



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

Objectives

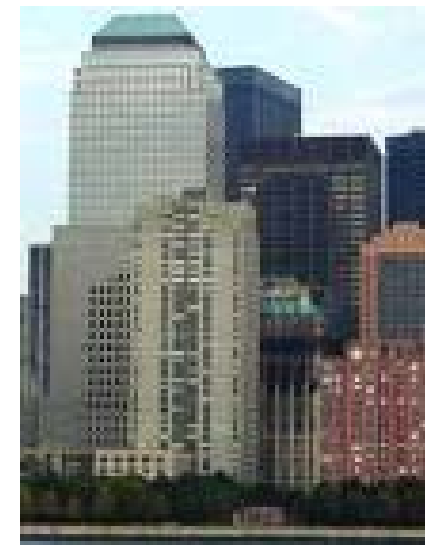
- U.S. equipment finance marketplace, 2008 overview
- U.S. mortgage crisis, recent developments and current situation
 - U.S. equipment finance industry performance trends (winners and losers)
- Equipment Leasing and Finance Association (ELFA)
 - Initiatives and new plans
- Business strategies and trends in U.S. marketplace (discussion?)
 - New product developments and operating models
- Issues facing U.S. lenders
 - Proposed accounting rule changes
- U.S. politics
 - Election, Obama, etc.
- Other topics

Proposed presentation order

- ELFA
- U.S. credit crisis
- U.S. economy statistics
- U.S. equipment finance statistics
- Obama & U.S. politics
- U.S. business strategy & tactics
- Lease accounting & other topics

Three sectors of leasing companies

- Bank-owned lessors
 - Banc of America Leasing
 - CitiCapital
 - Chase Equipment Leasing
- Captive or vendor financing companies
 - IBM Global Financing
 - Siemens Financial Services
 - Volvo Financial Services
- Independents
 - First American Equipment Finance
 - GE Commercial Finance
 - GATX Financial Corporation



Bank-owned lessors

- Strong brand awareness
- Potential to grow existing depository relationships, through leases, loans or lines of credit
- Generally risk-adverse



Captive or vendor financing companies

- Primary purpose is the financing of its parent's products



- Major objective is to assist the sales process

- Willing to take a greater residual position in its own products



Independent leasing companies

- Service-oriented
- Finance equipment solely on its merits and the financial strength of the lessee



- Will frequently specialize in certain types of assets

- Have the flexibility to craft creative structures



Hon. Kenneth E. Bentsen, Jr. President, ELFA



ELFA

Equipment Leasing and Finance Association



- U.S. \$650B per year industry
- 25 Full-time employees
- 750 member companies
- 1/3 service providers;
2/3 regular members



Markets served by ELFA member companies

- **Large Ticket** (Transaction sizes over \$5mm)
- **Middle Market** (Transaction sizes \$250k - \$5mm)
- **Small Ticket** (Transaction sizes \$25k - \$250k)
- **Micro Ticket** (Transaction sizes \$1 - \$25k)
- **Vendor or Captive Finance** (Finances parent's products)
- **Service Provider** (Accounting firms, law firms, tax advisors, technology consultants)

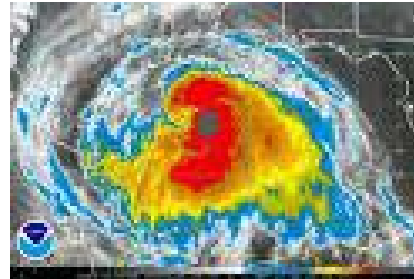
ELFA three-year business plan

- Industry communication
- Industry data
- Advocacy (state and federal)
- Professional development
- Meetings and conferences
- Best Practices (legal, accounting, H/R, IT)
- Industry reputation and business practices

New ELFA initiatives

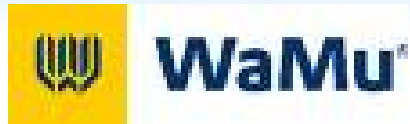
- Establish new technologies for **improved member communication**
 - Regional town hall meeting and social networking through virtual technologies
 - Customized website access
- Further **expand state government affairs resources**
 - Identification of issues warranting Association involvement
 - Tax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

The US Economy



The Acquired

The Acquirers

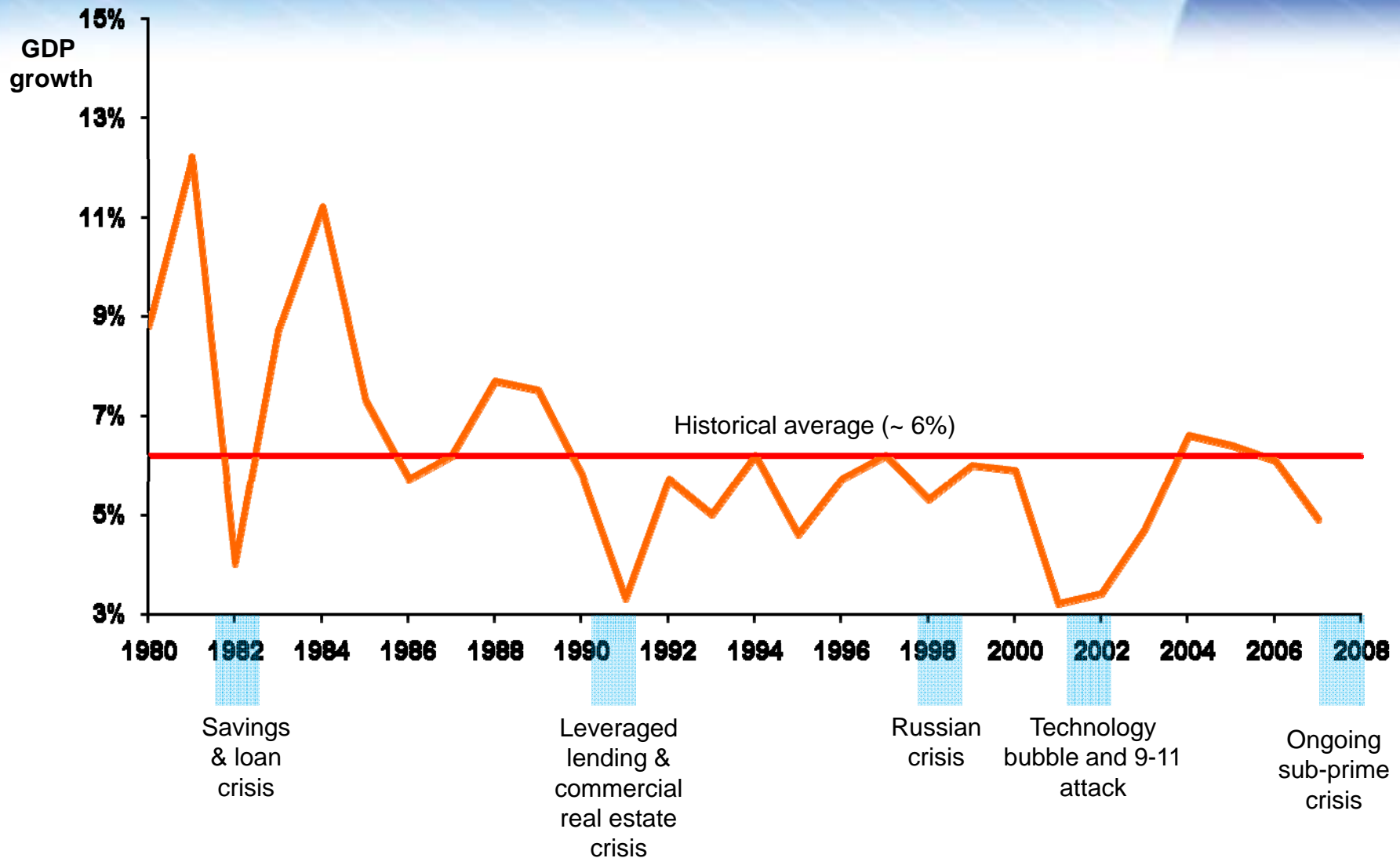


LEHMAN BROTHERS

NOMURA



Credit market dislocation of historic proportions



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

How is this crisis different (from U.S. perspective)?

