



EQUIPMENT LEASING AND FINANCE ASSOCIATION

Financing a Growing Economy

2008 Developments in the U.S. Equipment Finance Marketplace

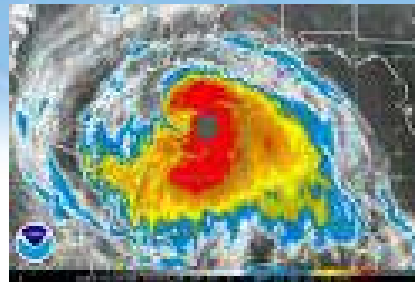
Presented by:

Bill Verhelle, Chairman

Equipment Leasing and Finance Association

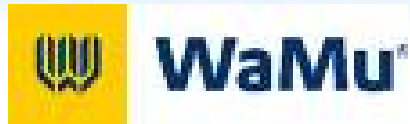
Frederick E. Wolfert
Senior Advisor
Aquiline Capital Partners, LLC

William H. Verhelle
CEO
First American Equipment Finance

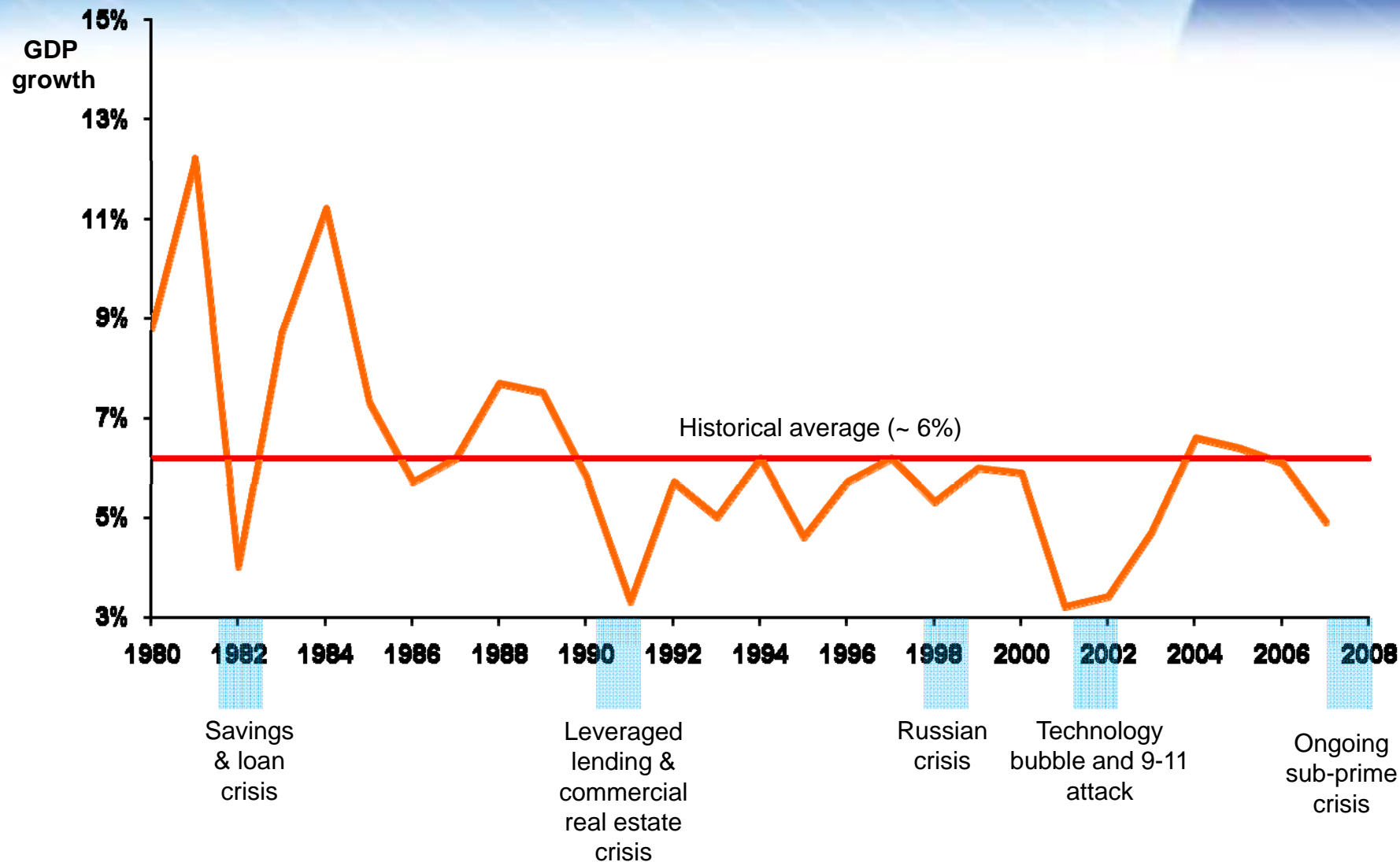


The Acquired

The Acquirers



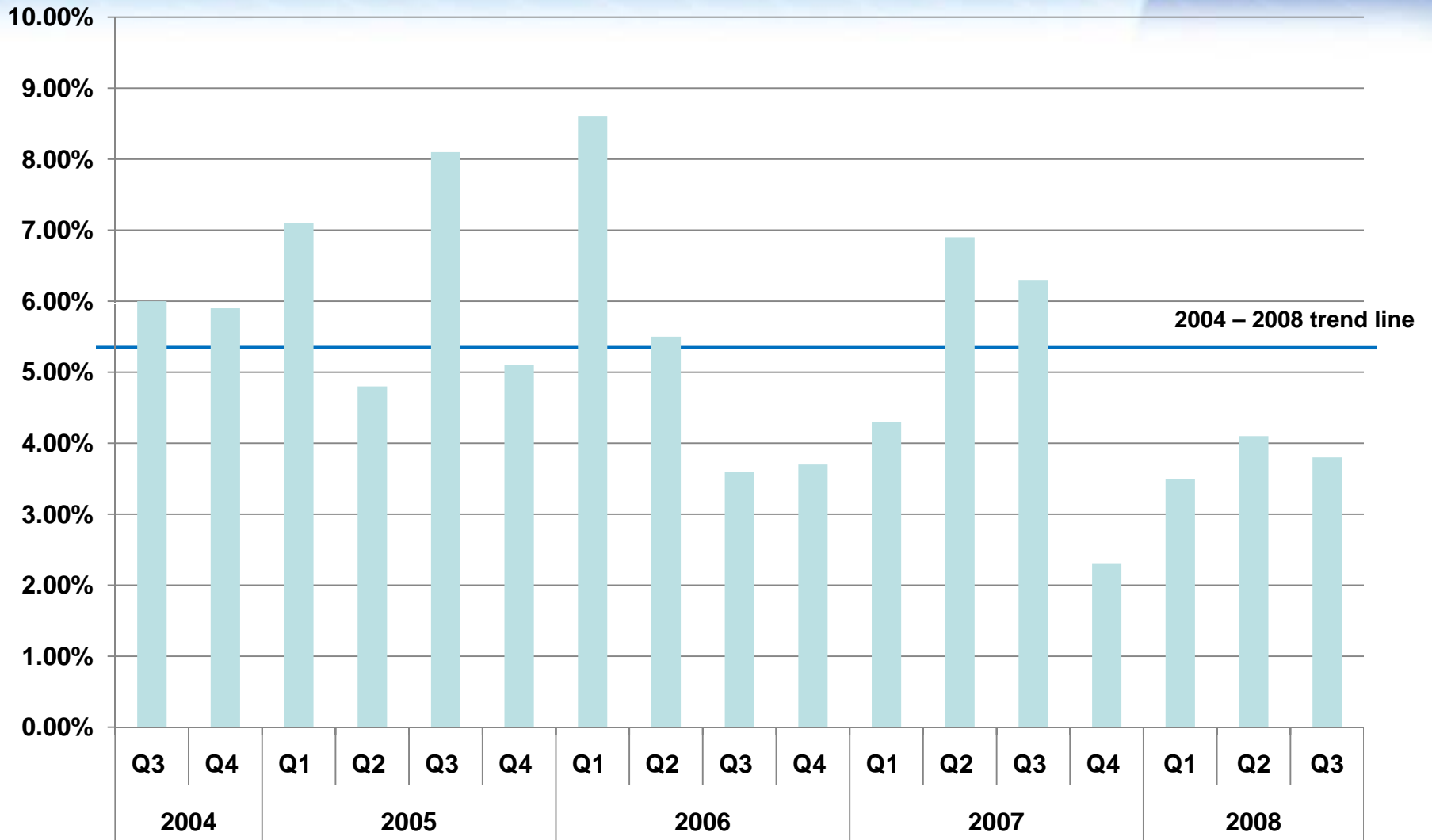
Credit market dislocation of historic proportions



