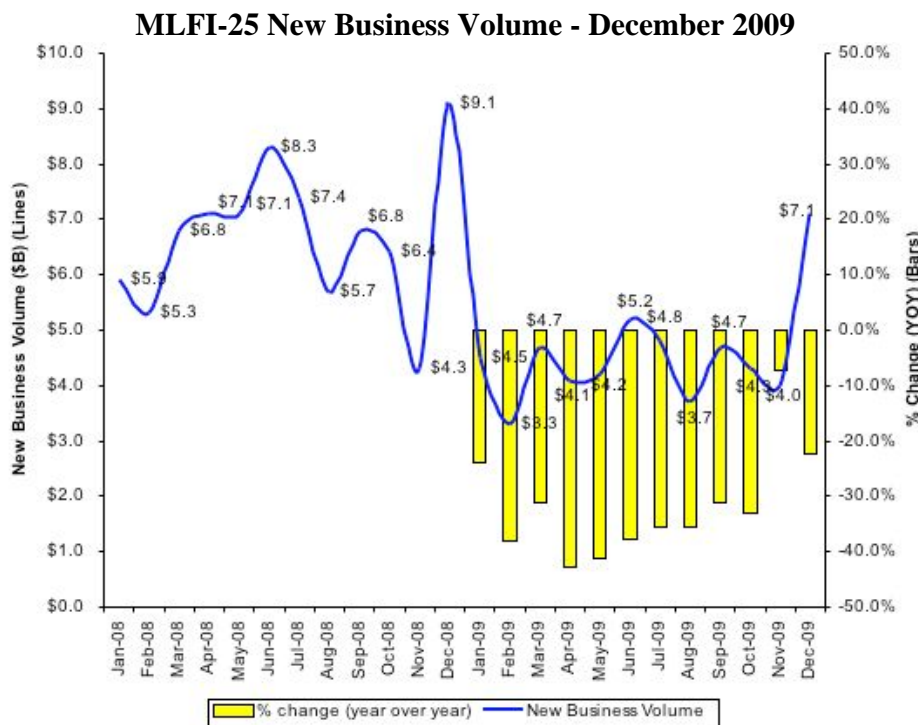
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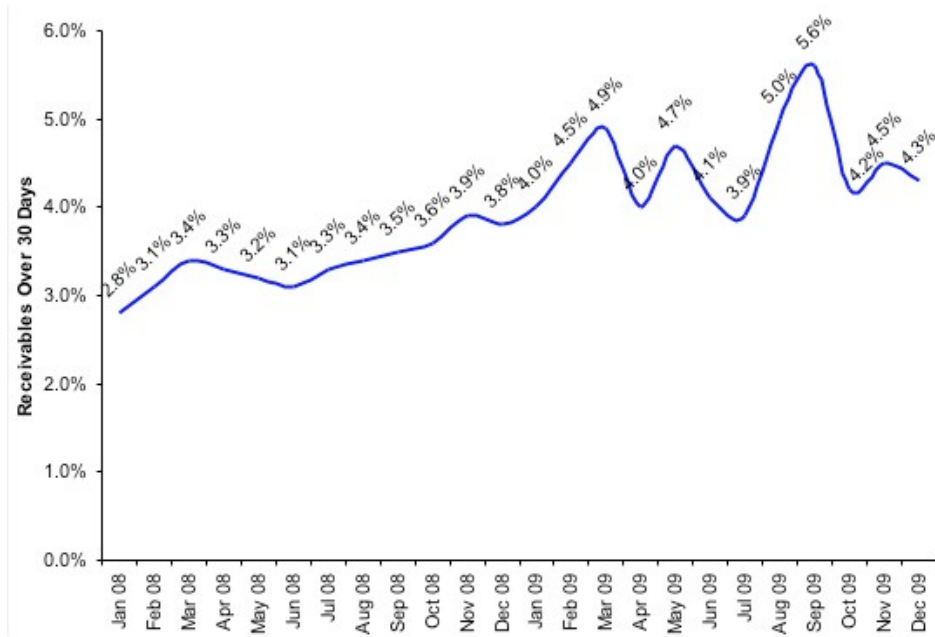


The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index (MLFI-25), which reports economic activity for the \$518 billion equipment finance sector, showed overall new business volume for December declined by **22 percent** when compared to the same period in 2008. For 2009, the MLFI-25 reported month-to-month new business volume increased by 77.5 percent from November to December, from \$4.0 billion to \$7.1 billion, reflecting typical end of year activity. When comparing full year totals for 2009 vs. 2008, new business volume was down almost a third. This percentage correlates with the drop in business fixed investment and the unadjusted new orders for durable goods.

Portfolio quality improved. The MLFI-25 reported receivables over 30 days decreased to 4.3 percent as compared to 4.5 percent in November. However, on a year-over-year basis, receivables over 30 days increased by **13.6 percent**. Charge-offs decreased to 2.08 percent from 2.42 percent in the prior month, but rose by **31.7 percent** compared to December 2008. Sixty-four percent of participant companies reported that fewer transactions were submitted for approval during the month, due to tightening underwriting standards and lower demand, according to supplemental data.