In the past ...

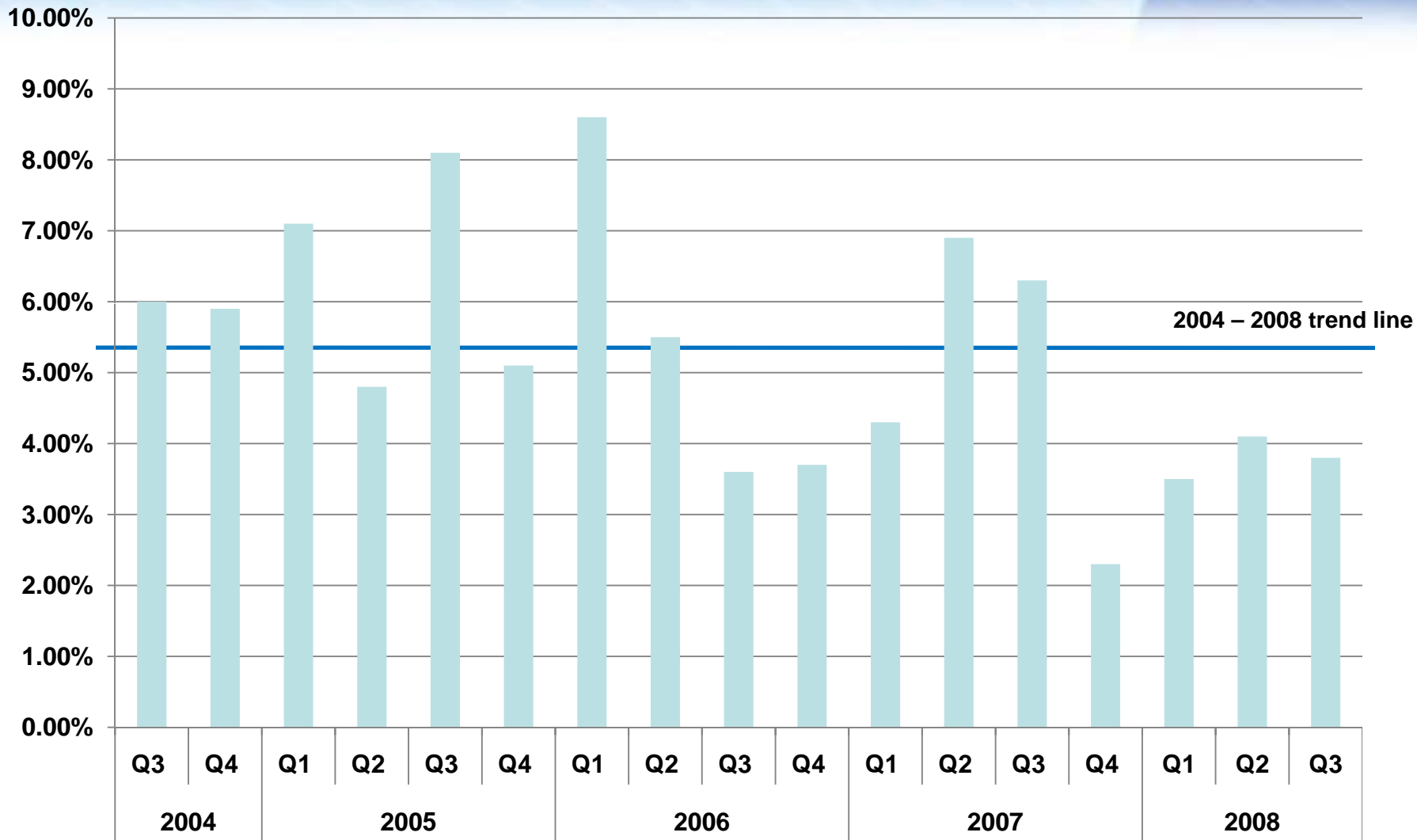
- U.S. Banks were arbiters of limited capital to non-bank equipment finance industry participants
- shortage of capital was the result of an *unwillingness* to lend, not *inability* to lend

Now ...

- scope and magnitude of capital shortage is different, prompting global intervention