Note: GDP data is inflation adjusted
Source: Bureau of Economic Analysis

Several years of strong economic growth

GDP Growth



Home prices falling

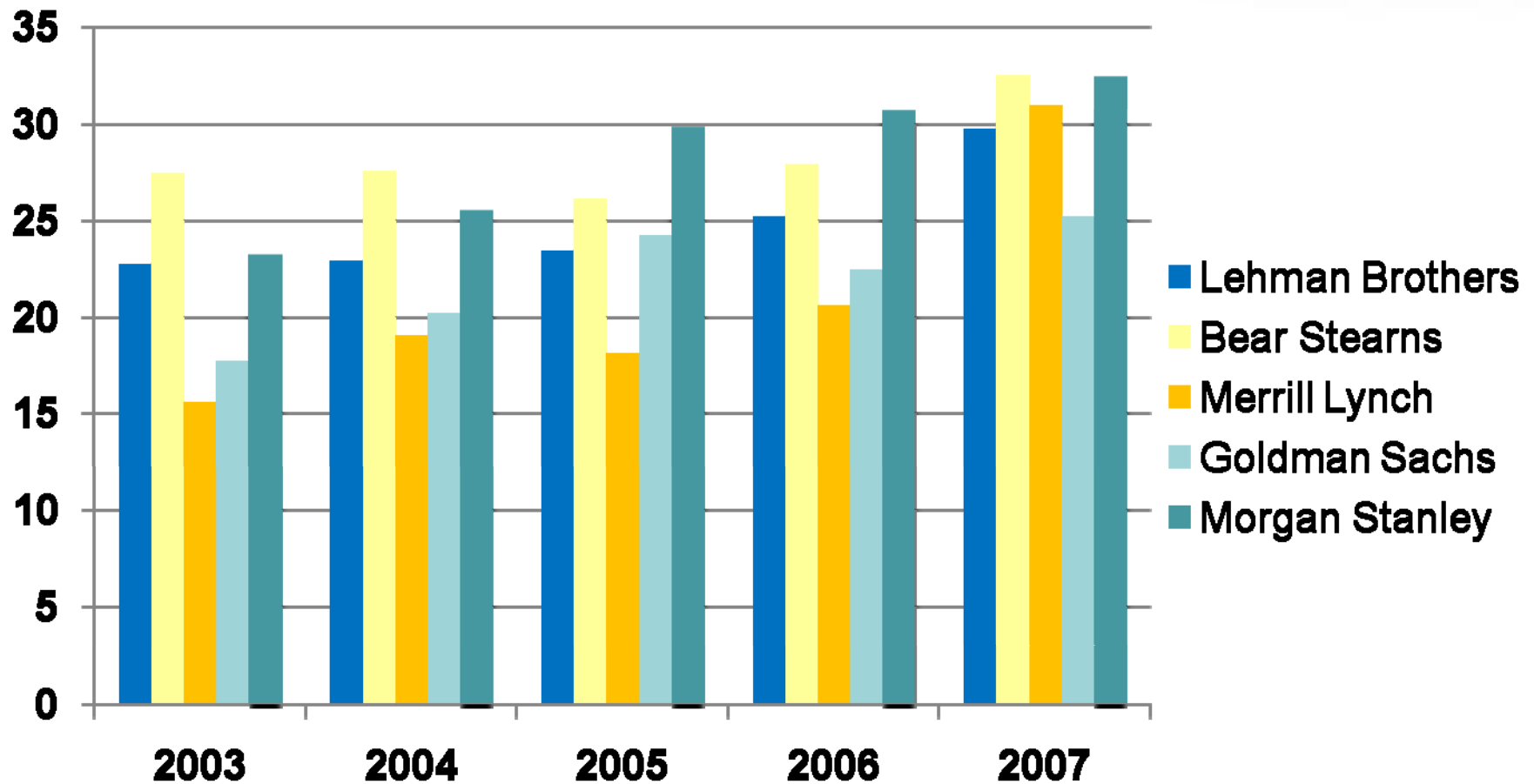
Sub-prime securitization
crisis

Loss of confidence in
rating agencies

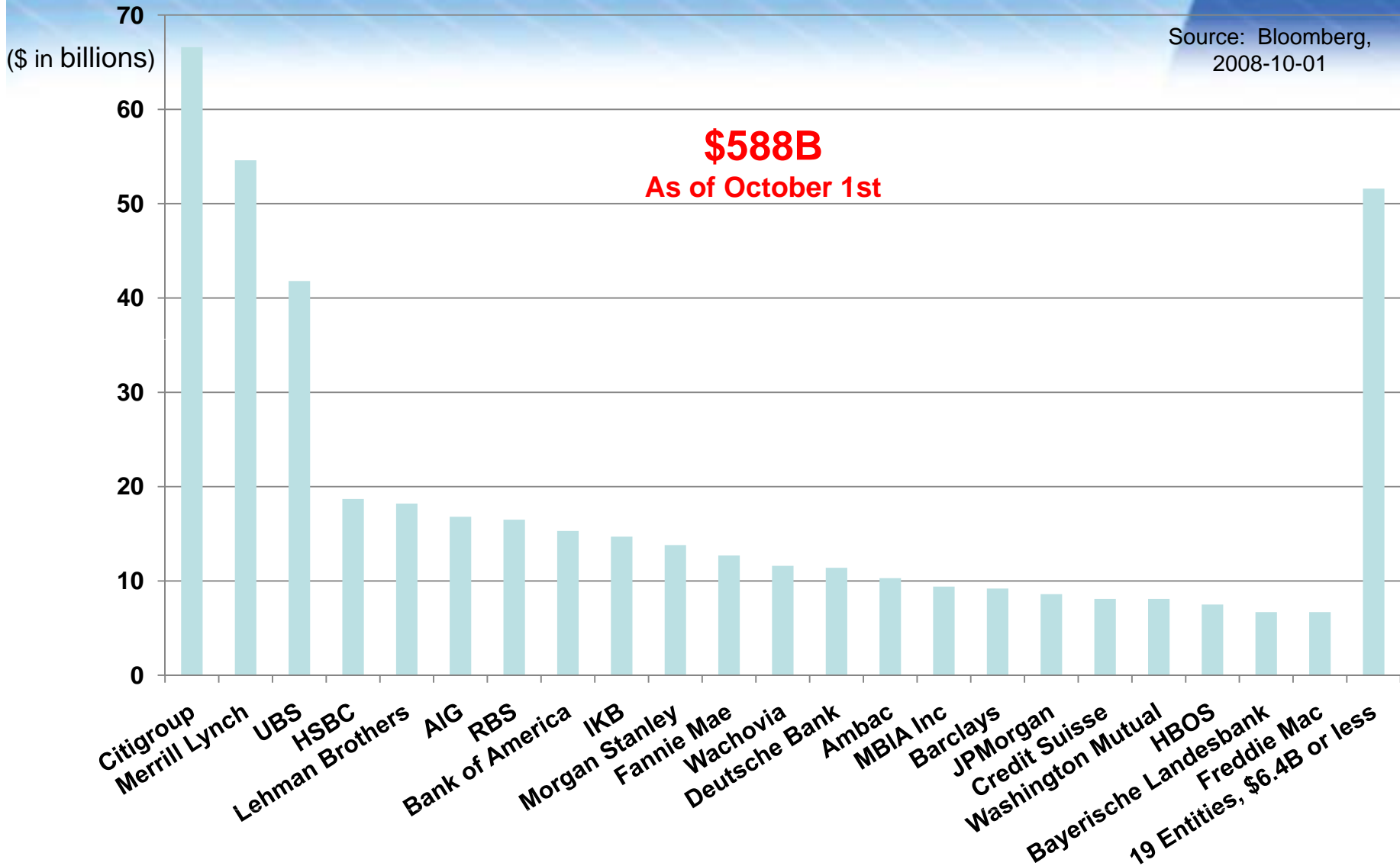
Other asset classes
affected

Frozen credit markets

