



EQUIPMENT LEASING AND FINANCE ASSOCIATION

Financing a Growing Economy

# Market Update U.S. Credit Crisis

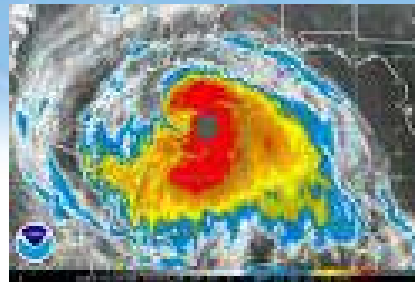
Presented by:

**Bill Verhelle, Chairman**

Equipment Leasing and Finance Association

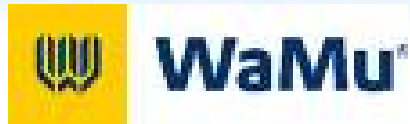
Frederick E. Wolfert  
Senior Advisor  
Aquiline Capital Partners, LLC

William H. Verhelle  
CEO  
First American Equipment Finance



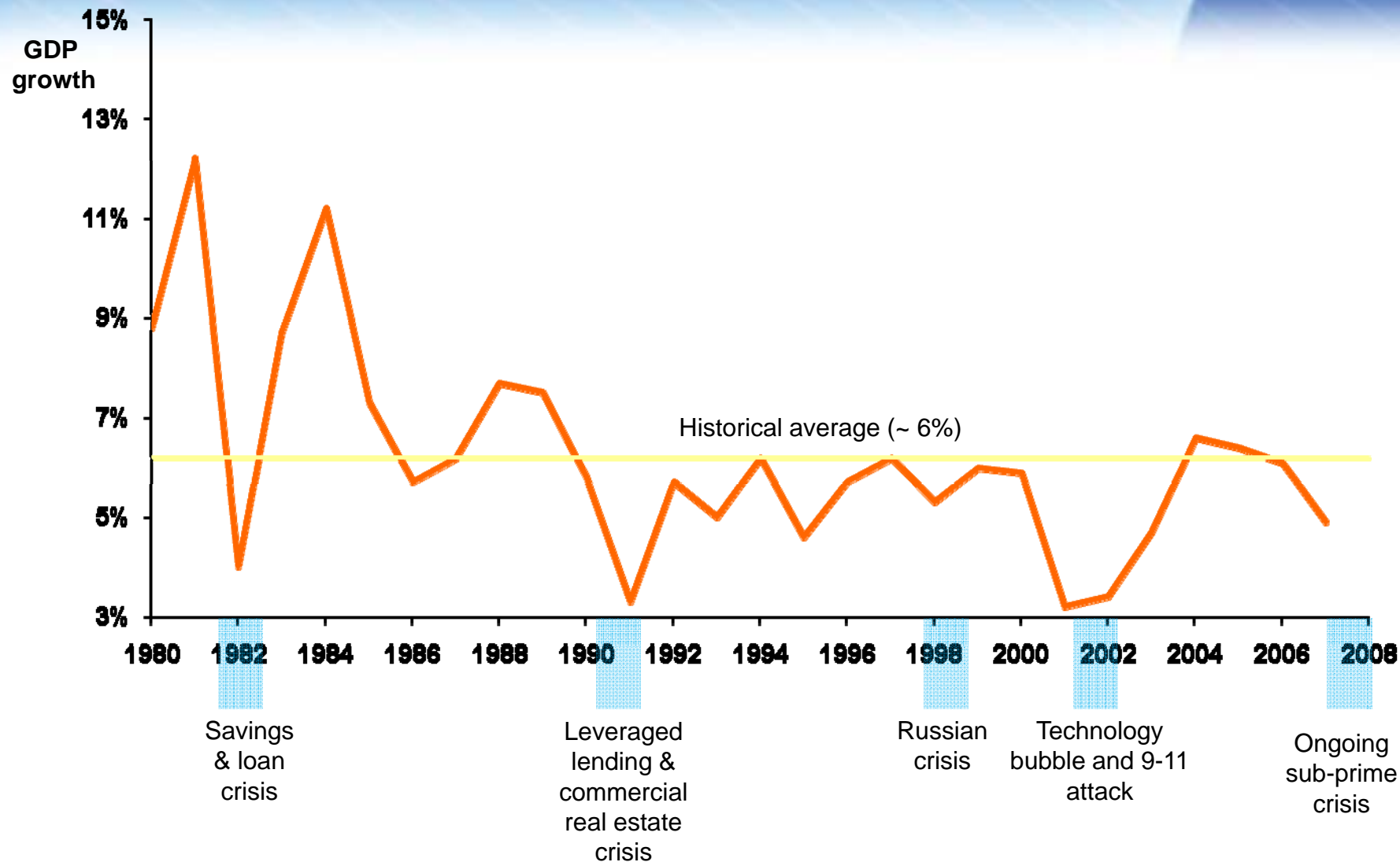
# The Acquired

# The Acquirers



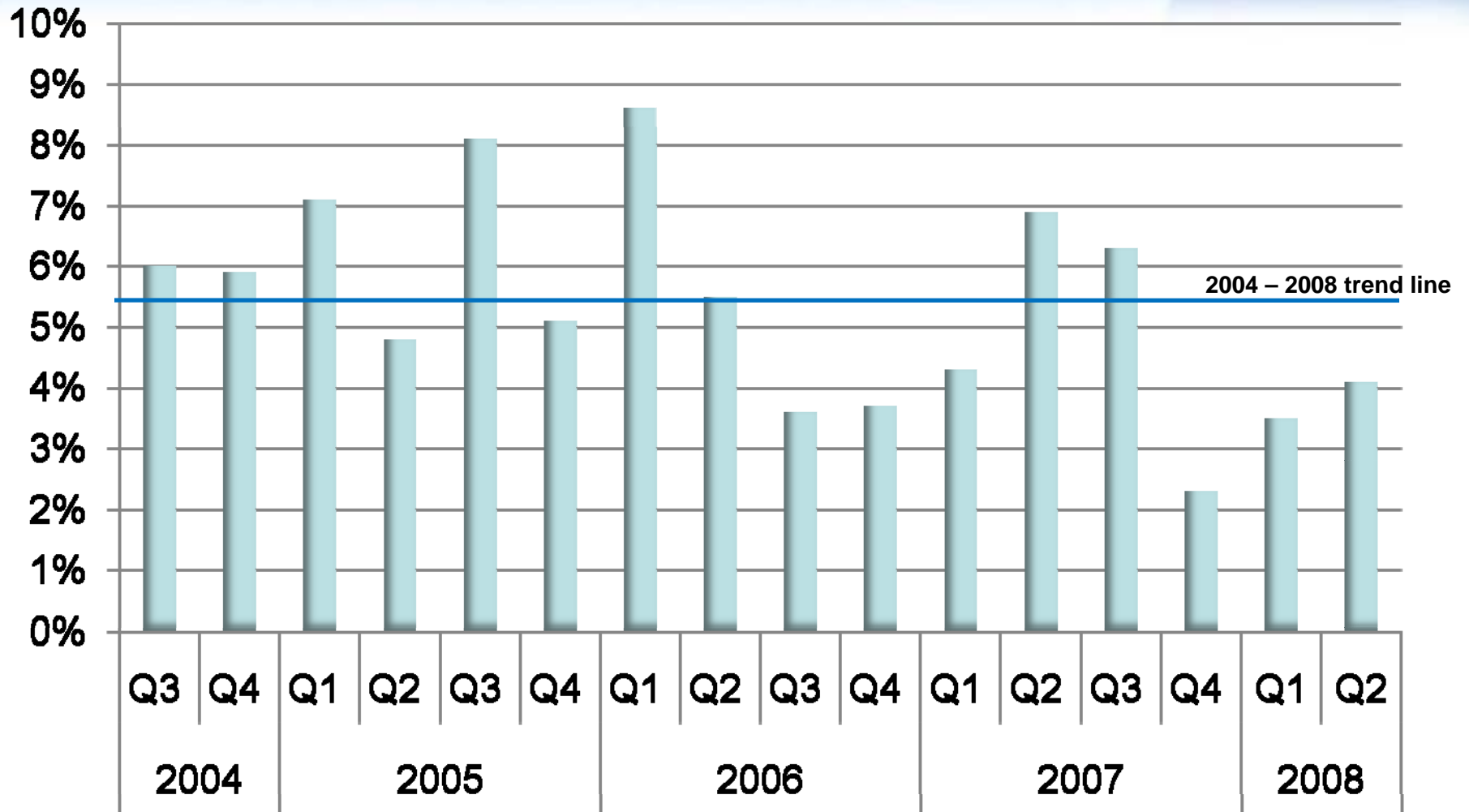


# Credit market dislocation of historic proportions



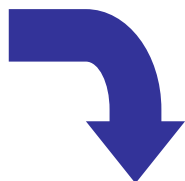
# Several years of strong economic growth