Several years of strong economic growth

GDP Growth



Home prices falling

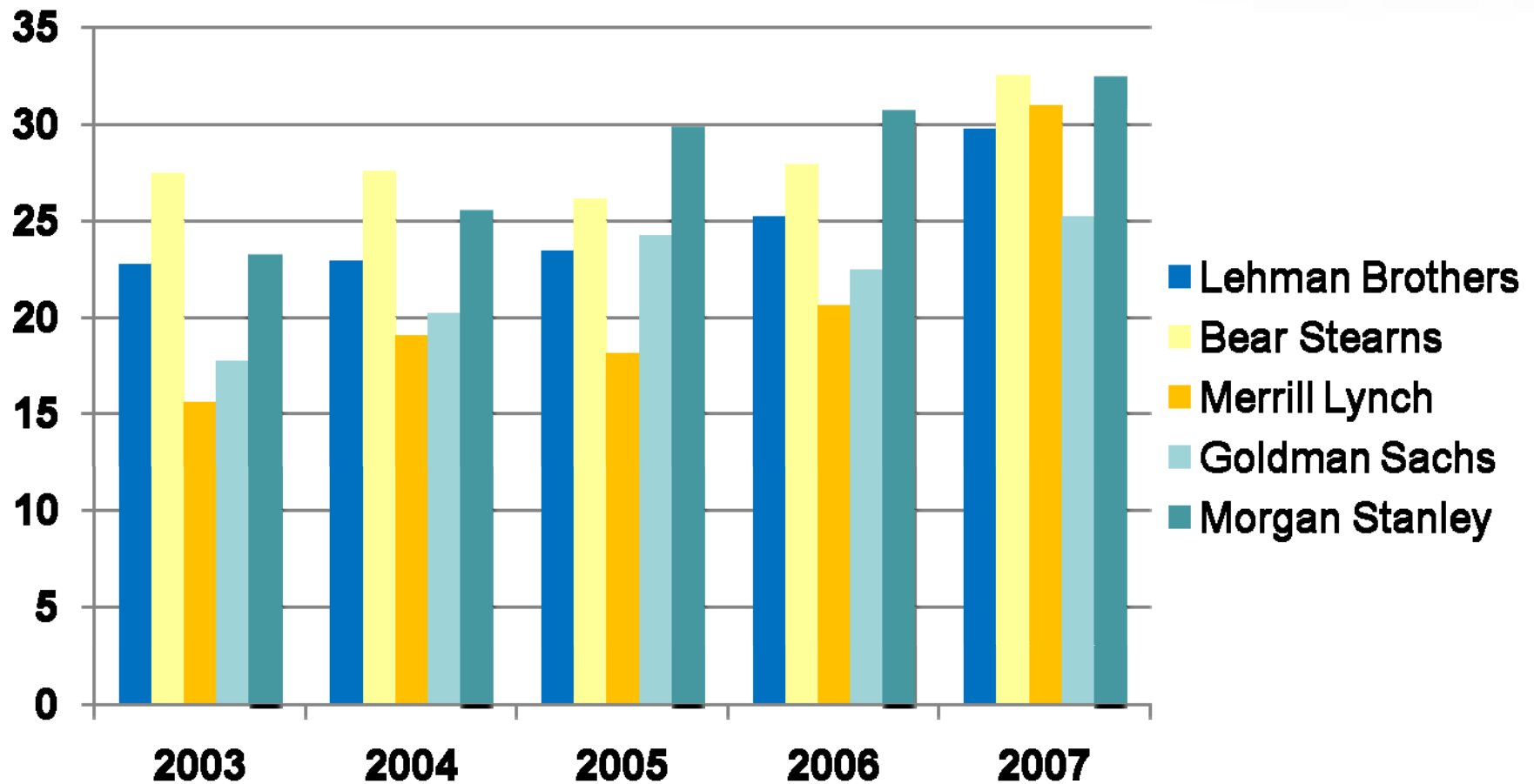
Sub-prime securitization
crisis

Loss of confidence in
rating agencies

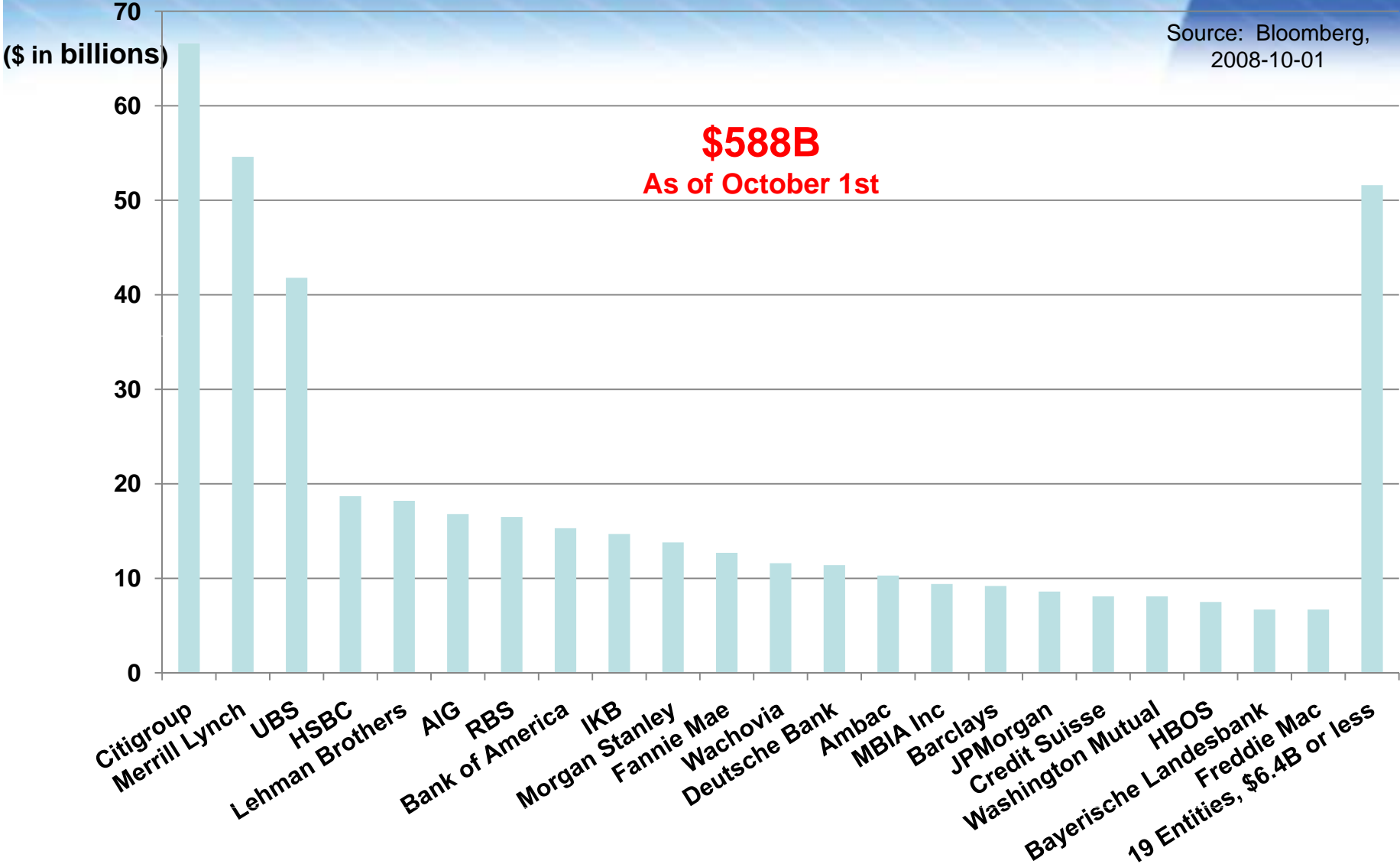
Other asset classes
affected

Frozen structured
credit markets

Leverage Ratios of Major Investment Banks



Historic sub-prime related write-downs