Leverage Ratios of Major Investment Banks



Historic sub-prime related write-downs

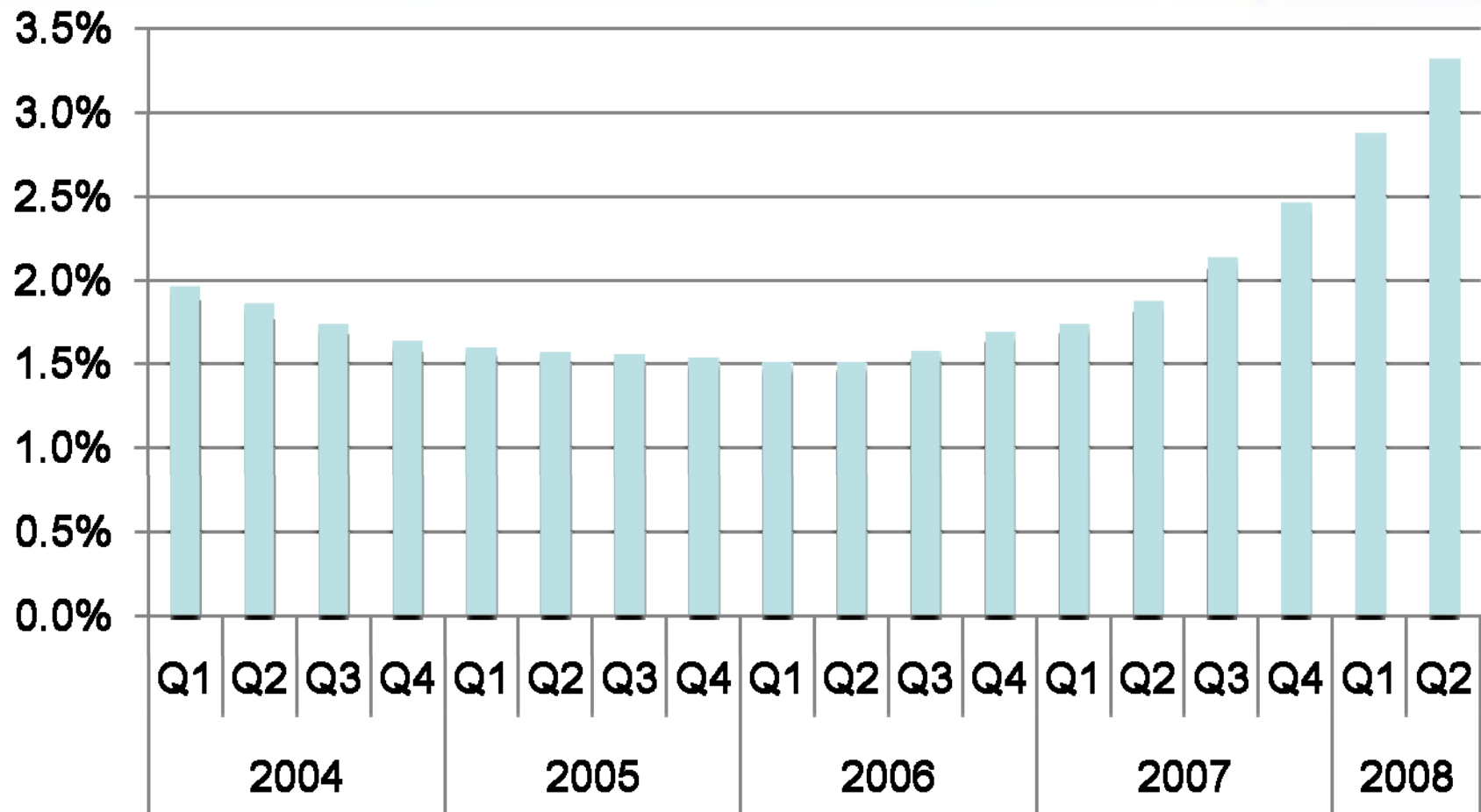


Reduction of global lending capacity

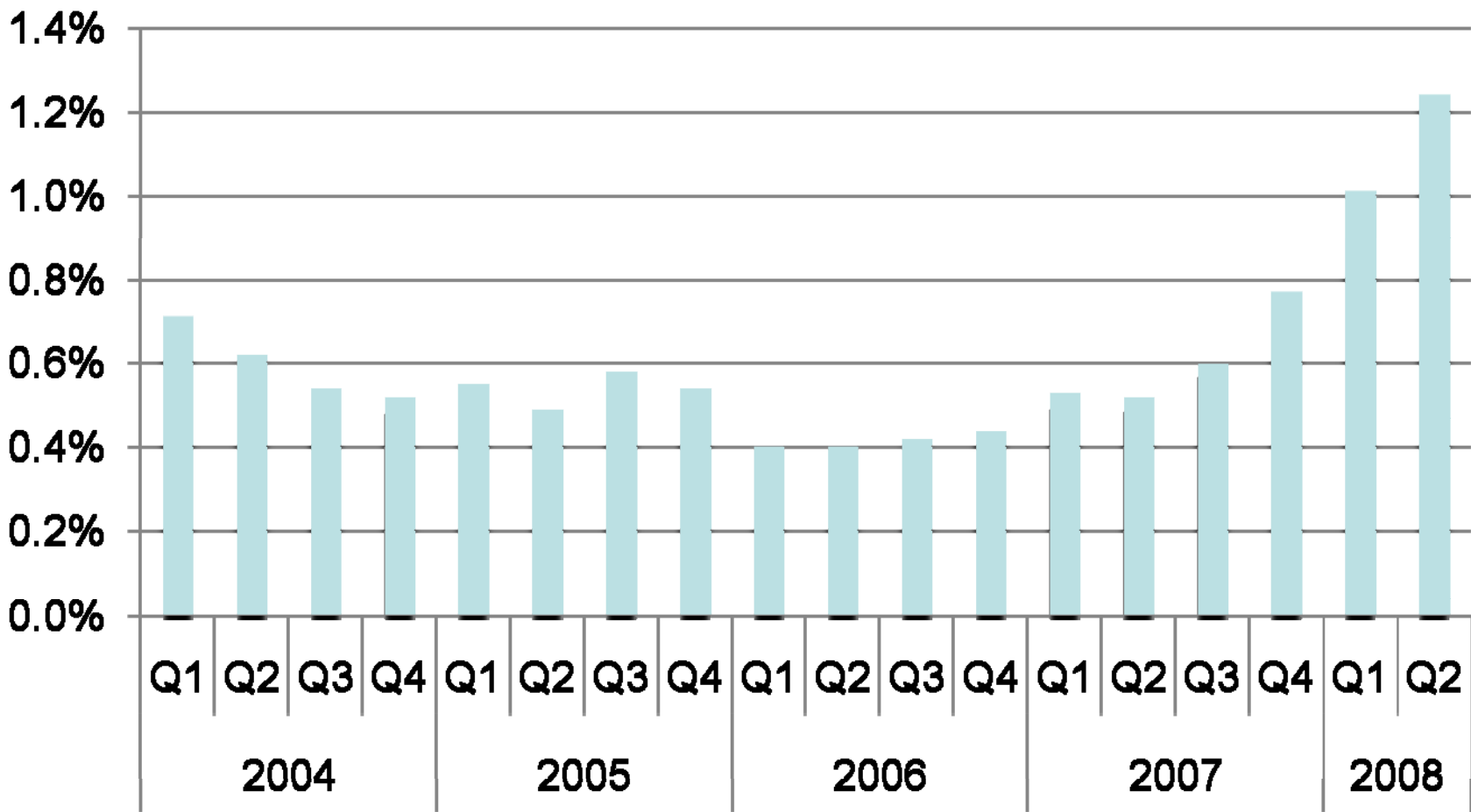
- Global write-downs: \$588 billion equity
- Assumed leverage: 11.5x
- Estimated global lending capacity removed: $\$588 \times 11.5 = \6.7 trillion

