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LEASING & FINANCE NEWS UPDATE

January 2012



While Collection Agencies are All Bark, Our Law Firm Will Take a Bite ...

NEW LEASE ACCOUNTING RULE COULD HIT PROFITS



Retailers, banks and airlines, which often use long-term leases to add to their locations or aircraft fleets, are pushing back against a proposed accounting rule that would act as a drag on their profits. U.S. and international accounting-standards setters appear ready to reconsider the proposed rule, which has emerged as the most controversial piece of their effort to overhaul accounting rules for leases. The outcome could influence the length of commercial leases, how fast some companies grow and how much exposure they might have to the real-estate market.

Part of a long-term project by the U.S. Financial Accounting Standards Board and its overseas counterpart, the International Accounting Standards Board (IASB), the proposed rule would make balance sheets more accurately reflect a company's assets and liabilities. The overhaul aims to address complaints that current accounting rules let companies leave investors in the dark about the size of their lease obligations. Many companies keep most of these obligations off their balance sheets, disclosing only a few details in financial footnotes.

Most American companies are resigned to the centerpiece of the overhaul: treating leases - or the right to use a piece of property or equipment - as a new kind of asset. This new asset would be offset on a company's balance sheet by a corresponding liability, the obligation to pay rent. The change would add a total of \$1.7 trillion in current liabilities to corporate balance sheets world-wide, according to analyst estimates.

However, companies are at odds with the standards setters over how lease expenses should be recorded on their books. As the proposal stands, companies would have to use a method called front-loading, which effectively concentrates the cost of a lease into its early years. Currently, they can spread the average rental cost under a lease evenly over its lifetime, often as long as 20 or 25 years.

Leases generally are more valuable to retailers in later years, after a location has built a following and is generating more cash. If forced to adopt front-loading, retailers argue, they would have to book higher costs for a new store before its sales have had a chance to take off. If a retailer was expanding, signing new leases faster than its old ones expired, front-loading could take a heavy toll on profits. Similarly, front-loading could weigh down profits for years at banks that have lots of retail branches.

Source: Wall Street Journal

NOVEMBER NEW BUSINESS VOLUME UP 38%

Issue 31

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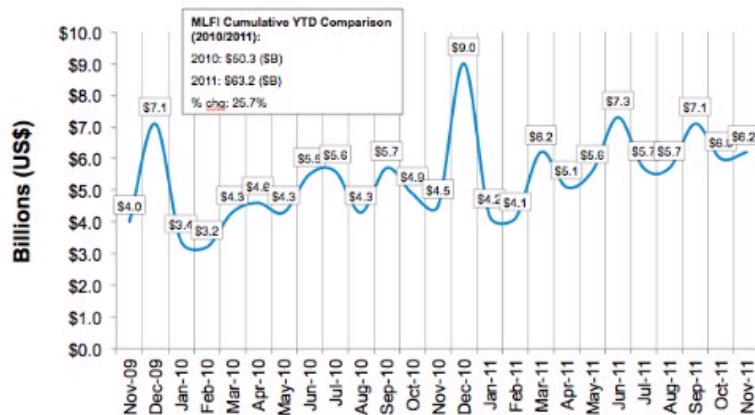
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MLFI-25 New Business Volume - November 2011

The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index (MLFI-25), which reports economic activity for the \$628 billion equipment finance sector, showed overall new business volume for November was \$6.2 billion, up 38% from volume of \$4.5 billion in the same period in 2010. Volume was up three percent from the previous month. Year-to-date cumulative new business volume is up 26%.

Credit quality metrics continued to improve. Receivables over 30 days were the lowest in over two years, decreasing to 2.0% in November from 2.2% in October. Charge-offs were unchanged from the previous month at 0.7%. Credit standards remained steady as the number of lease applications approved decreased nominally to 76.2% from 76.3% the previous month. 65.5% of participating organizations reported submitting more transactions for approval during the month, up from 59% the previous month. Total headcount for equipment finance companies in November was down 0.2% month to month and down 1.2% year over year. Supplemental data show that the construction and trucking industries led the underperforming sectors.

Separately, the Equipment Leasing & Finance Foundation's Monthly Confidence Index (MCI-EFI) for December is 57.2, down slightly from the November index of 57.4, indicating steady optimism about business activity despite ongoing concerns about the global economic situation.

ELFA President/CEO William G. Sutton, CAE, said: "Virtually all metrics in this month's MLFI point to an industry poised for a breakout performance. As we move into 2012, our hope is that the economy will continue its strong recovery."

Source: ELFA



MLFI-25 Aging Receivables - November 2011

SHOPPING CENTER LEASING RISES AS CONFIDENCE CLIMBS

Shopping centers had their first net gain in occupied space in four years as consumer confidence and job growth began to strengthen, said real estate research firm Reis Inc. Neighborhood and community shopping centers - usually anchored by grocery stores, drugstores or discount retailers - had a net increase of 3.18 million square feet in the fourth quarter, the most since 10.1 million square feet in the last three months of 2007, according to a Reis Inc. report.



"While this represents welcome news, we remain wary about pronouncing a turnaround until we observe a few more quarters of improvement," said Victor Calanog, Reis' head of research. The fourth quarter tends to be the strongest period of the year for retail leasing, he said.

Vacancies at shopping centers averaged 11% in the fourth quarter, unchanged from the previous three months and up from 10.9% a year earlier, Reis said. The fourth quarter's rate was the highest since 1990, when it was 11.1%, and was driven up by the 1.89 million square feet of new retail properties that came to the market, the researcher said.

At regional and super-regional malls, landlords' asking rents rose to an average of \$38.92 per square foot from \$38.81 in the third quarter and \$38.79 a year earlier, according to Reis. Vacancies declined to 9.2% from 9.4% in the third quarter.

Source: Bloomberg News

NATIONAL DEFAULT RATES INCREASED IN NOVEMBER

First mortgage and bank card default rates rose to 2.17% and 4.91% in November, from 2.08% and 4.85% in October, respectively, according to the latest S&P/Experian Consumer Credit Default Indices. Second mortgage and auto loan default rates decreased slightly. Second mortgages moved down from 1.29% in October to 1.26% in November, and auto loans from 1.22% to 1.17%. The increases in first mortgage and bank card rates, however, caused the national composite to rise from 2.15% to 2.22%.



"The weight of first mortgage default rates tends to drive the trend in the national composite," said David M. Blitzer for S&P Indices. "First mortgage default rates rose for the third consecutive month, leading the same pattern for the composite."

All five major Metropolitan Statistical Areas showed increases in default rates in November. Los Angeles had the highest default rates increase among the MSAs.

- Los Angeles - from 2.15% in October to 2.53% in November
- Miami - from 4.14% in October to 4.47% in November
- Chicago – from 2.64% in October to 2.84% in November
- New York – from 2.09% in October to 2.21% in November

Chicago, LA and New York have all seen at least three consecutive months of increasing default rates.

Source: ACA International

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