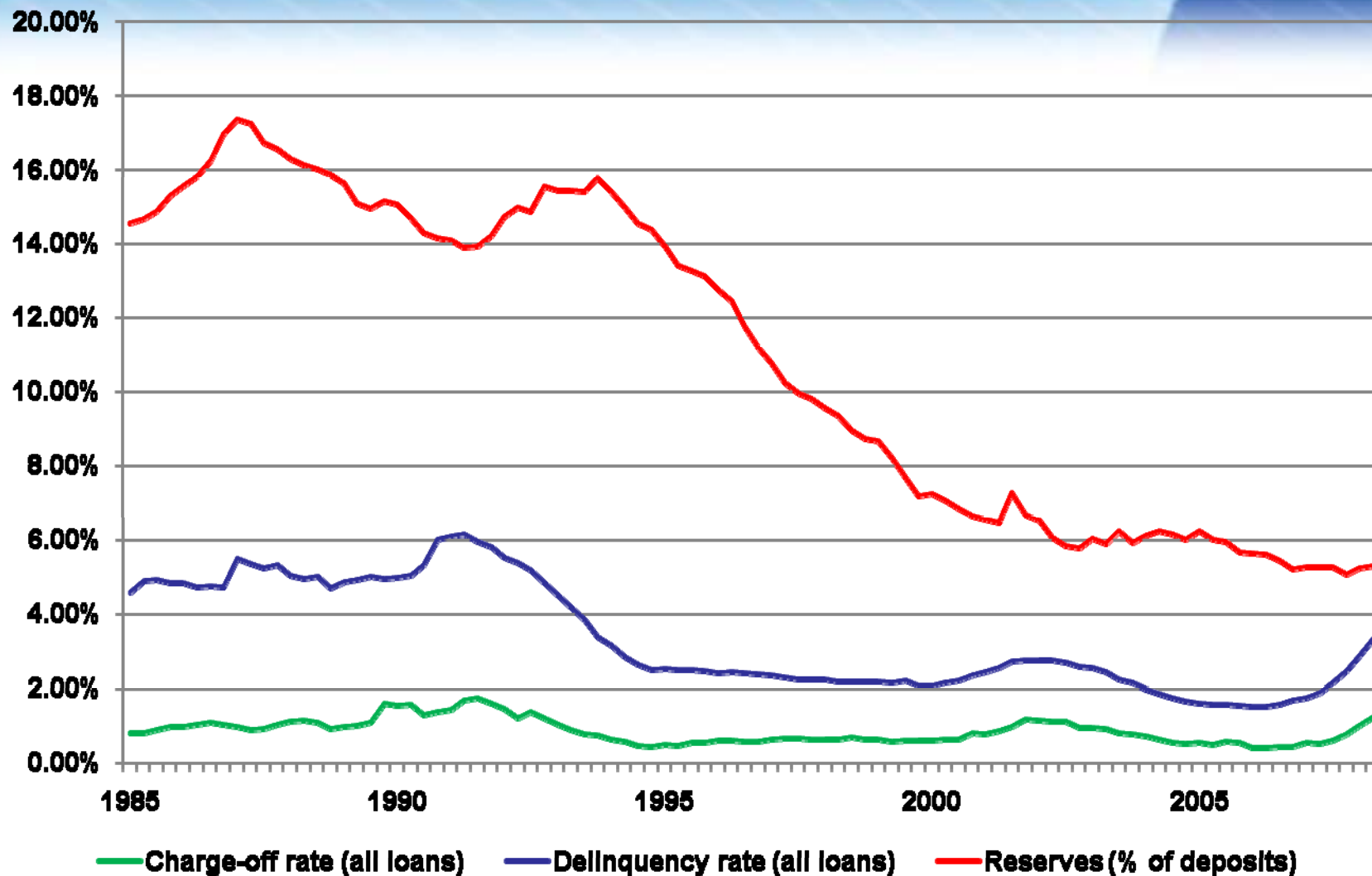


Reduction of global lending capacity

- 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

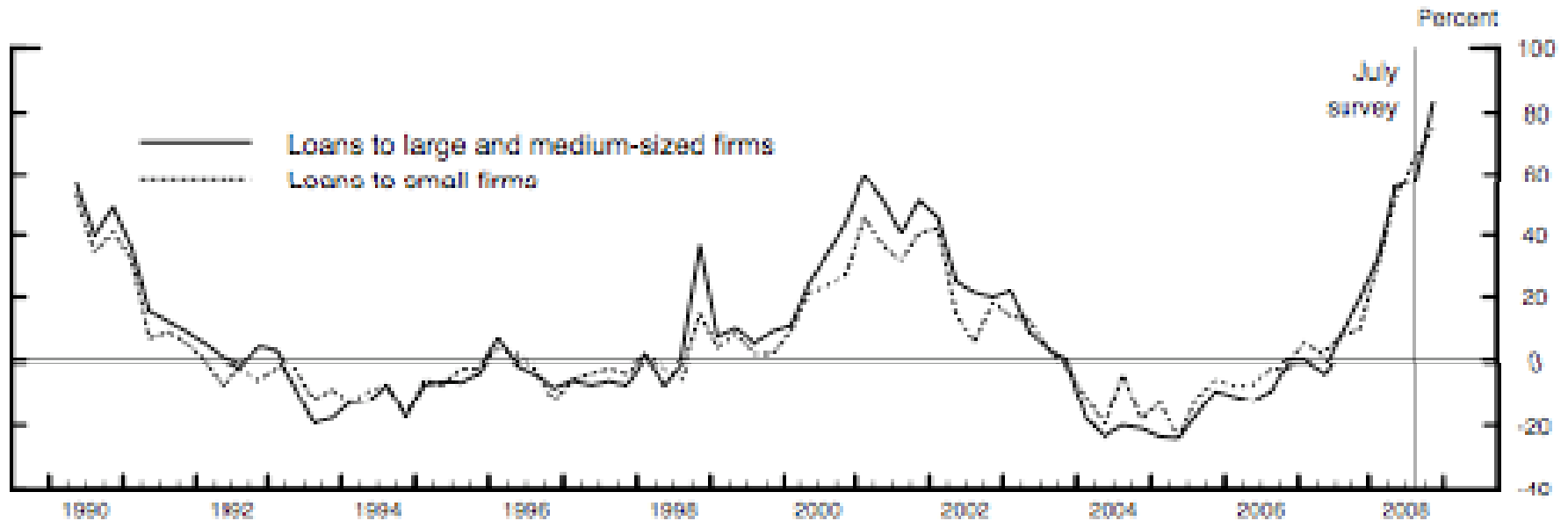
U.S. Banks: Charge-offs, Reserves and Delinquencies



U.S. Federal Reserve Survey

Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

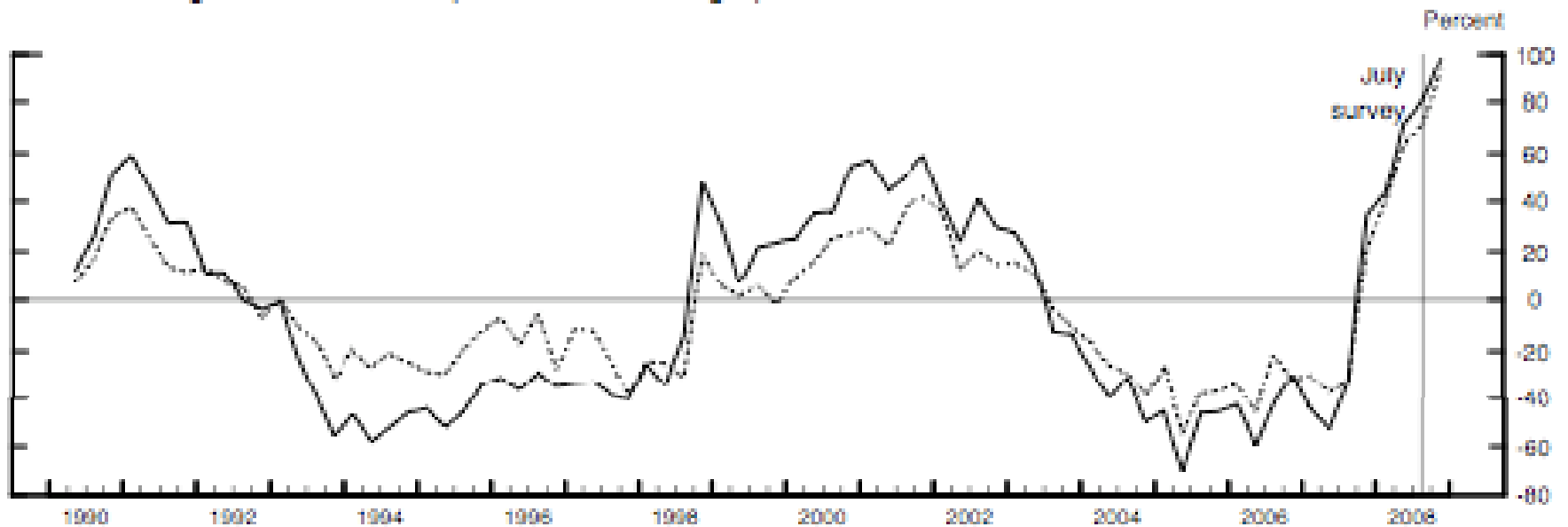
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