The impact on capacity is bigger than the headline numbers

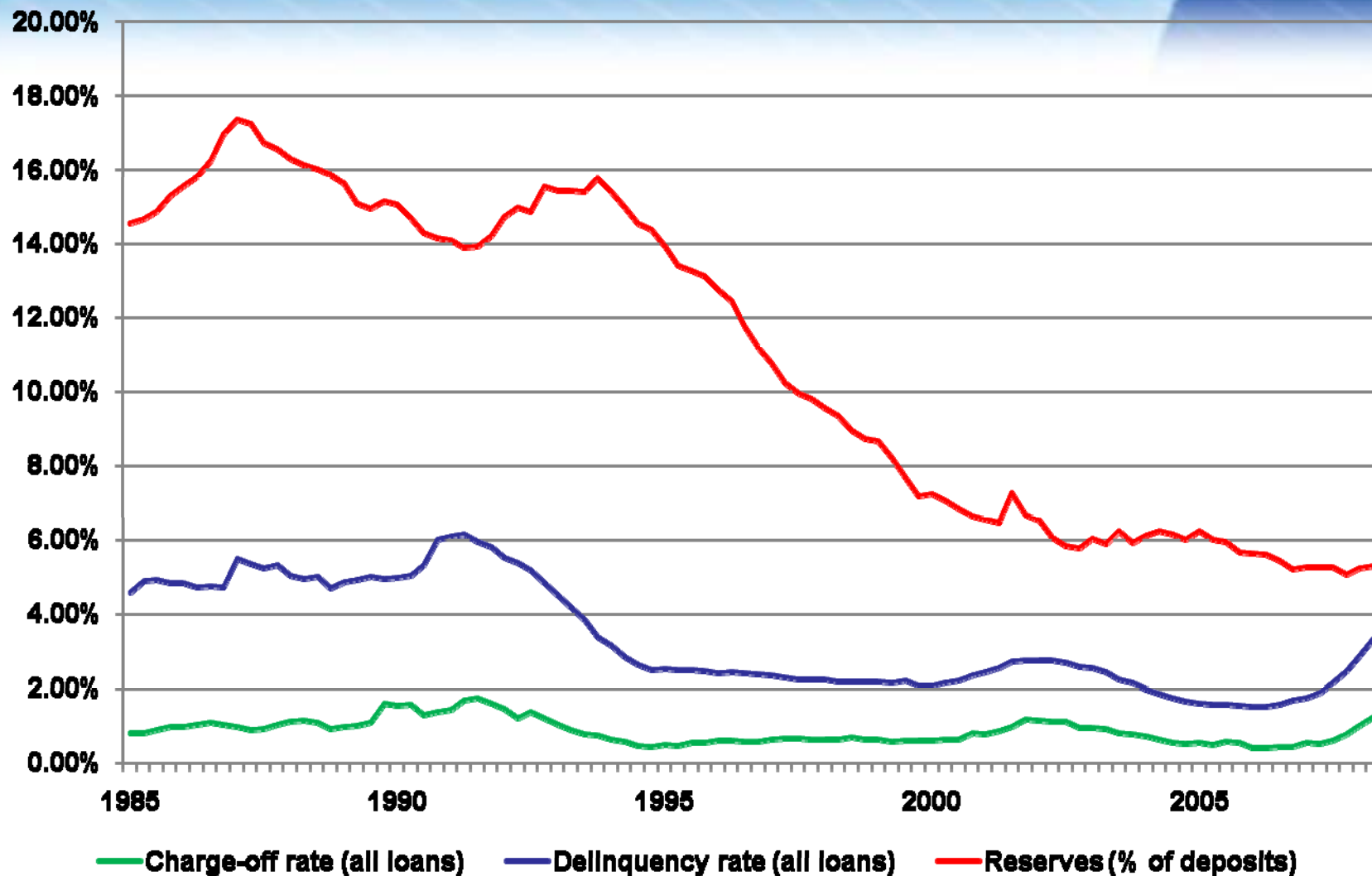
U.S. banks – quarterly delinquency



U.S. banks – quarterly charge offs



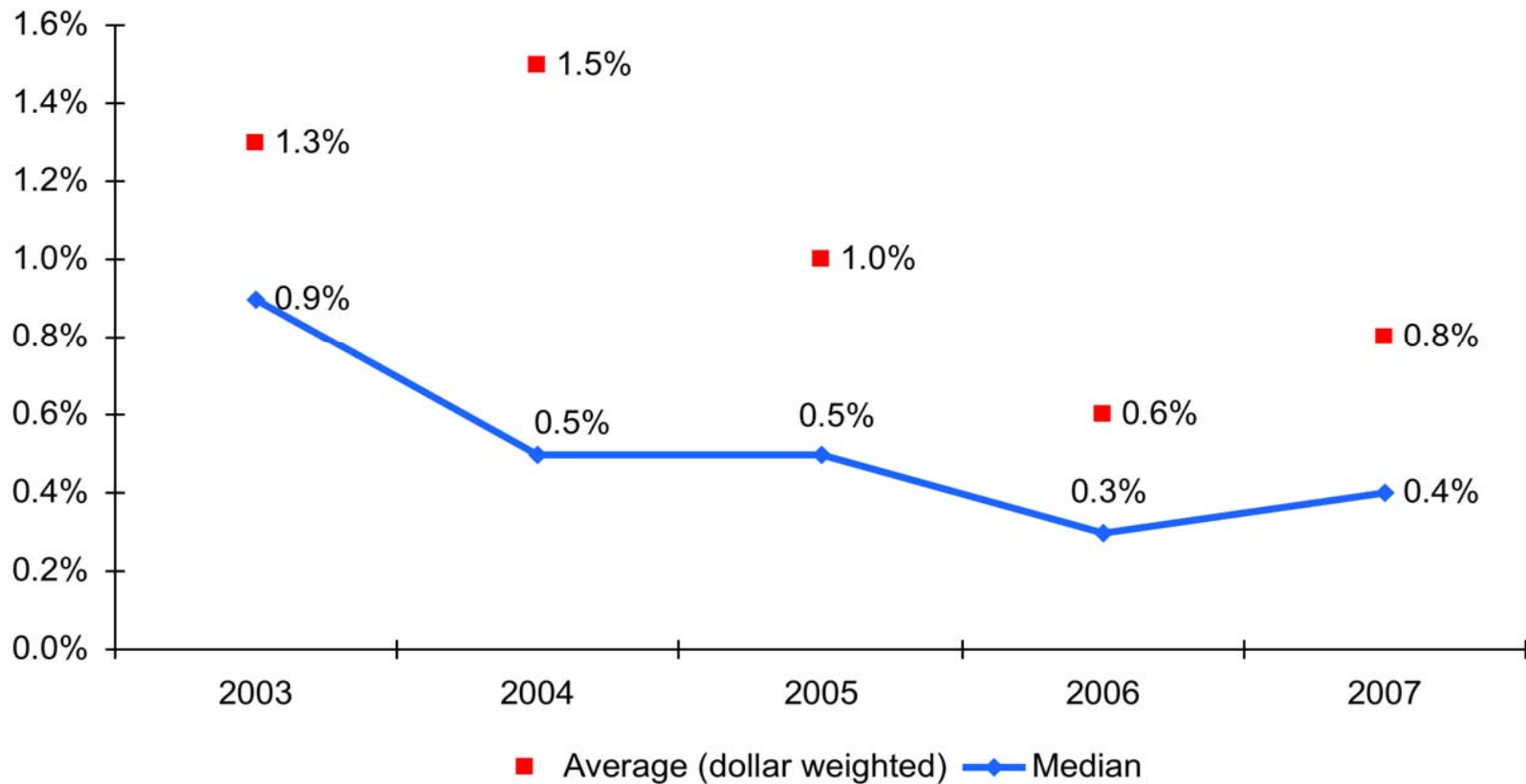
U.S. Banks: Charge-offs, Reserves and Delinquencies