GDP Growth

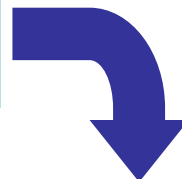


# The Storm has hit... “Rolling Thunder”

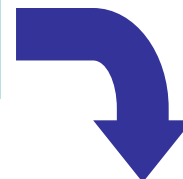
Home prices falling



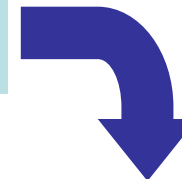
Sub-prime securitization  
crisis



Loss of confidence in  
rating agencies

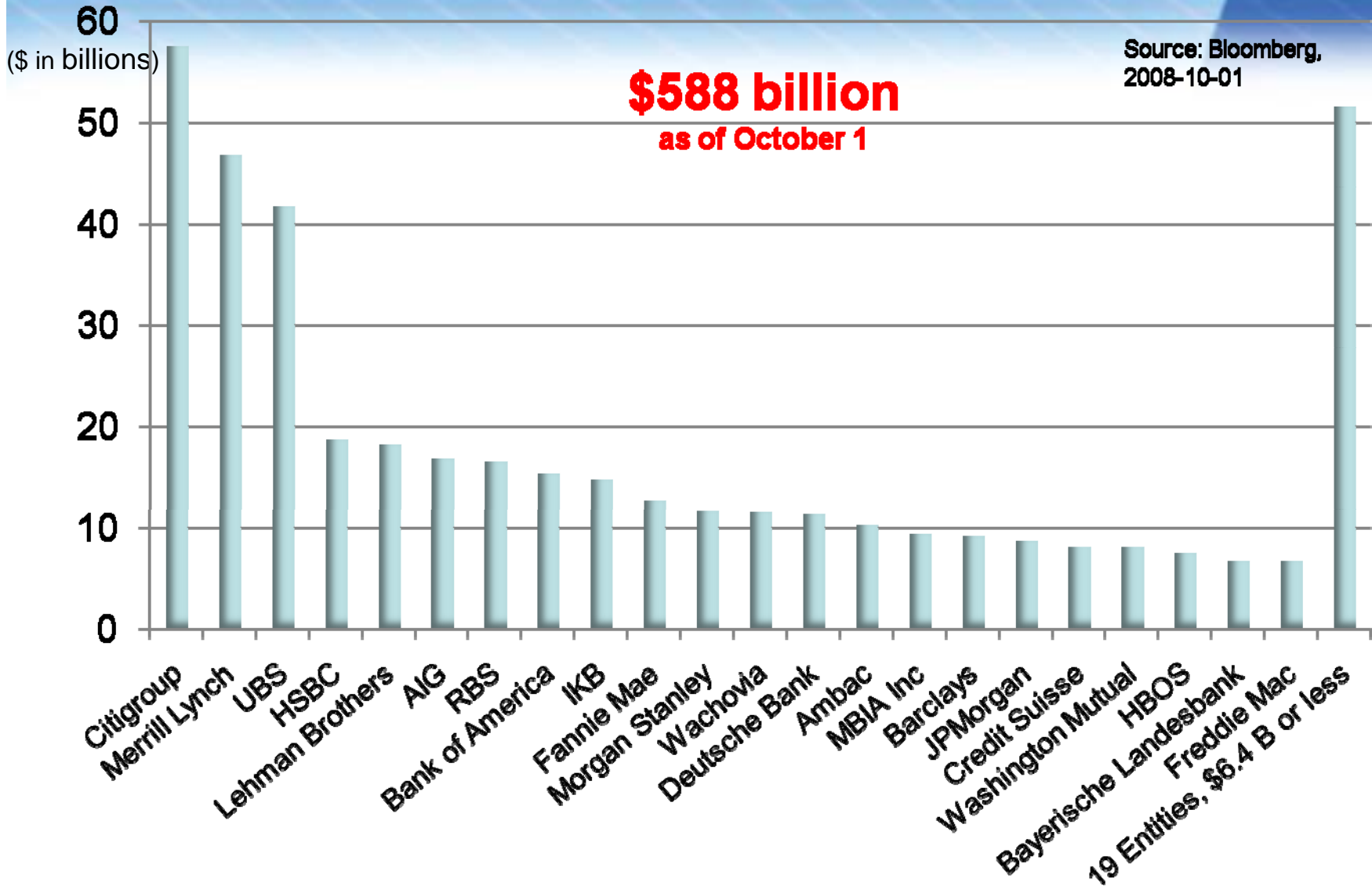


Other asset classes  