U.S. Federal Reserve Survey

Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

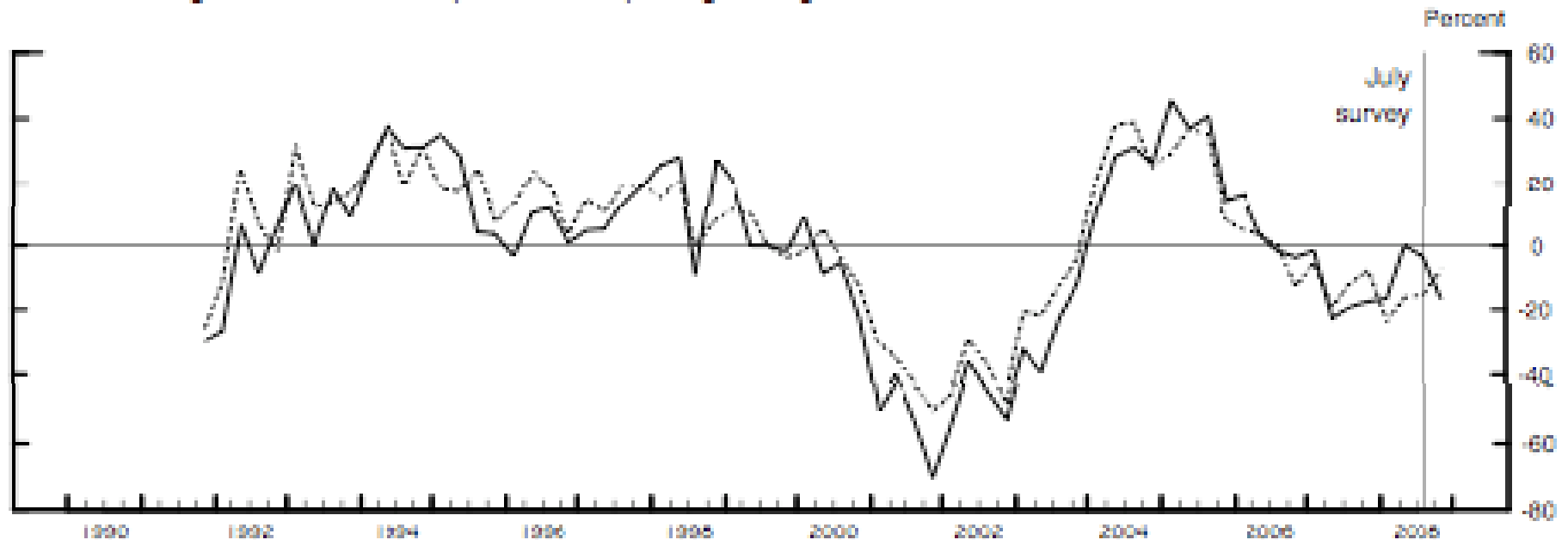
Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds