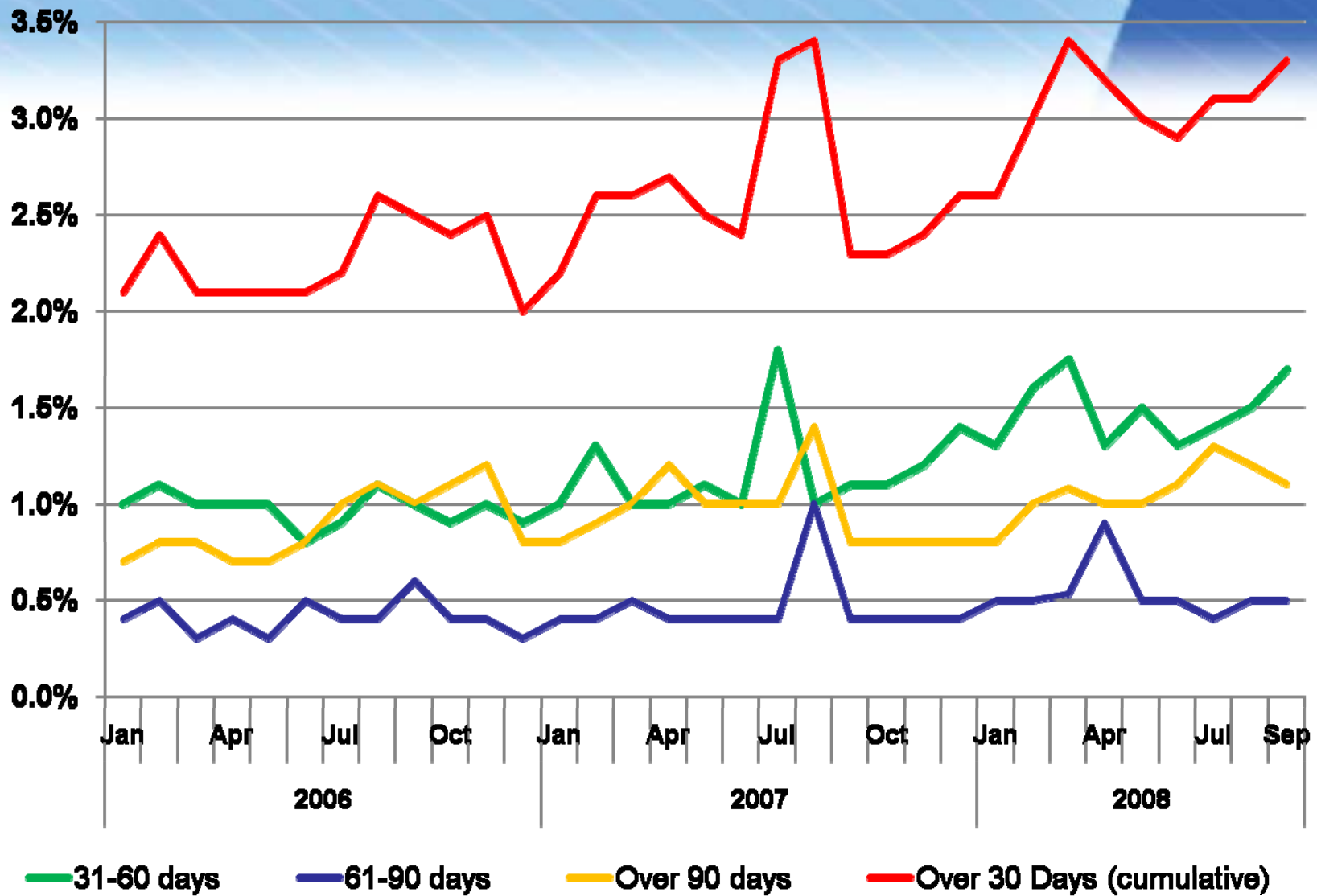
U.S. equipment finance industry charge-offs have increased only slightly

Full-Year Loss (Charge-Offs)

