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LEASING & FINANCE NEWS UPDATE



March 2010

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THE REPLACEMENT ECONOMY

Investment in New Equipment is Practically Nil

The economy will truly be in a state of recovery when companies start ordering new equipment rather than just replacement parts, representatives of the equipment leasing industry say. Anthony Cracchiolo, president and CEO of U.S. Bank Equipment Finance Co., characterized U.S. corporate capital expenditures for equipment as "weak" because the demand for replacement parts overwhelmingly dominates the desire for new equipment. "We are seeing very little...expansion equipment," the lender said. "New plant and equipment is not being invested in."

While companies have a great deal of "pent-up demand" for loans or leases to finance equipment, much of it has to do with patching up existing assets, according to Ralph Petta, the ELFA's interim president. He said the association, like other small businesses, is "deciding to sit on our IT equipment for another six months or so, even though we could probably use an upgrade in hardware and software."

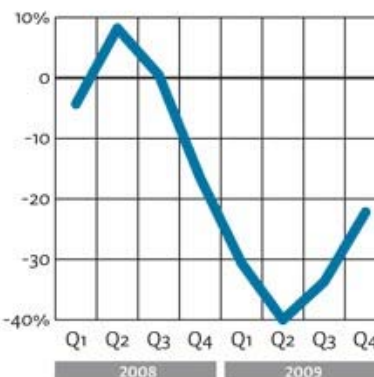
Even increased purchasing of new equipment wouldn't necessarily be a signal of a vigorous recovery, in Petta's view. "We've just got to wait for the economy to come around before companies will go from expanding plant and equipment to actually producing more inventory," he said. Indeed, cumulative results of the association's monthly index of 25 equipment leasing and financing companies reinforced the picture of a sputtering marketplace for equipment finance. In the fourth quarter of 2009, overall new business volume for lenders and leasers showed a 22% decline compared with the fourth quarter of 2008.

The effects of the downturn on equipment buying have been unevenly dispersed among industries. Perhaps reflecting the federal government's stimulus program, the two best-performing sectors in the lenders' portfolios in the 4Q 2009 were health care and state and local government services while the worst-performing industries were construction and trucking.

Source: CFO.com

The Slump In Equipment Leasing and Lending

% change in new business
volume (year over year)



Source: Equipment Leasing and
Finance Association

Issue 11

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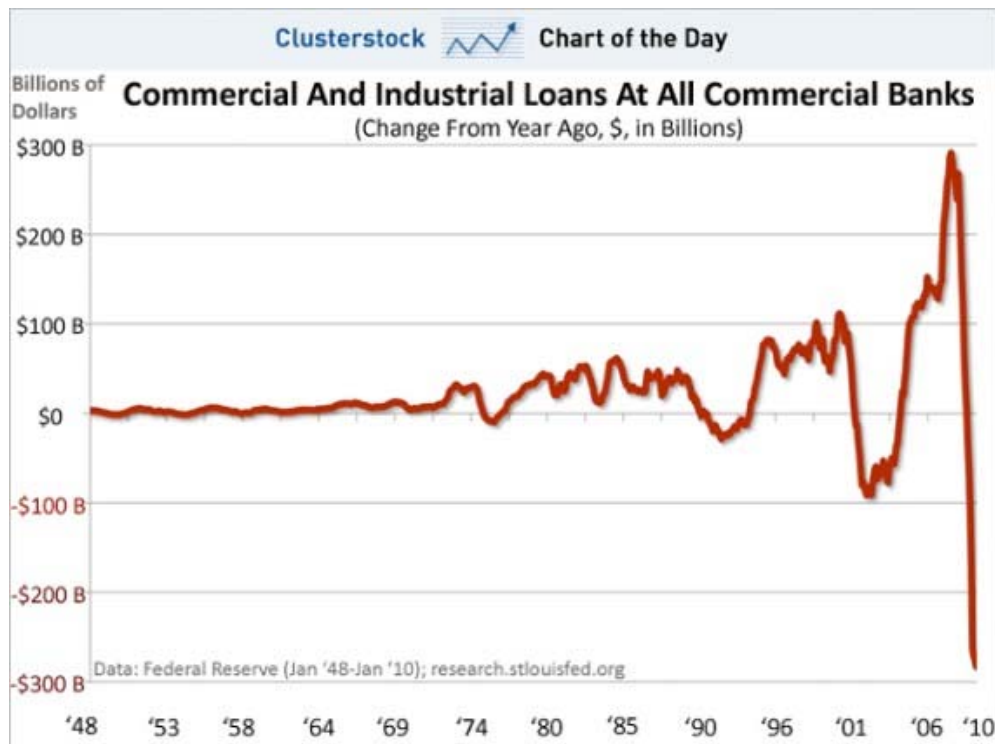
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Banks Continue to Pull the Rug Out from Under the Economy

Can the economy revive if banks don't start to lend again? Let's hope so. The St. Louis Fed released its latest monthly look at commercial and industrial loans at major banks -- a measure that some would say represents the essence of the US banking system.

As you can see, this measure is still falling like a knife -- a bad sign for the ongoing health of the economy. (And also not what we were promised when we bailed out the banks.)

Source: The Business Insider

"A small debt produces a debtor; a large one, an enemy."
~ Publilius Syrus, (1st Century BC) Latin philosopher and writer of mimes

Small Business Lending Up Third Straight Month



Small U.S. businesses boosted borrowing in January for the third straight month, although lending remains well below levels at the start of the recession, and delinquencies rose, PayNet Inc recently reported.

The company's Small Business Lending Index, which measures the overall volume of financing, rose a seasonally adjusted 4 percent in January, month-on-month, after advancing on a seasonally adjusted basis in November and December, PayNet said. The index fell just 3 percent in January from a year earlier, the smallest decline since the onset of the recent recession, following a downwardly revised 10-percent decline in December.

"There's been a lot of damage done, but at least we are moving in the right direction," said Bill Phelan, PayNet's president and founder. "It's a positive improving story that points us toward a recovery in the small business economy." Still, he said, the January index reading of 80.8 was 39 percent below its pre-recession peak.

Meanwhile, moderate delinquencies on loan payments rose to the highest since the recession began, and lenders will likely see defaults at "elevated levels" for the next 12 months, Phelan said.

Trends in loan defaults tend to lag other economic indicators, Phelan said. "We really see it as an aftershock of the recession," he said.

Source: Reuters

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