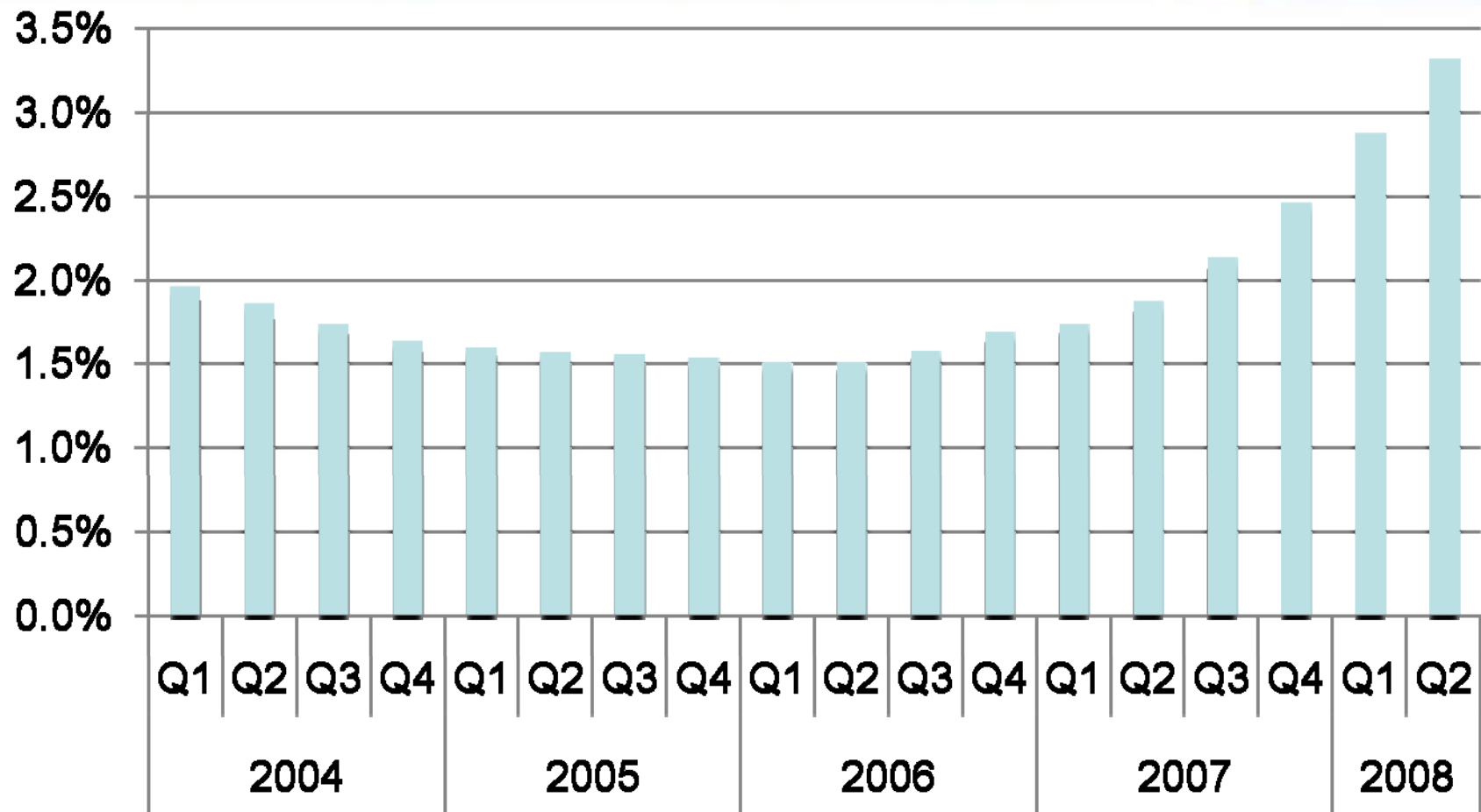
U.S. Federal Reserve Survey

Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

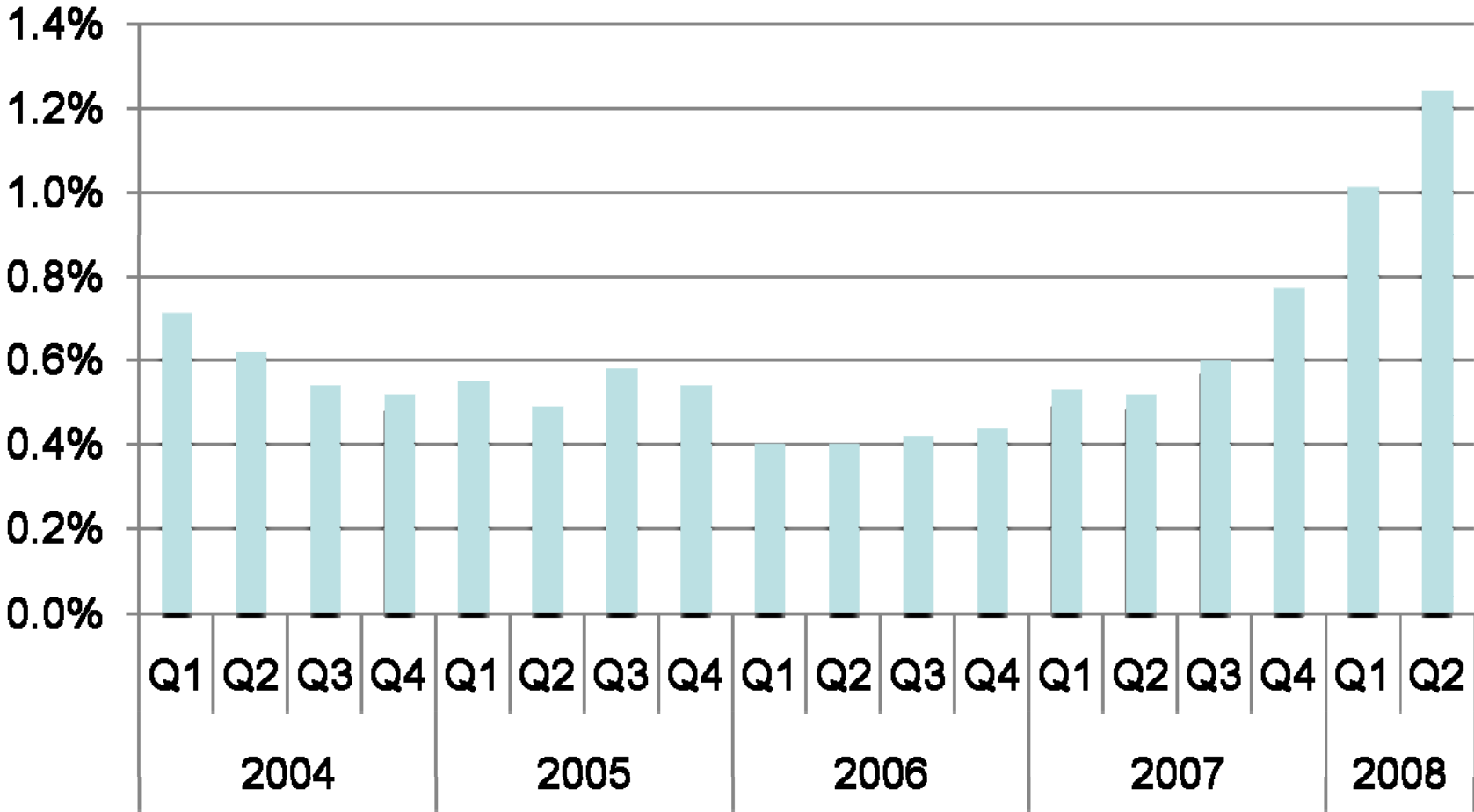
Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



U.S. banks – quarterly delinquency



U.S. banks – quarterly charge offs



U.S. Equipment Finance Industry

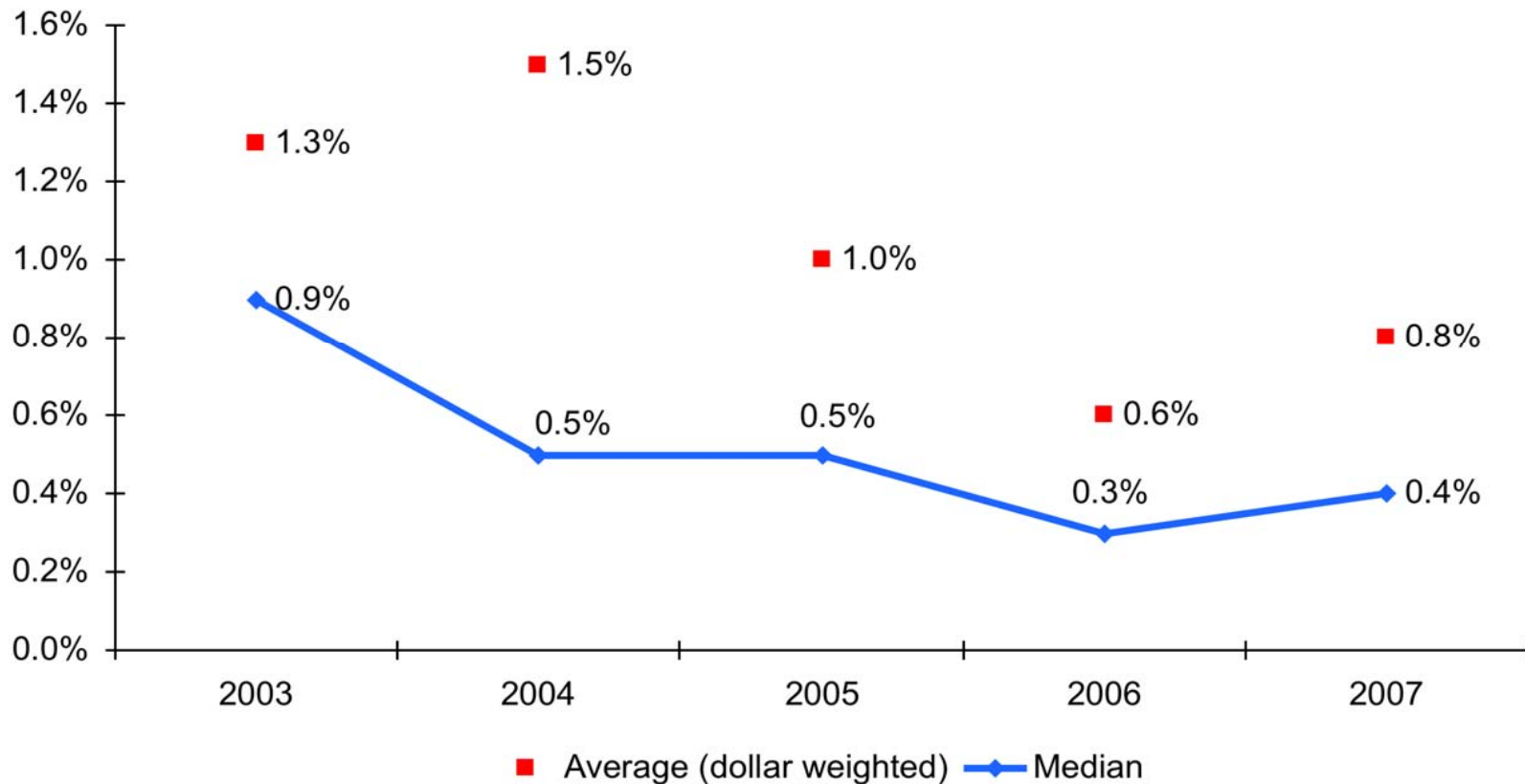
ELFA MLFI 25 Index

- * ADP Credit Corporation
- * Bank of America
- * Bank of the West
- * Canon Financial Services
- * Caterpillar Financial Services
- * CIT
- * Citicapital
- * De Lage Landen
- * Fifth Third Bank
- * First American Equipment Finance
- * GreatAmerica
- * Hitachi Credit America
- * HP Financial Services
- * Irwin Financial
- * John Deere Credit Corporation
- * Key Equipment Finance
- * Marlin Leasing Corporation
- * National City Commercial Corp.
- * RBS Asset Finance
- * Regions Equipment Finance
- * Siemens Financial Services
- * US Bancorp
- * US Express Leasing
- * Verizon Capital Corp
- * Volvo Financial Services
- * Wells Fargo Equipment Finance