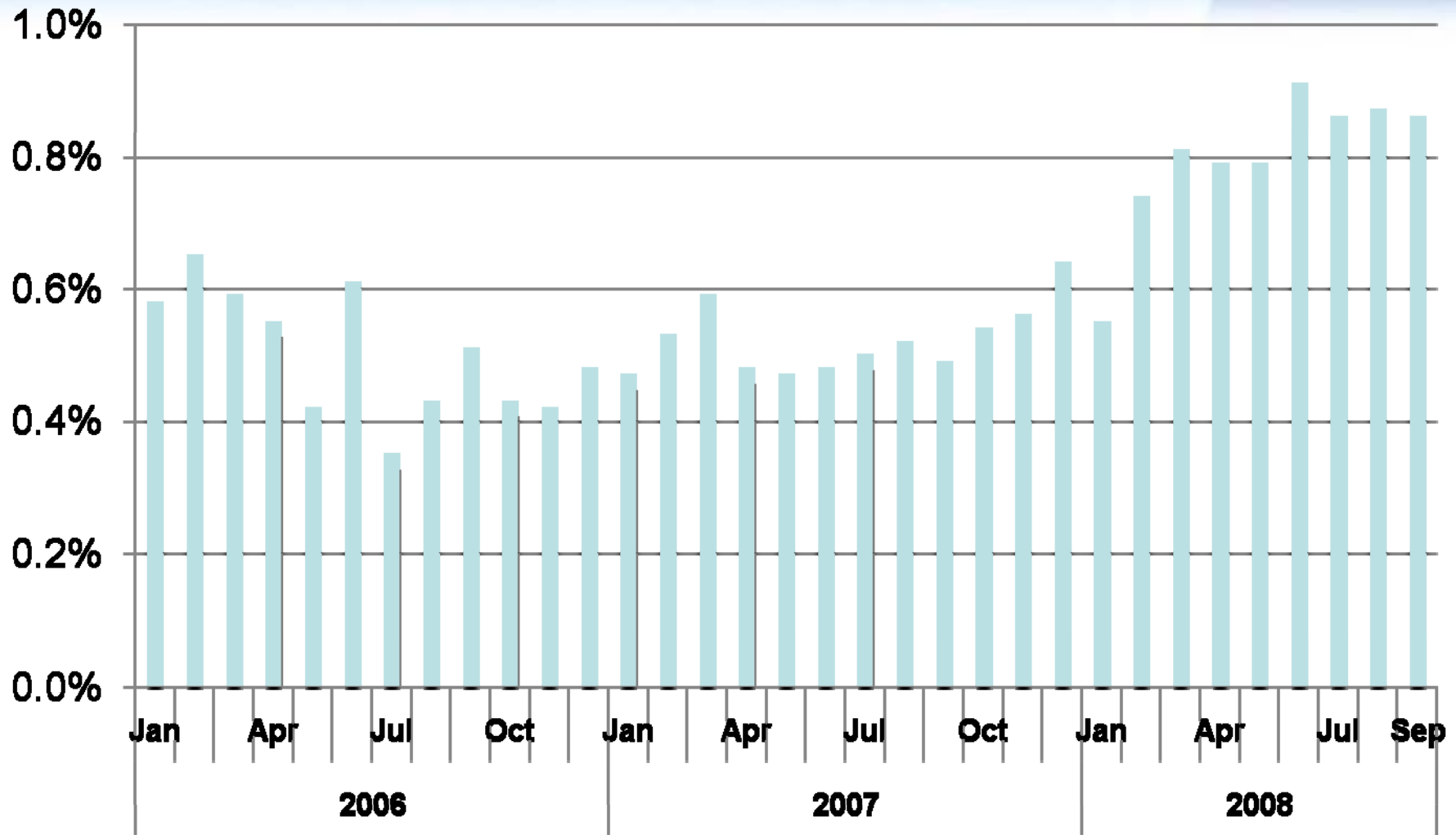
% of Net Receivables



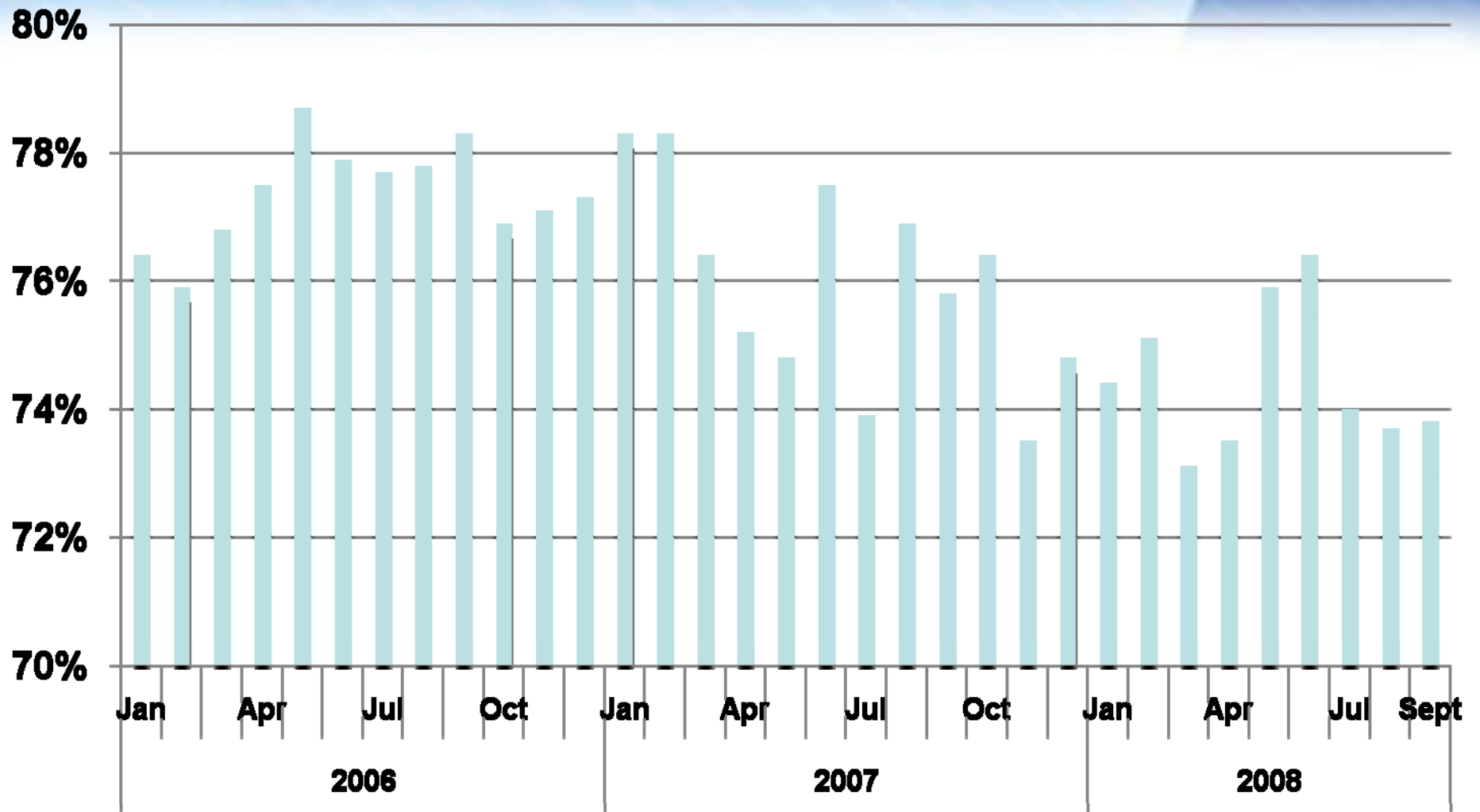
U.S. equipment finance past due receivables



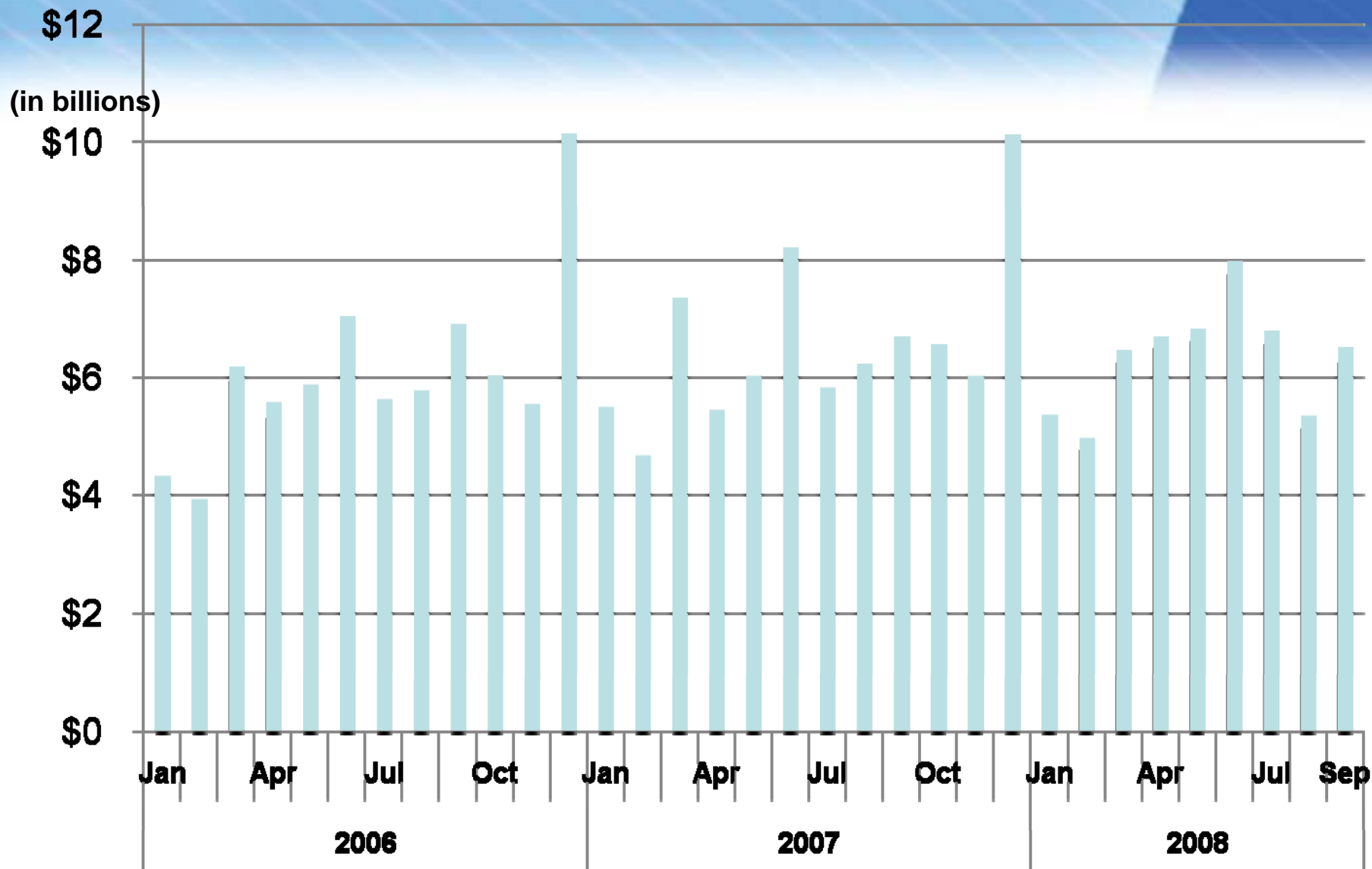
U.S. equipment finance losses (charge-offs) as a % of net receivables