affected



Frozen credit markets

# Historic sub-prime related write-downs

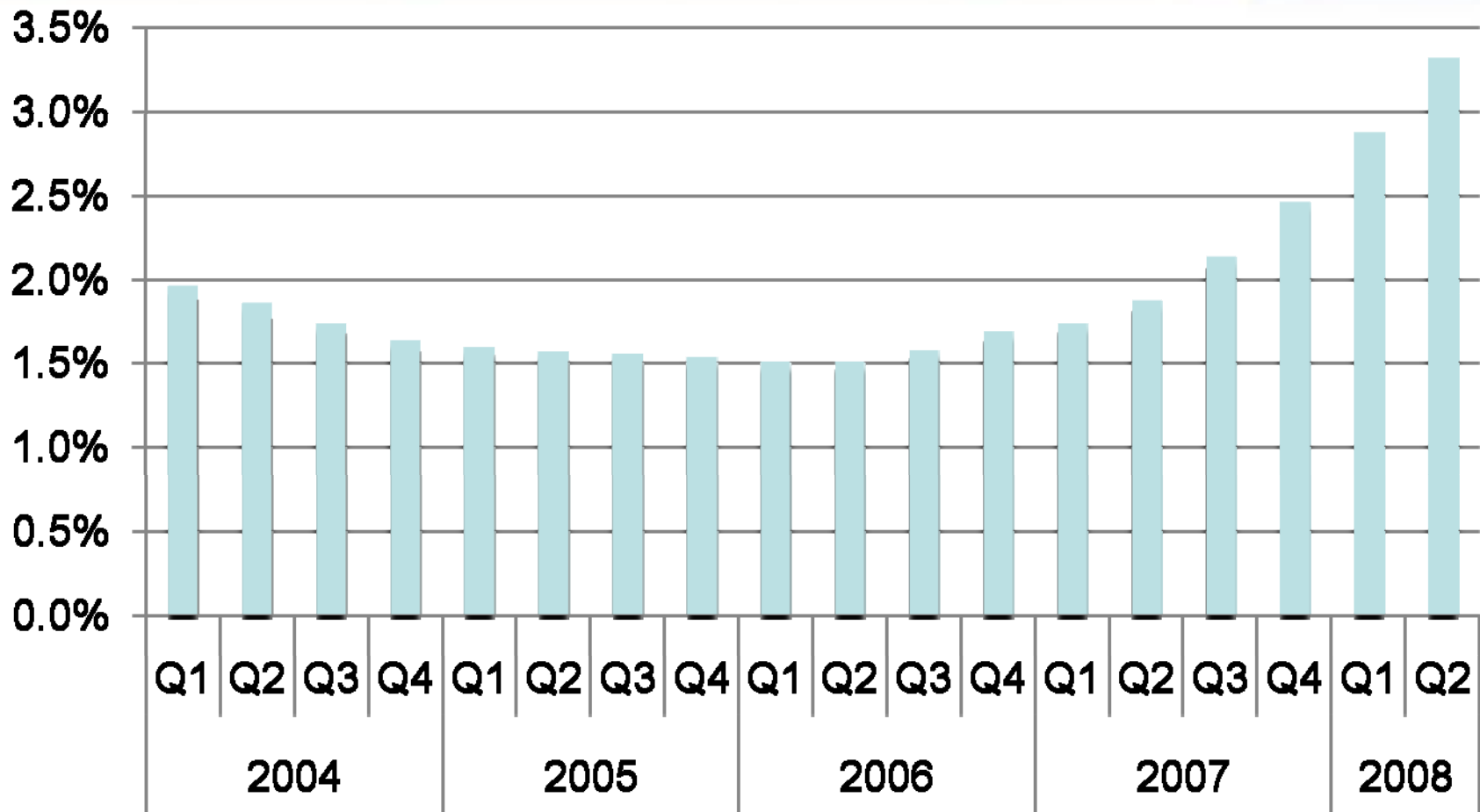


# Reduction of global lending capacity

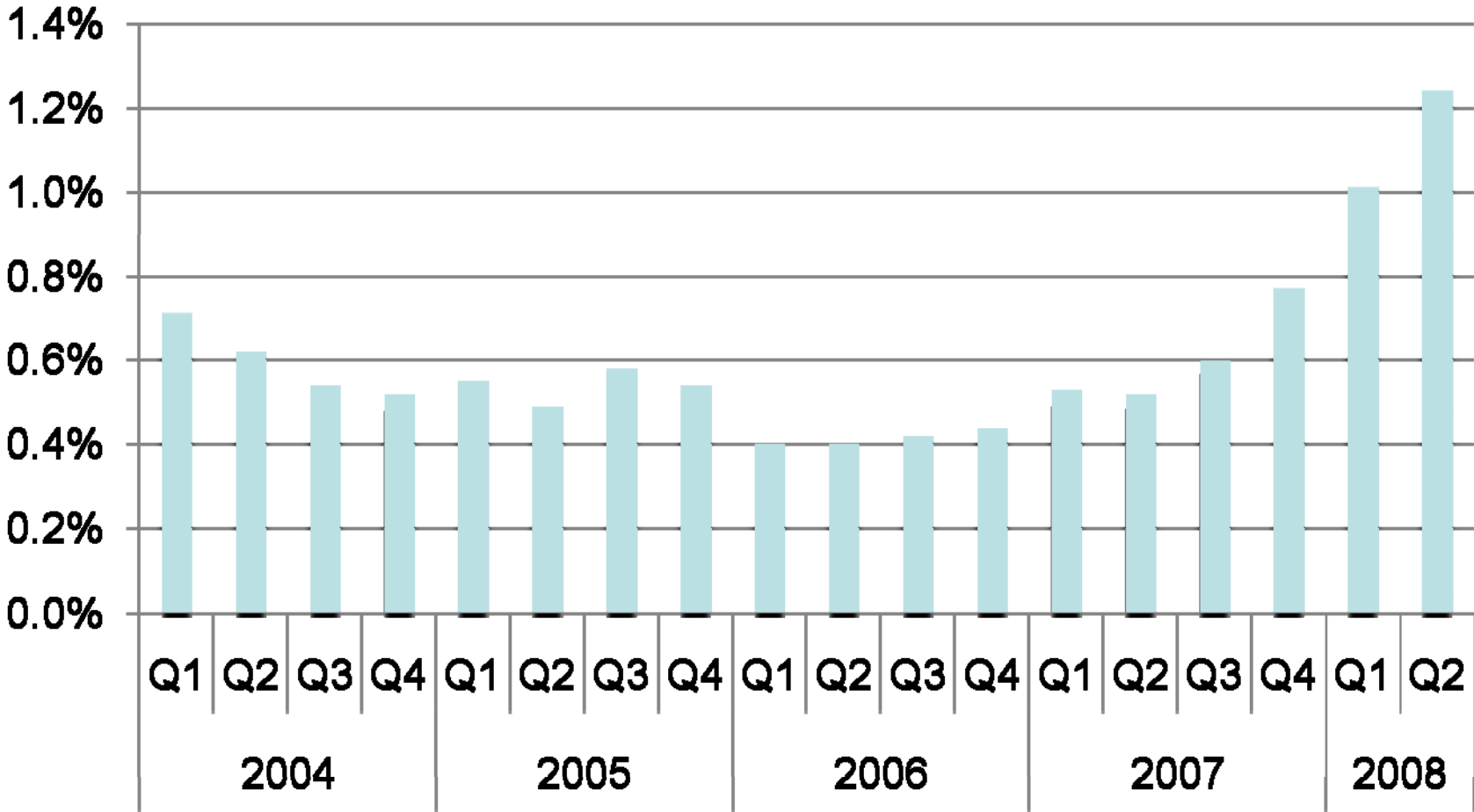
- Global write-downs: \$588 billion equity
- Assumed leverage: 11.5x
- Estimated global lending capacity removed:  $\$588 \times 11.5 = \$6.7$  trillion

