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LEASING & FINANCE NEWS UPDATE

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LENDERS: LOW DEMAND KILLING EQUIPMENT FINANCING



The steep falloff in new equipment-lease deals stems from a lack of customer demand and not from tight underwriting, according to most respondents to a survey of leasing companies.

Almost 80% of the participants in a survey of a cross-section of 25 equipment leasing and financing companies that saw declines in business volume in September "said that declining customer demand and not [tightened] credit underwriting standards or spreads were the number-one reason" for the drop-off, Ralph Petta, interim president of the Equipment Leasing and Finance Assn., said in a conference call late last week.

The volume of new business for the companies surveyed declined by 31% in September 2009 from the same period in 2008. At the same time, the companies reported that month-to-month new business volume jumped 27% from \$3.7 billion to \$4.7 billion from August 2009 to September 2009. (The monthly leasing and finance index is a compilation of data from the ELFA members that includes major "captive" finance organizations such as Caterpillar Financial Services Corp., banks with leasing operations like Bank of America, and independent finance outfits like CIT.)

In response to a question from a participant in the call, however, Petta acknowledged that the boost in business volume between August and September 2009 stems from a normal seasonal upturn, rather than a boost in the economy.

Other findings revealed that conditions in the leasing business were continuing to deteriorate. Portfolio quality — meaning how long lessees take to pay their bills — is "not improving," said Petta. In September, in fact, the companies reported that 5.6% of their receivables weren't paid in more than 30 days; that figure was 5% in August of this year. Yet although the September receivables figure was the highest since at least January 2008, there were two outlier companies with extraordinarily high receivables percentages that may have skewed the numbers.

Similarly, the lessors turned in a less-than-terrific performance in terms of losses. As a percent of net receivables, losses rose from 2.05% to 3.01% between August and September 2009. Addressing the September percentage in comparison to the percentage reported for the same month in 2008, 1.1%, Petta said it's "a huge spike in average losses reported by the 25 companies on a year-over-year basis."

Layoffs are another sign of the times at equipment-leasing outfits. The total number of employees at the companies stood at a little over 10,000 as of September 2009, down from 10,400 in the prior month and down from 11,000 in September 2008. The companies are "still shedding employees, looking to cut costs," according to Petta.

Source: CFO.com

Leasing Portfolios Saw Increased Delinquencies in September

A trade group for the lenders that finance half the capital equipment investment in the United States each year said their portfolios of loans, leases and lines of credit showed new signs of stress last month, a reminder of the troubles that continue to bedevil business borrowers even as the economy begins to recover.

According to the Equipment Leasing and Finance Association (ELFA), delinquencies and charge-offs rose in September. Ralph Petta, the group's president, characterized the trend as a 'sharp deterioration in portfolio quality.'

Overall activity in the specialty finance sector also fell. Recent data has pointed to nascent turnarounds in manufacturing, housing and consumer sentiment and many analysts expect strong growth in the third quarter after four quarters of contraction.

So far, however, that recovery appears to be patchy at best and does not seem to be trickling down to the customers of the specialty finance companies represented by ELFA. The group said its capex financing index, which measures the overall volume of financing used to fund equipment, fell 30.9 % year-over-year in September to \$4.7 billion.

It said the percentage of borrowers delinquent 30 days or more on their capex financings rose to 5.6 % in September, up from 5.0 % in August and 3.5 % last year. And charge-offs as a percentage of all receivables rose to 3.01 % in September, up from 2.05 % in August and 1.17 % last year. The industry also continued to shed jobs with total employment falling to 10,235 in September, down from 10,433 in August and 11,125 last year.

Source: Reuters



U.S. Small Business Loans in Default Rise

Defaults by small and medium-sized U.S. businesses on the loans, leases and lines of credit they use to finance capital equipment investment rose in September as lenders remained reluctant to extend fresh financing, according to PayNet Inc.

Accounts in moderate and severe delinquency decreased during the month, a potentially encouraging sign that some businesses borrowers are finding it easier to meet their obligations. Accounts in moderate delinquency, or those behind by 30 days or more, fell to 4.22 in September from 4.35 percent in August, according to PayNet, which provides risk-management tools to the commercial lending industry. That is the lowest level since January. Accounts 90 days or more behind in payment, or in severe delinquency, also improved modestly, slipping to 1.40 percent in September from 1.48 percent in August.

But accounts behind 180 days or more, or in default, rose to 0.85 percent in September from 0.81 percent in August. PayNet's Small Business Lending Index, which measures the overall volume of financing, fell 22% year-over-year in September, a sign that lenders remain reluctant to extend credit to small and medium-sized businesses.

"It's hard to imagine a robust recovery when you see numbers like this," said Bill Phelan, president and founder of Skokie, Illinois-based PayNet.

Source: Reuters

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