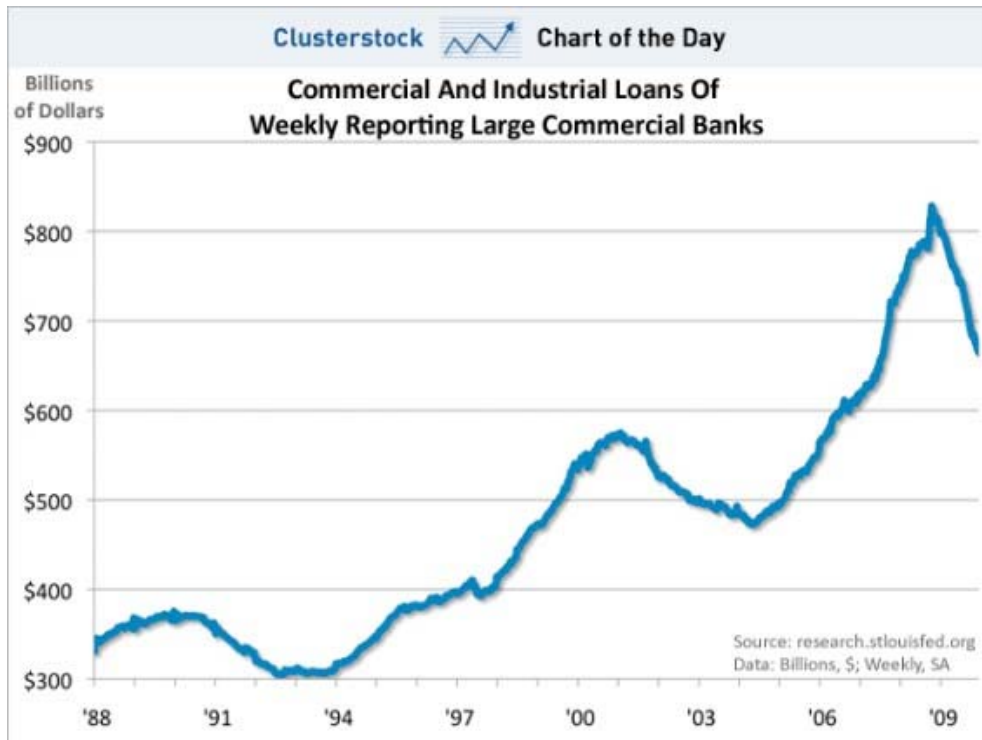
ELFA Interim President Ralph Petta said, "The good news/bad news is that while credit losses showed some improvement, the industry still has a long way to go to return to the kind of positive growth we saw in the pre-recession economy."

### MLFI-25 Aging of Receivables - December 2009



*"Credit is a system whereby a person who can not pay gets another person who can not pay to guarantee that he can pay."*

*~ Charles Dickens (1812-1870), British Novelist*



### How Will The Economy Recover With Lending Shrinking Like This?

There's been some chatter about a recovery in large commercial bank lending... but the data says otherwise. The latest figures out of the St. Louis Fed show that once again, for the week ending December 16, lending fell sequentially from to \$664.7 billion in total lending from \$665.6 billion in the previous period.

That may not look huge, but in order for a recovery to happen, we'll presumably need to see some evidence of an expansion in lending.

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## Non-Residential Building Recession Will Persist Through 2010



Most market drivers for nonresidential building construction are negative, especially for developer financed commercial projects. Many developer projects are being delayed, or cancelled and some previously started projects are being suspended. Some of the cutbacks are initiated by developers who now expect well below normal building operating income and asset values in 2010-11 than when they began planning for the project. Other cutbacks are being forced by the inability to obtain financing.

Lenders are being pressured by bank examiners to reduce their exposure to commercial real estate. Most of the decline in rental and occupancy rates has now occurred but continued declines are forecast into late 2010.

A modest cutback in institutional construction spending began only a few months ago. This sector is always very late in a business cycle. Most institutional projects are started only when building funds are on hand or expected usage fees (tuition, hospital charges) are sufficient. A weakening economy does not alter the availability of construction funds or the reason to improve or add space. However, those institutional projects planned to be financed by current tax receipts or investment fund earnings did experience a sharp cutback in starts and a small cutback in jobsite spending in late 2008 and early 2009 when both tax receipts and investment fund balances began recovering last May and state and local government tax receipts are tentatively recovering at the end of 2009. However, the depressed state of both investment and general fund balances throughout 2010 will cause further small declines in this type of project over the next year.

Federal building stimulus funds will substantially offset weakness in investment and general funds in 2010-11. Almost all of the building stimulus funds appropriated 15 months ago have yet to be spent. The bureaucratic process to allocate funds and ready project to start is very slow. Congress will likely appropriate more building stimulus funds early next year which will be spent in 2011 and beyond.

Source: Reed Construction Data

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