The impact on capacity is bigger than the headline numbers

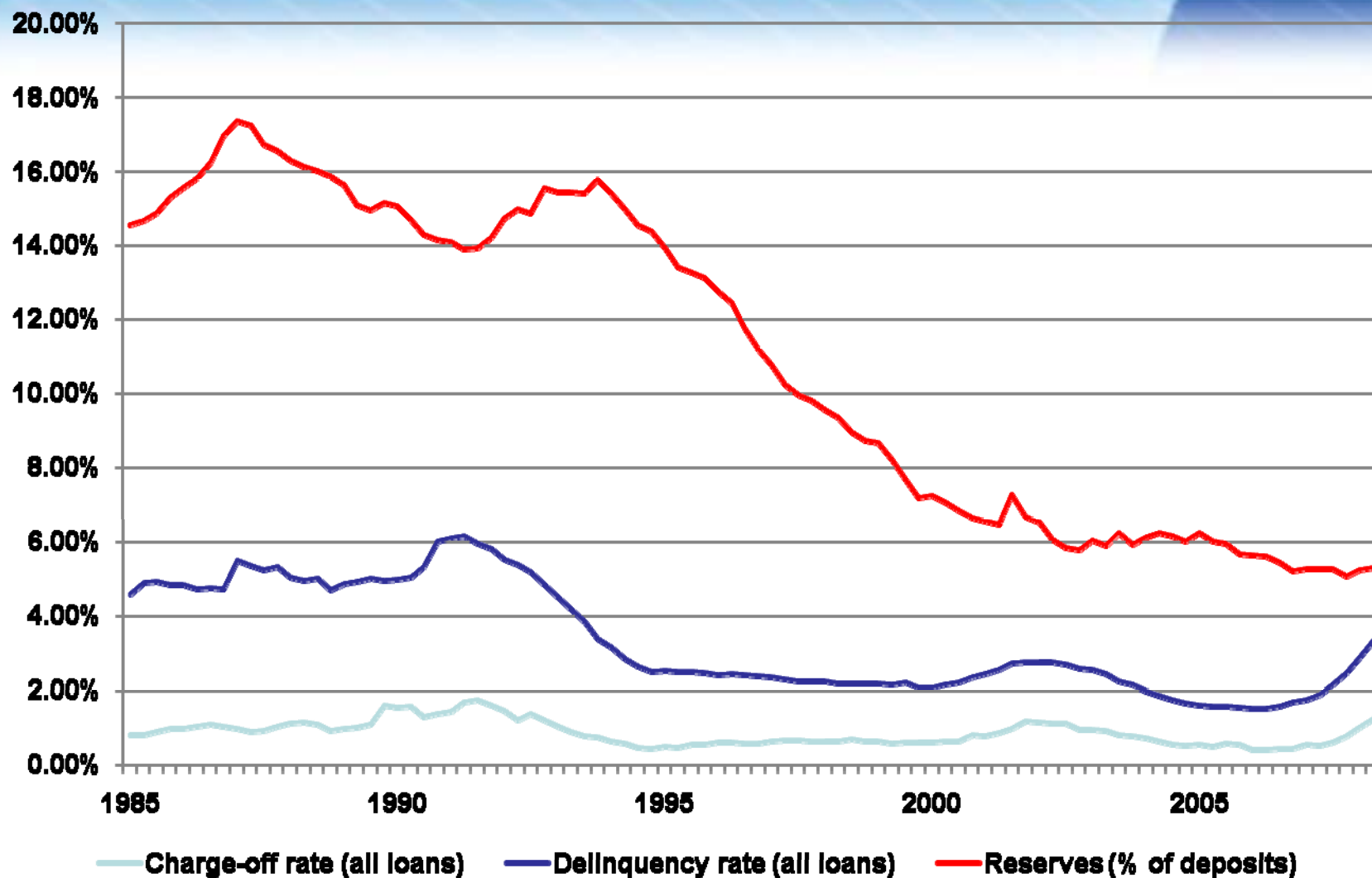
# U.S. banks – quarterly delinquency



# U.S. banks – quarterly charge offs



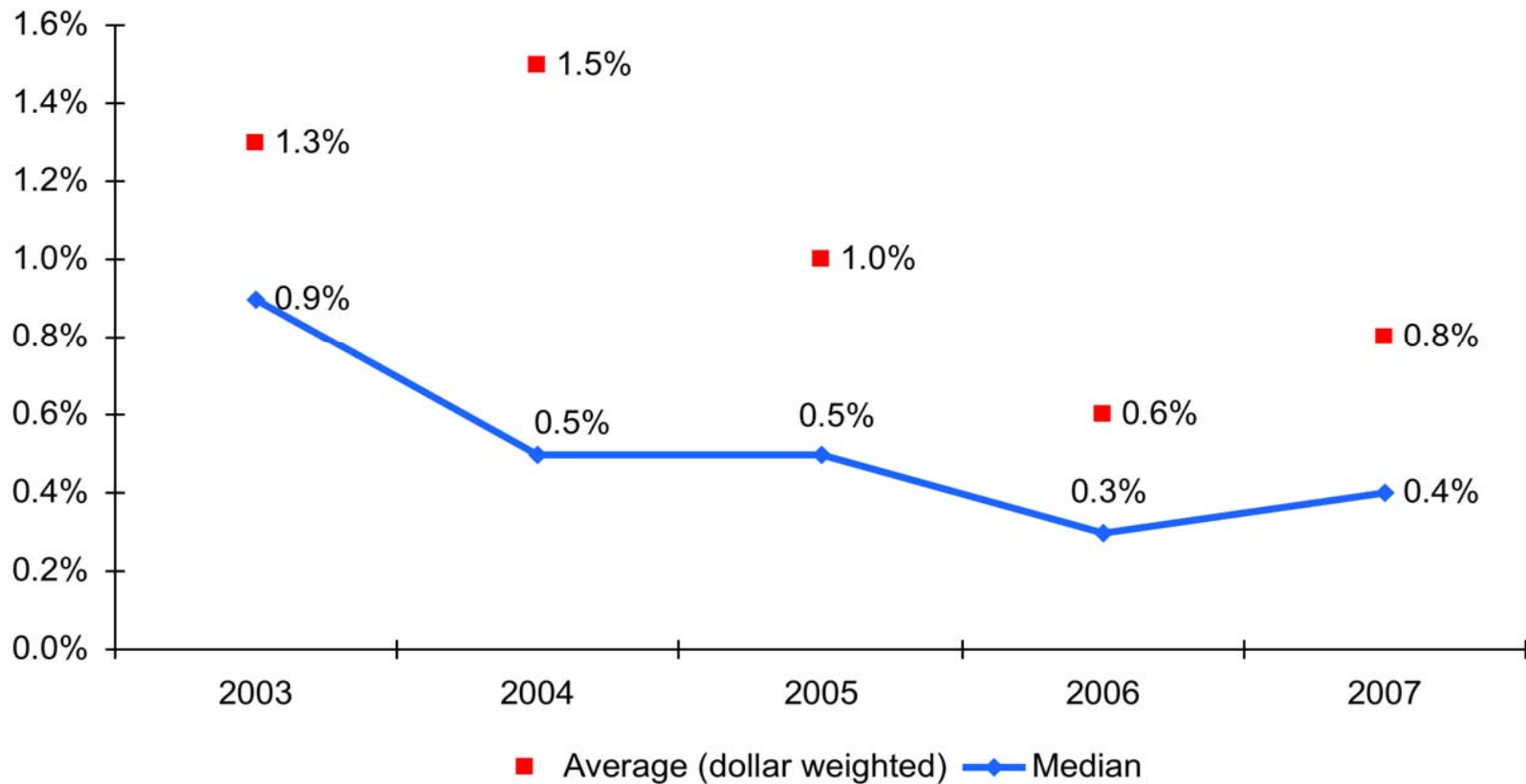
# U.S. Banks: Charge-offs, Reserves and Delinquencies