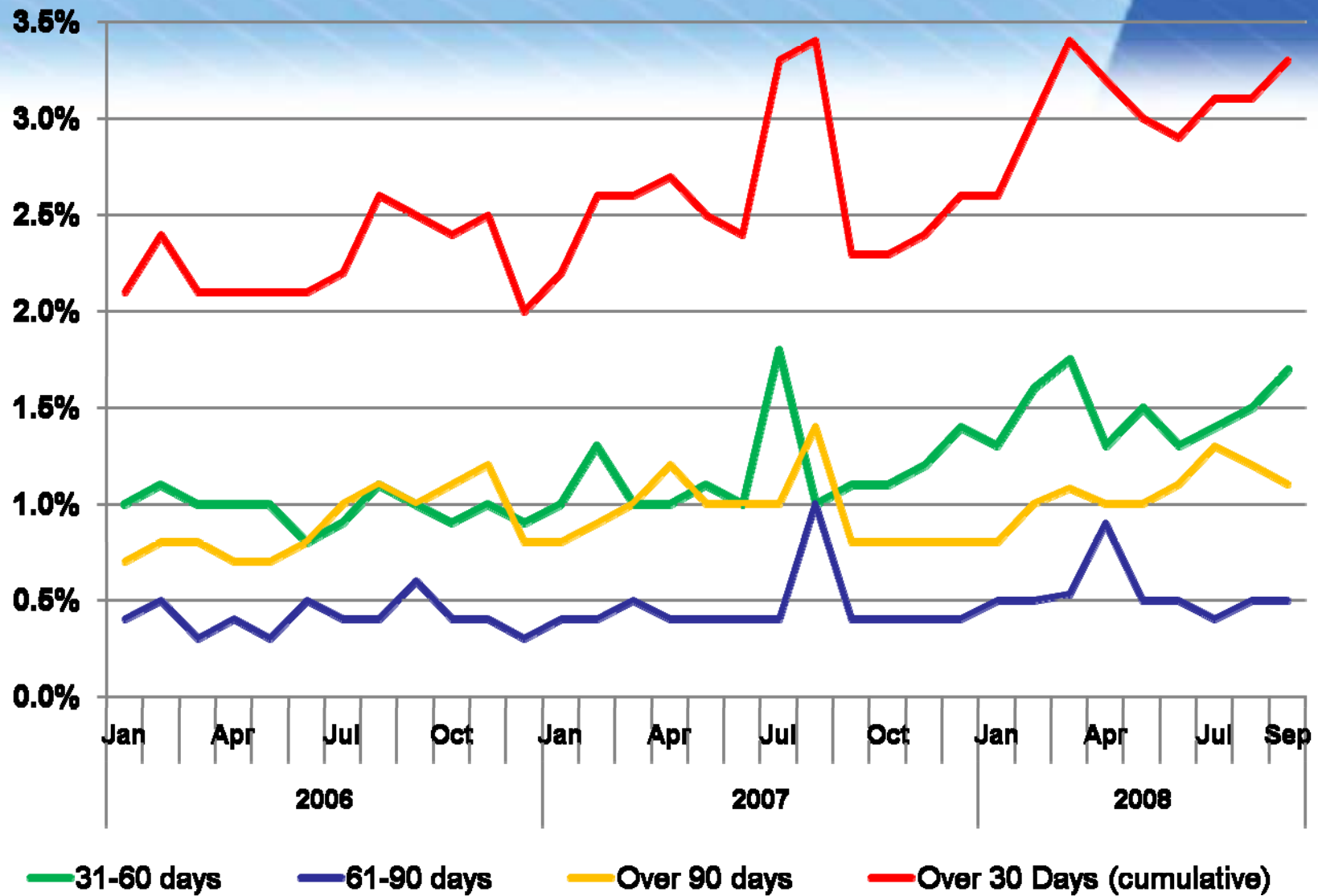
U.S. equipment finance industry charge-offs have increased only slightly

Full-Year Loss (Charge-Offs)