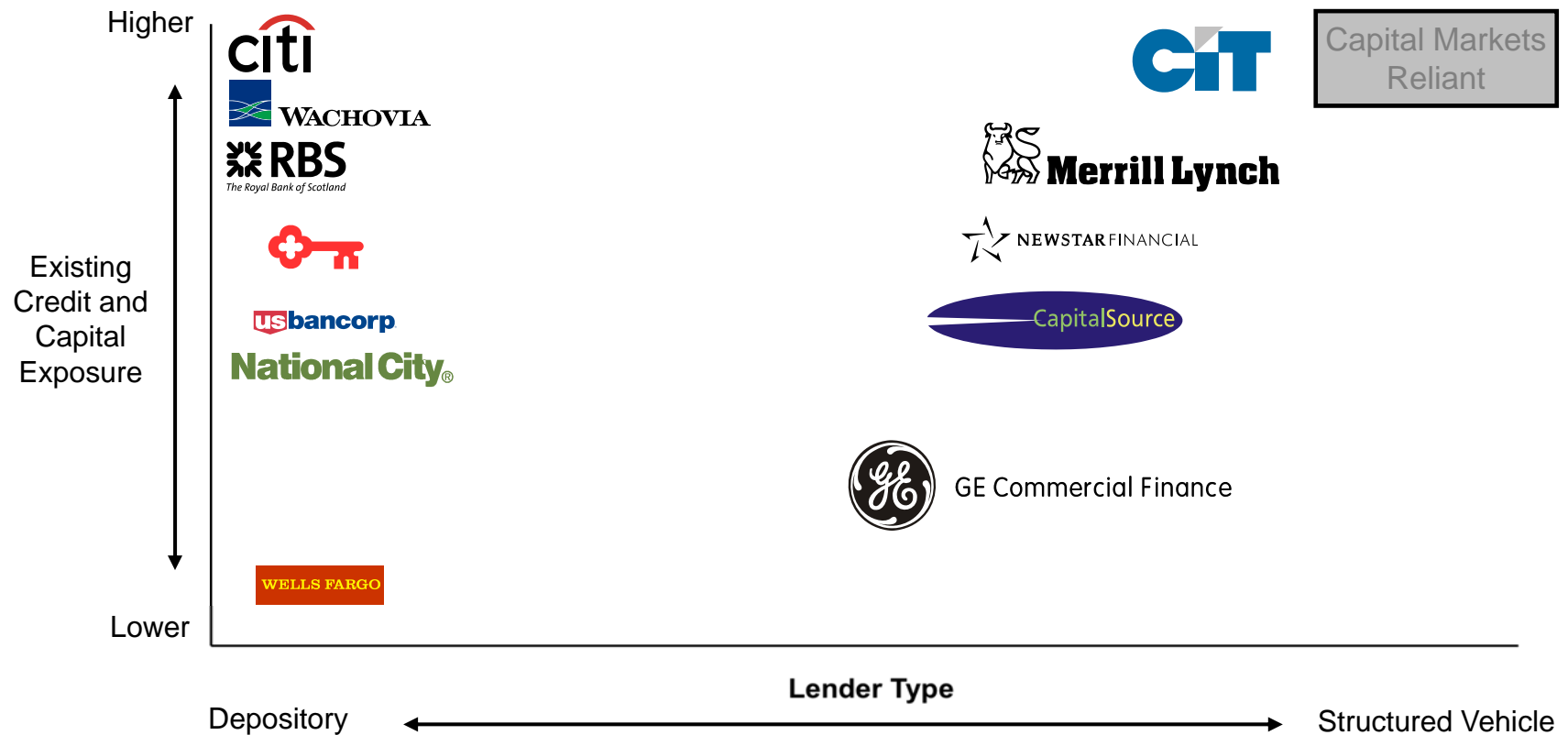
Credit approval ratios as % of all applications



Equipment finance originations remain steady

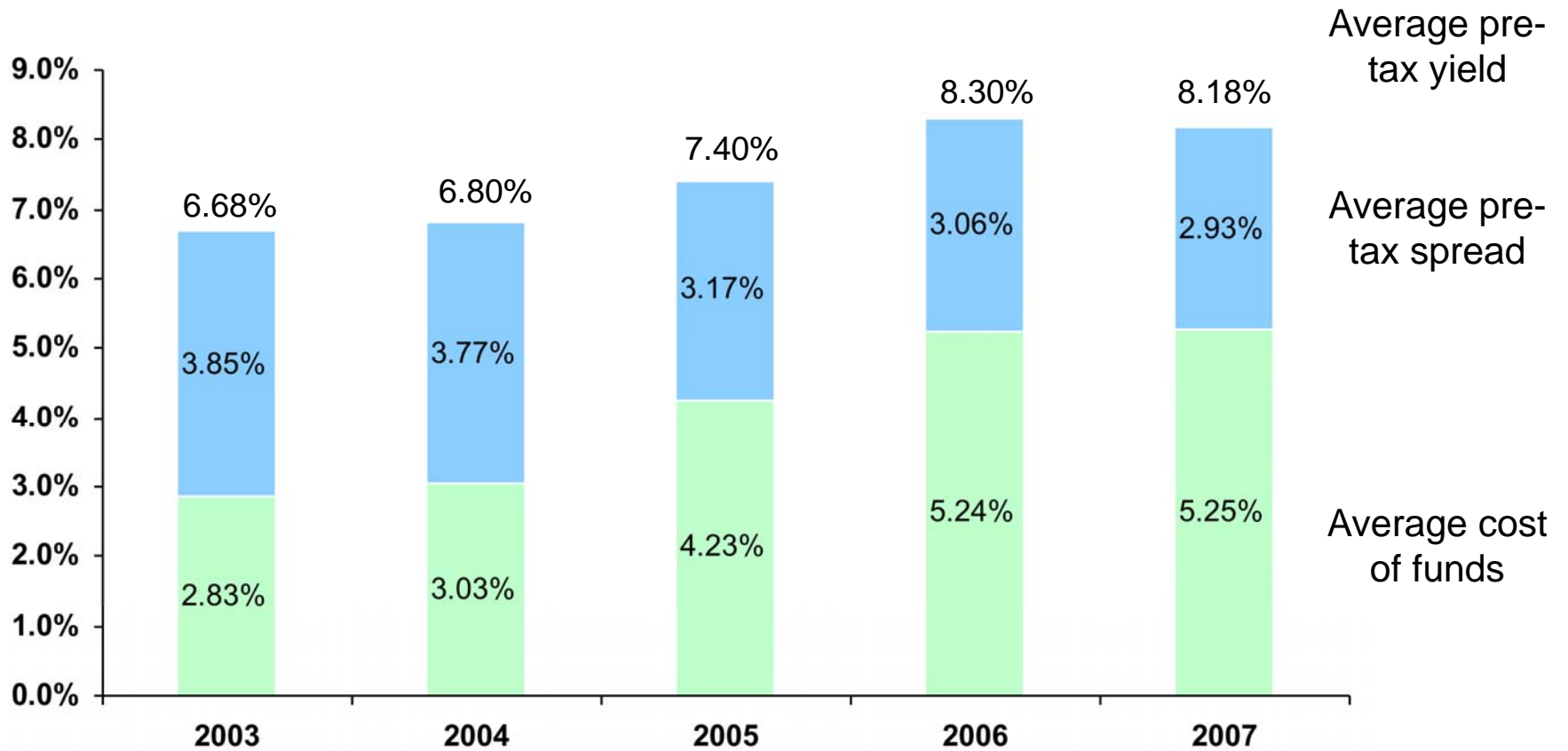


The equipment leasing and finance industry is capital constrained...