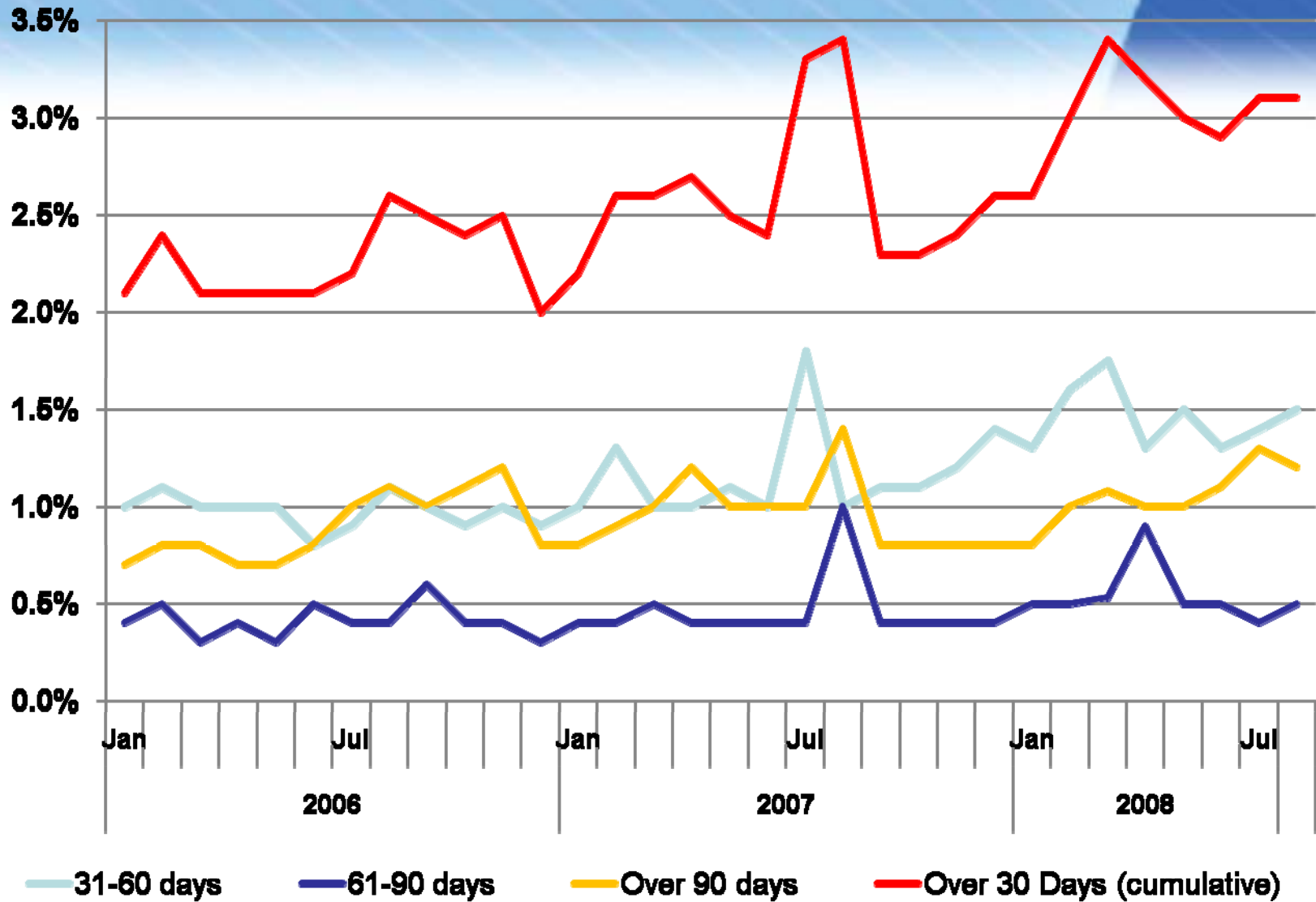
# U.S. equipment finance industry charge-offs have increased only slightly

## Full-Year Loss (Charge-Offs)

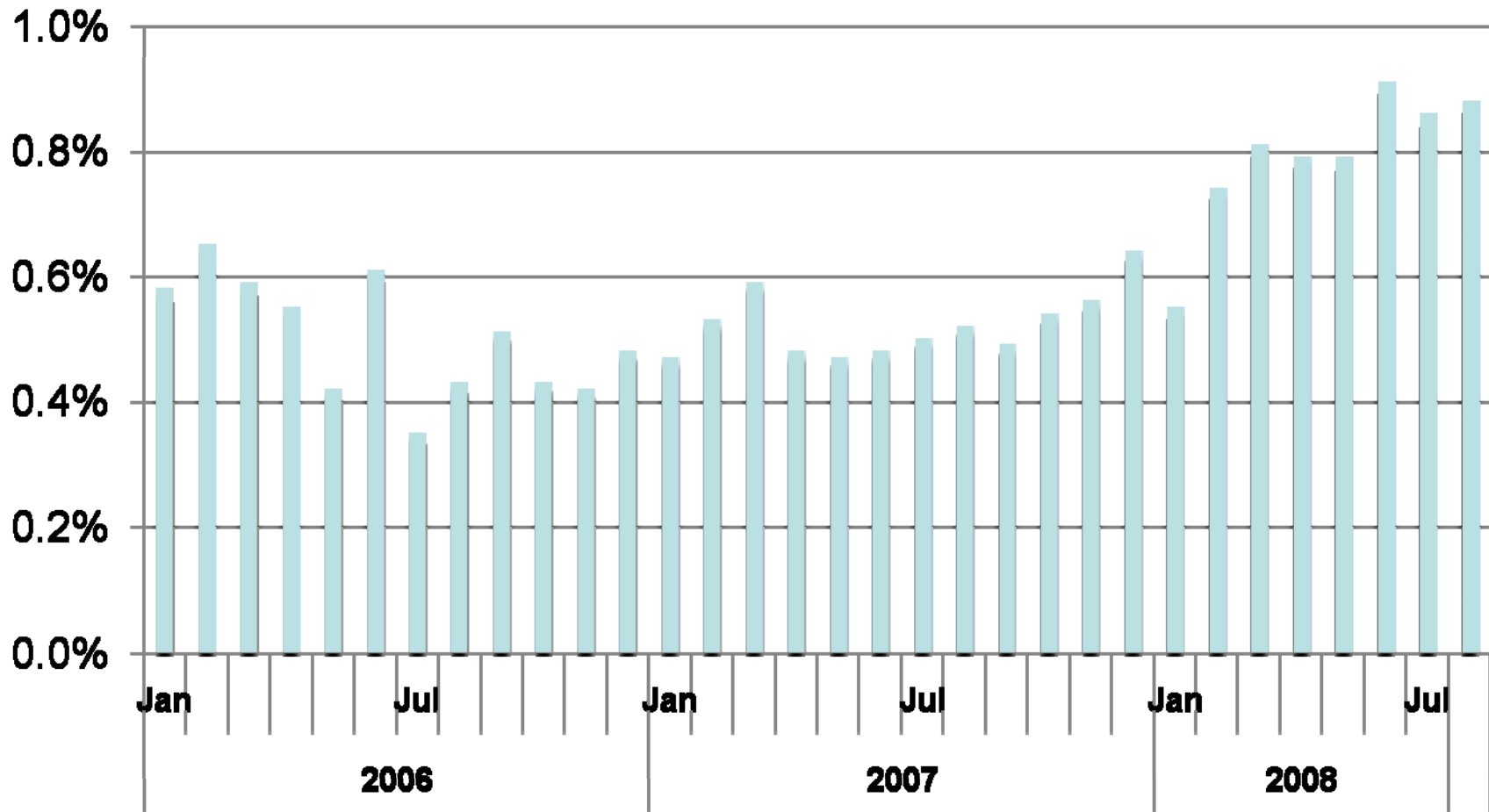
% of Net Receivables



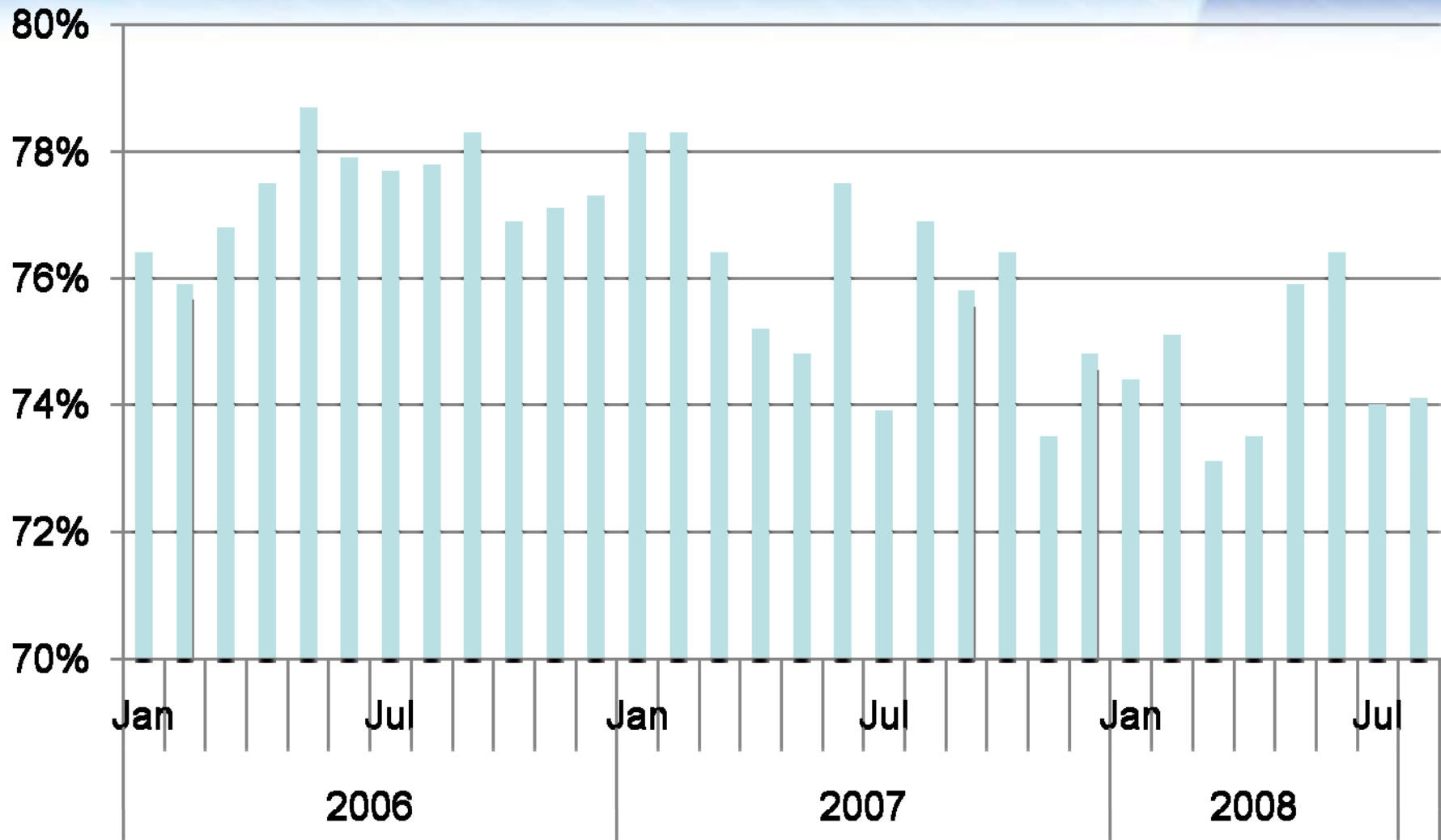
# U.S. equipment finance past due receivables



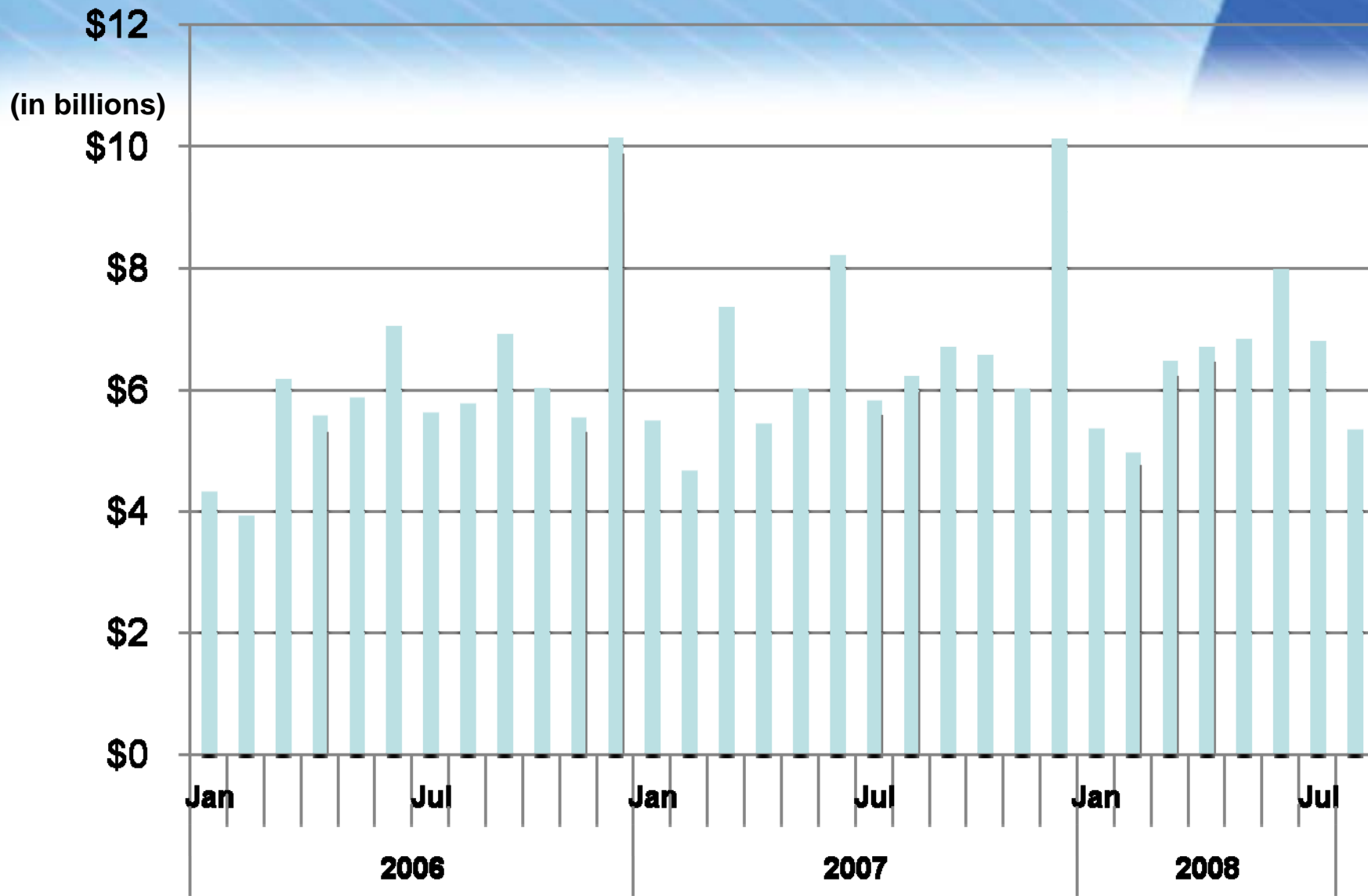
# U.S. equipment finance losses (charge-offs) as a % of net receivables