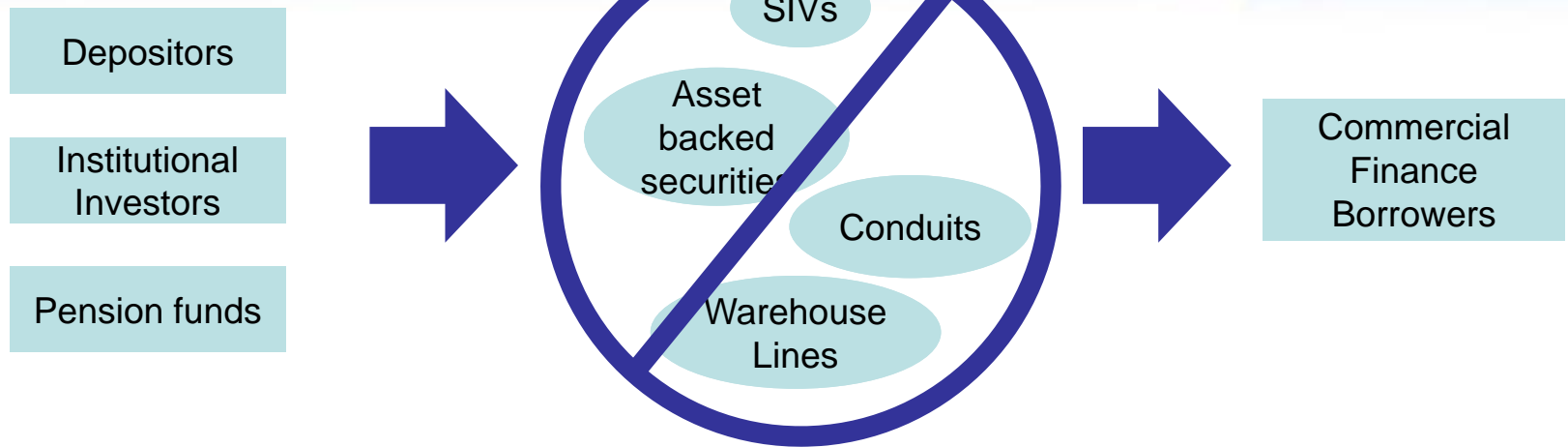


...Creating both opportunities and challenges.

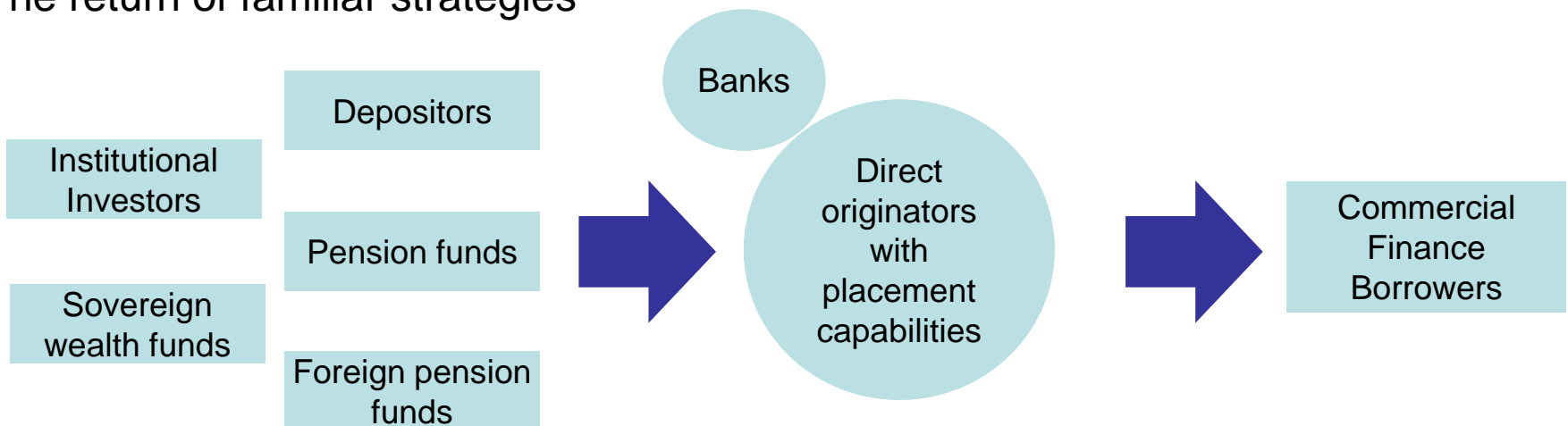
Years of tightening U.S. equipment finance spreads



The "Engineered Finance" Era



The return of familiar strategies



U.S. credit markets summary

- The effects of the credit market turmoil may be long-lasting
- Commercial finance companies with liquidity should be able to take advantage of an attractive spread environment
- Portfolios containing marginal credits will become a greater concern as the economy moves toward recession
- Financing challenges exist for commercial finance companies that rely on the capital markets, including the securitization market
- Catalysts for a Recovery — A broad recovery in the credit markets is unlikely until the residential real estate market stabilizes

Additional challenges in the U.S. equipment finance marketplace

- Margin compression (seeing improvement in 2008)
- Changing accounting standards; off-balance sheet treatment and expected changes
- Effects of regulatory response to the mortgage crisis
- Uncertainty regarding future U.S. tax policy

FASB and IASB Lease Accounting Project

- Self-imposed deadline of world-wide accounting standards convergence (for lessees) by the year 2011
- Lessor accounting issues deferred several years
- U.S. lessors would likely follow FAS 13 until the rules are changed
- Lessee accounting treatment will likely be virtually the same as current capital lease accounting for the balance sheet
- Eliminate lease classification tests but consider the issue of in-substance loans versus right of use leases
- Estimate the lease term to include estimating renewal rents and estimating all types of contingent rents in the capitalization calculation

The question of fair-value

- FAS 157: provides a framework for measuring fair-value in generally accepted accounting principles (GAAP), and expands disclosures about fair-value measurements. Financial Accounting Standards Board
- Fair-value rules “have destroyed hundreds of billions of dollars of capital in our financial system, causing lending capacity to be diminished by ten times that amount.” William Isaac, Former FDIC Chairman
- “I think it would be a terrible shame if we shoot the messenger and ignore the message mark-to-market accounting conveys about the current condition of banks.” Ray Ball, Professor of Accounting, University of Chicago’s Graduate School of Business.
- Any fundamental change to fair-value runs the risk of reducing confidence among investors, which tends to restrict the flow of capital. Vincent Colman, Partner, PricewaterhouseCoopers

How is this crisis different?

In the past:

- Banks were the arbiters of limited capital to non-bank industry participants
- Shortage of capital was the result of an *unwillingness* to lend

Now:

- Scope and magnitude of capital shortage is significantly more broad, prompting global government intervention on a scale never before seen in modern economic history
- Banks have an *inability* to lend

ELFA three-year business plan

- Industry communication
- Industry data
- Advocacy and legal
- Professional development
- Meetings and conferences
- Best Practices
- Industry reputation and business practices

ELFA special initiatives

- Establish new technologies for improved member communication
 - Regional town hall meeting and social networking through virtual technologies
 - Customized website access
- Further expand State government affairs resources
 - Identification of issues warranting Association involvement
 - Tax and regulatory assistance
- Continue development of the Business Council Steering Committees
 - First joint Business Council/Board of Directors meeting held in October, 2008

The logo for the Equipment Leasing and Finance Association (ELFA) features the letters 'ELFA' in a large, bold, blue, sans-serif font. The background of the top banner is light blue with a faint grid pattern, and a darker blue triangle is on the right side.

EQUIPMENT LEASING AND FINANCE ASSOCIATION

Financing a Growing Economy

Bill Verhelle, Chairman

Equipment Leasing and Finance Association

A horizontal blue gradient bar at the bottom of the slide, transitioning from light blue on the left to a darker blue on the right.