# Credit approval ratios as % of all applications

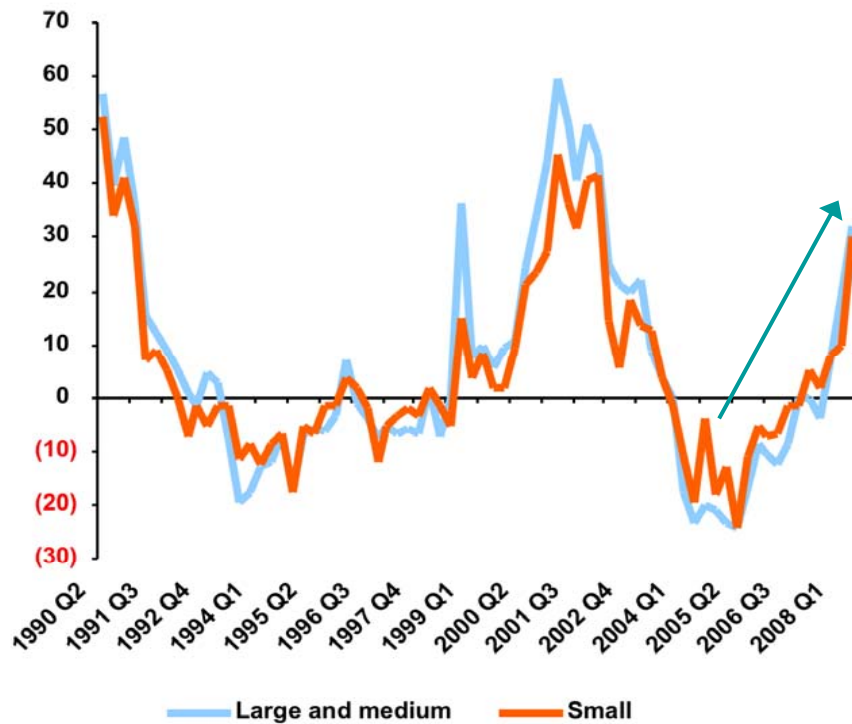


# Equipment finance originations remain steady

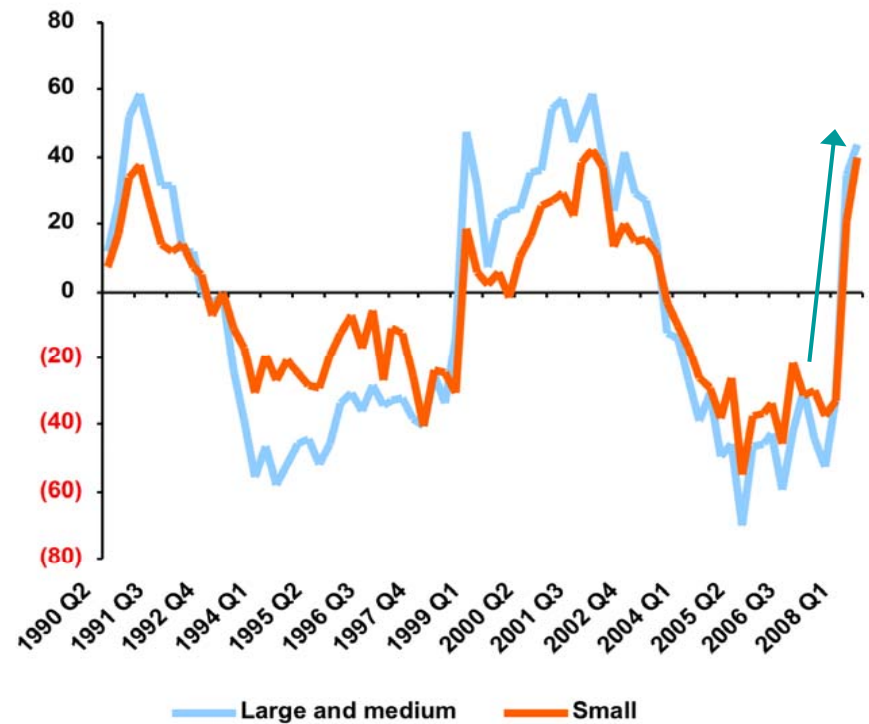


# U.S. banks tighten lending standards

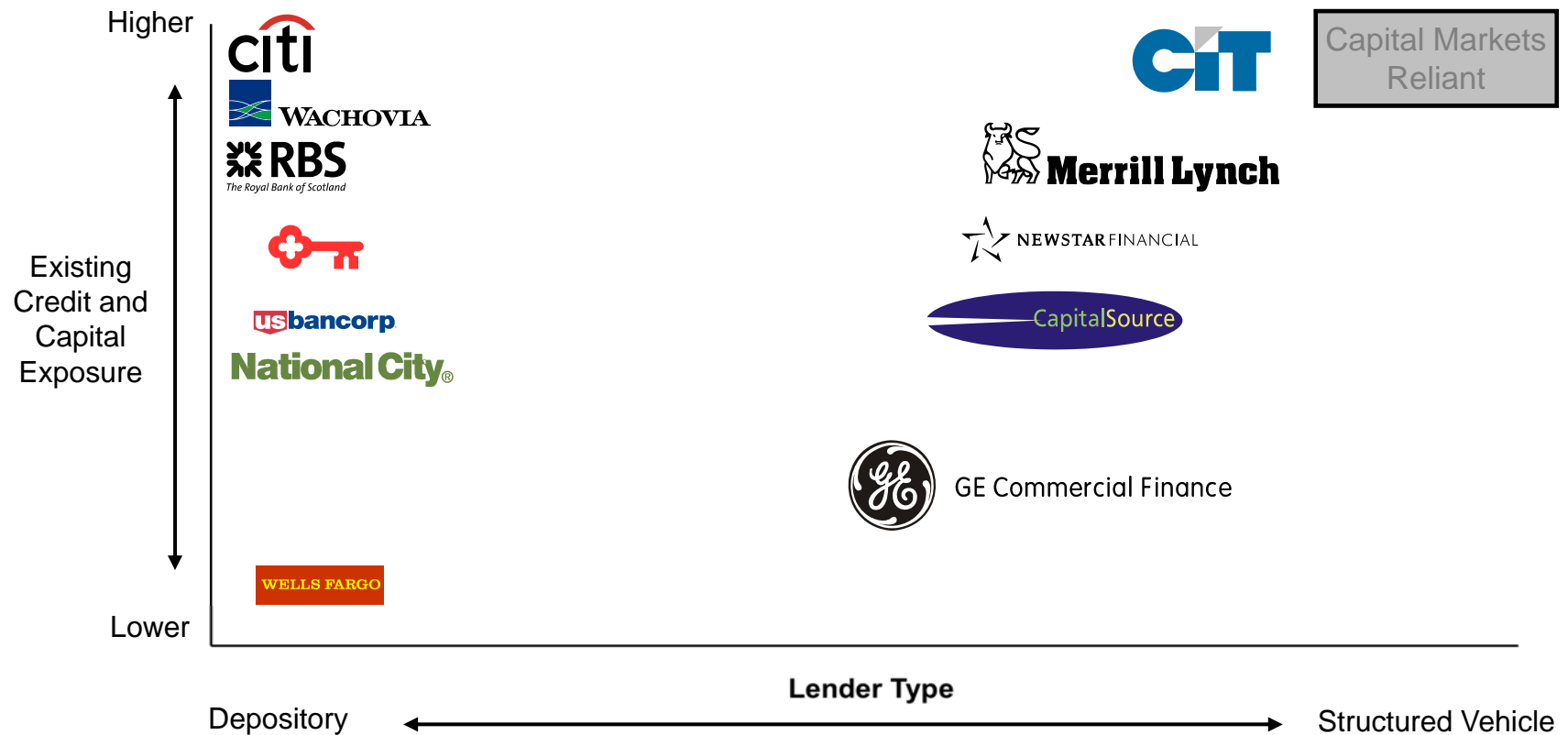
Net % of Bank Respondents Tightening Standards for C&I Lending



Net % of Bank Respondents Increasing Spreads of Loan Rates Over Banks' Costs of Funds

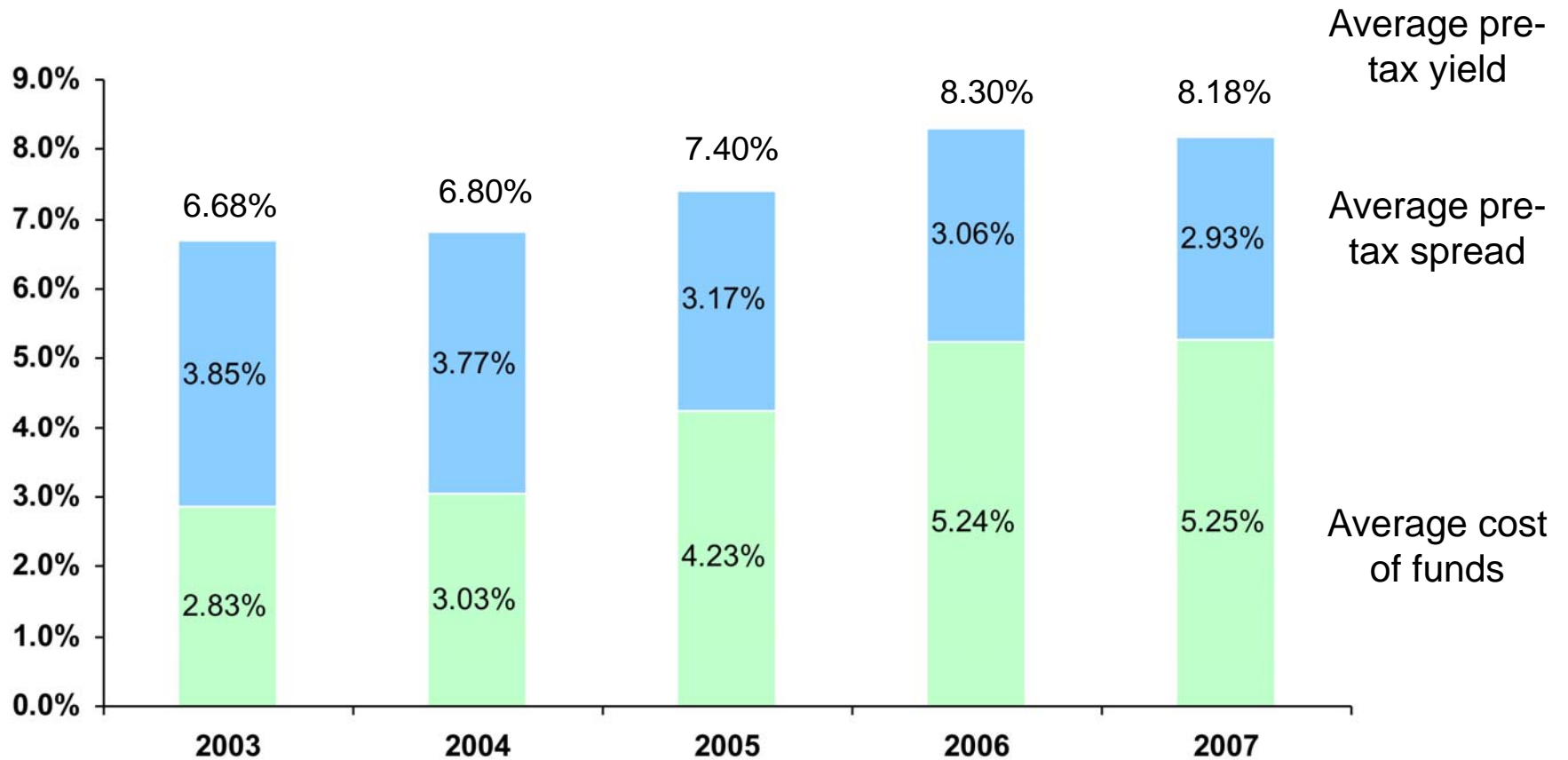


# The equipment leasing and finance industry is capital constrained...



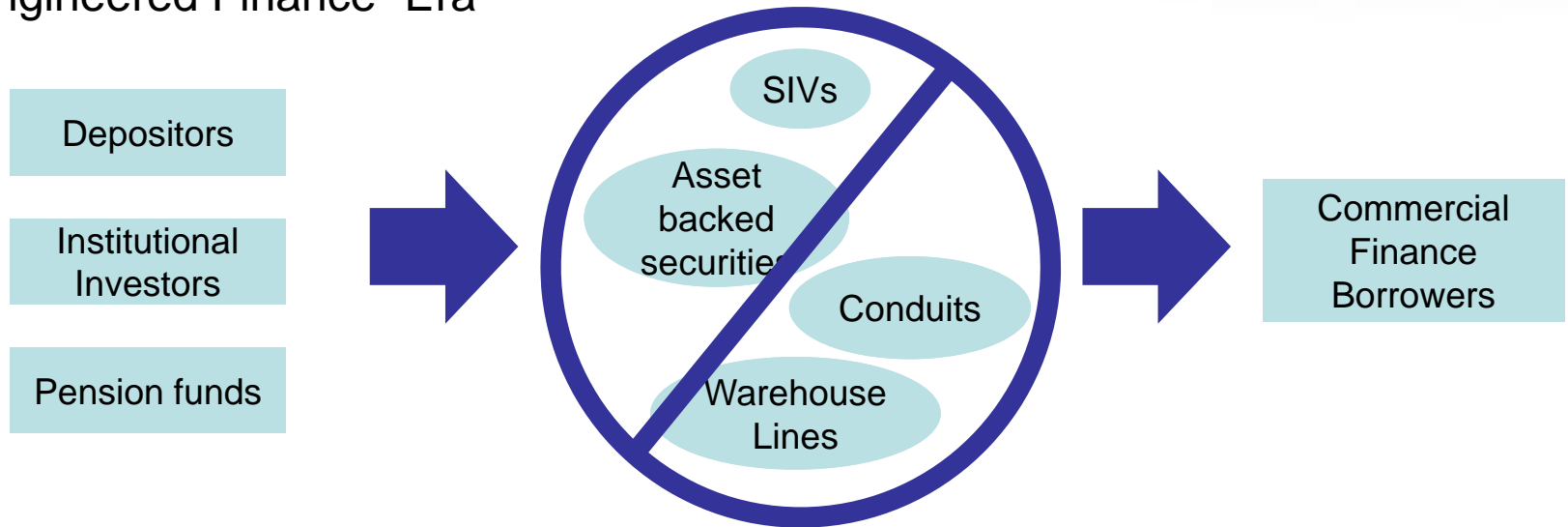
...Creating both opportunities and challenges.

# Years of tightening U.S. equipment finance spreads

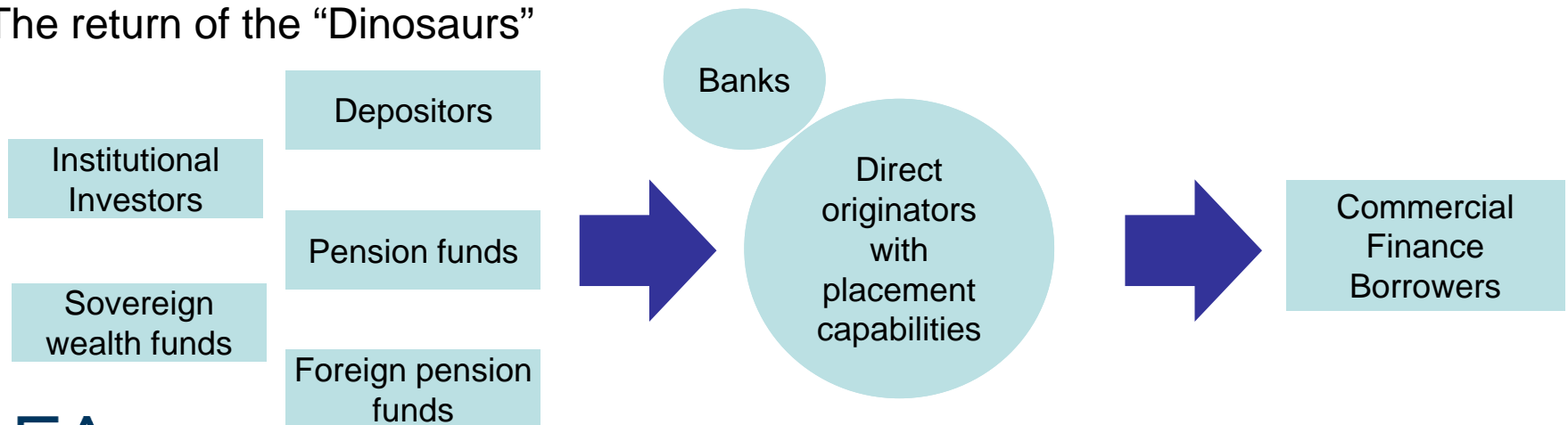


# “Back to the future?”

## The “Engineered Finance” Era



## The return of the “Dinosaurs”



## 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

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 subtle grid pattern of white lines.

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 a lighter blue on the left to a darker blue on the right.