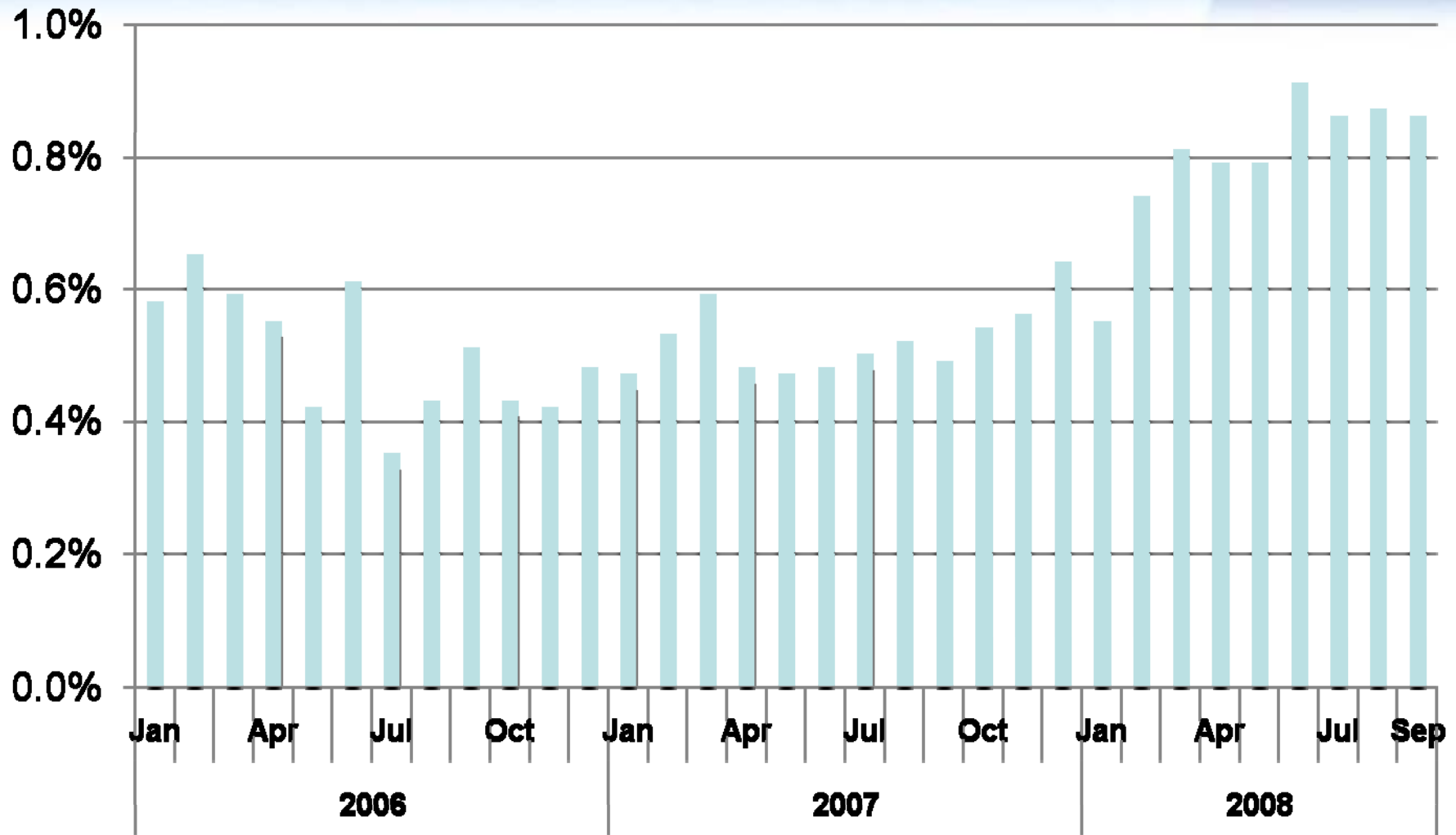
% of Net Receivables



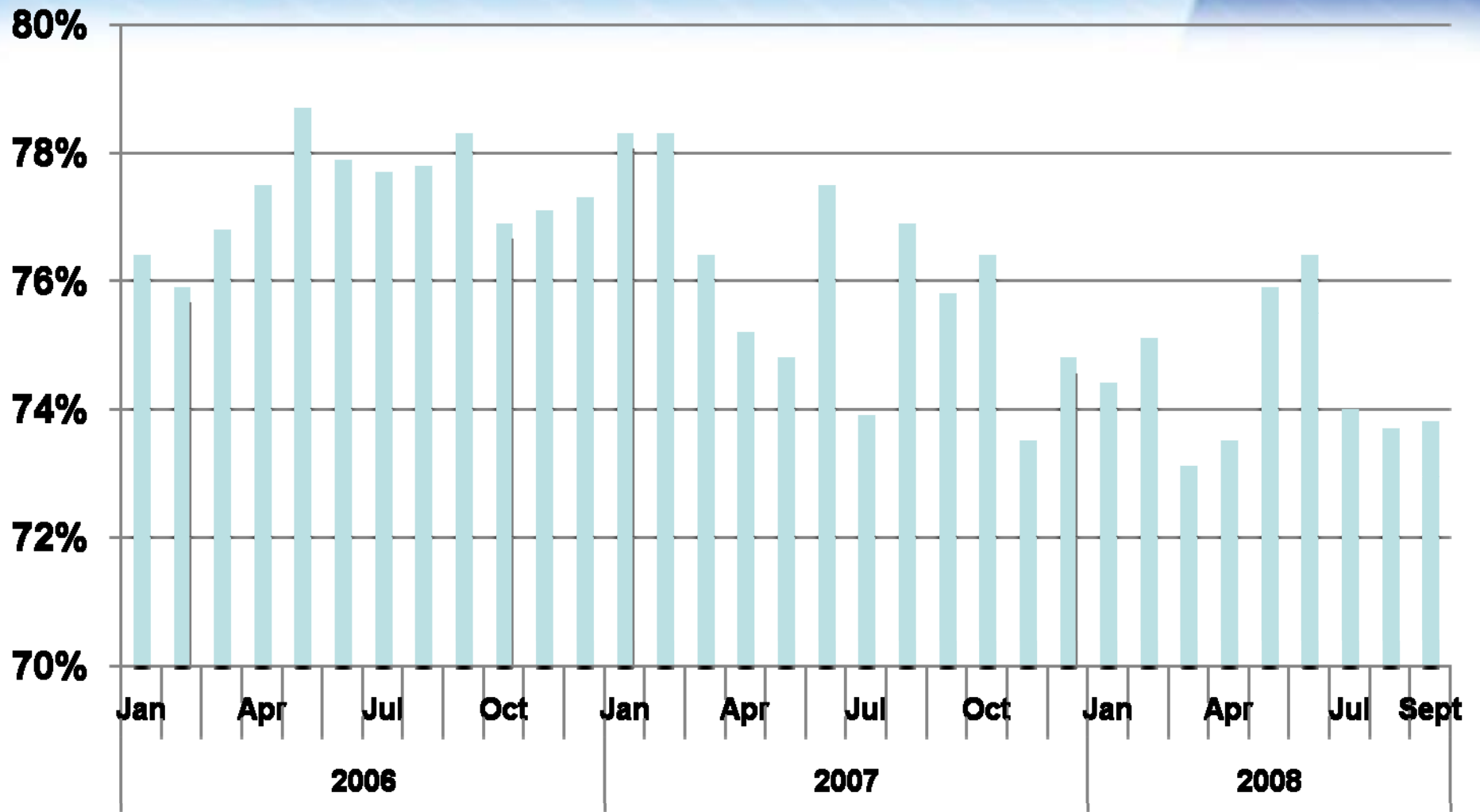
U.S. equipment finance past due receivables



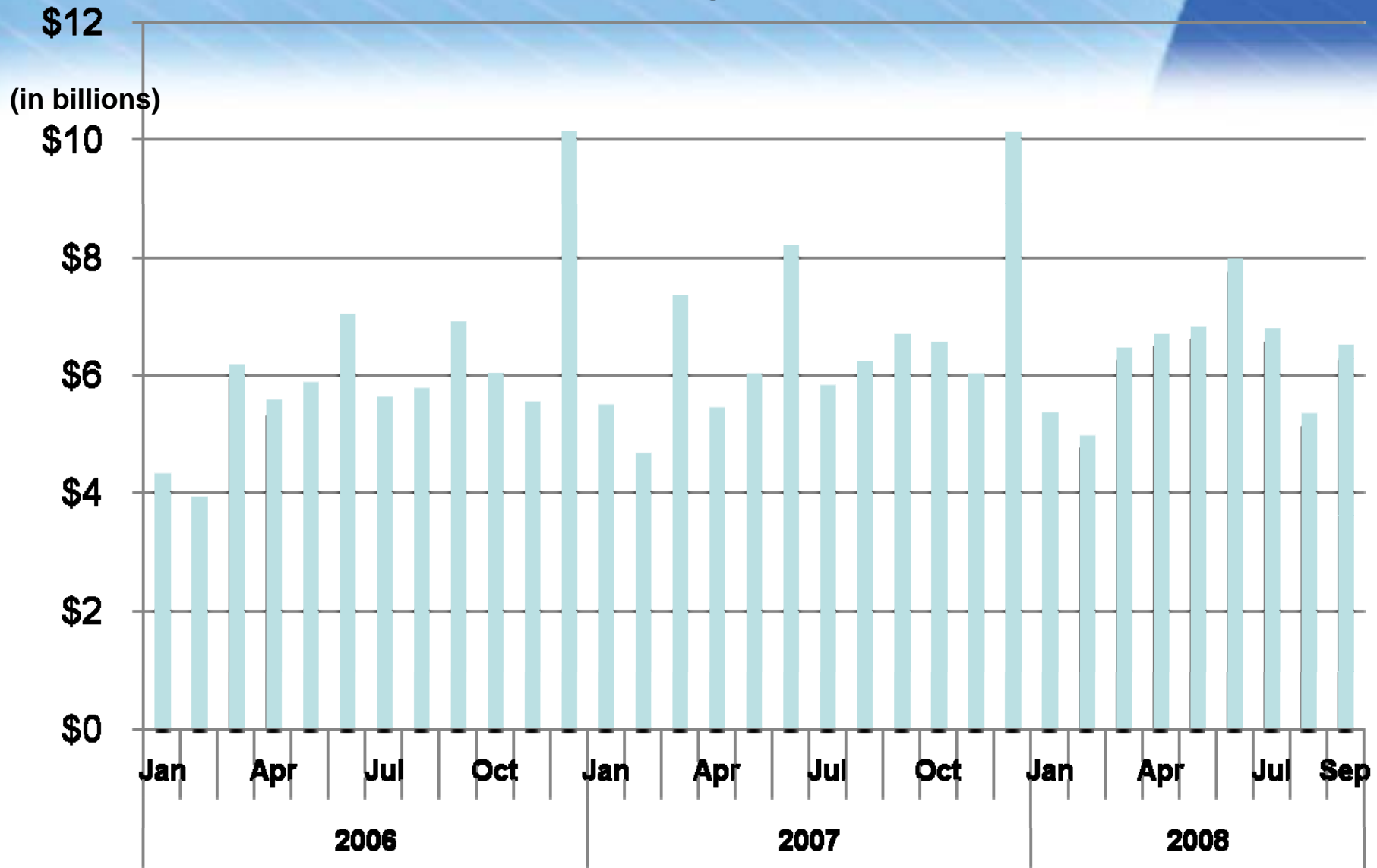
U.S. equipment finance losses (charge-offs) as a % of net receivables



Credit approval ratios as % of all applications



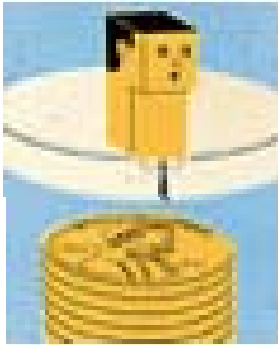
Equipment finance originations remain steady



U.S. 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

Business Implications



Leading
IDEAS

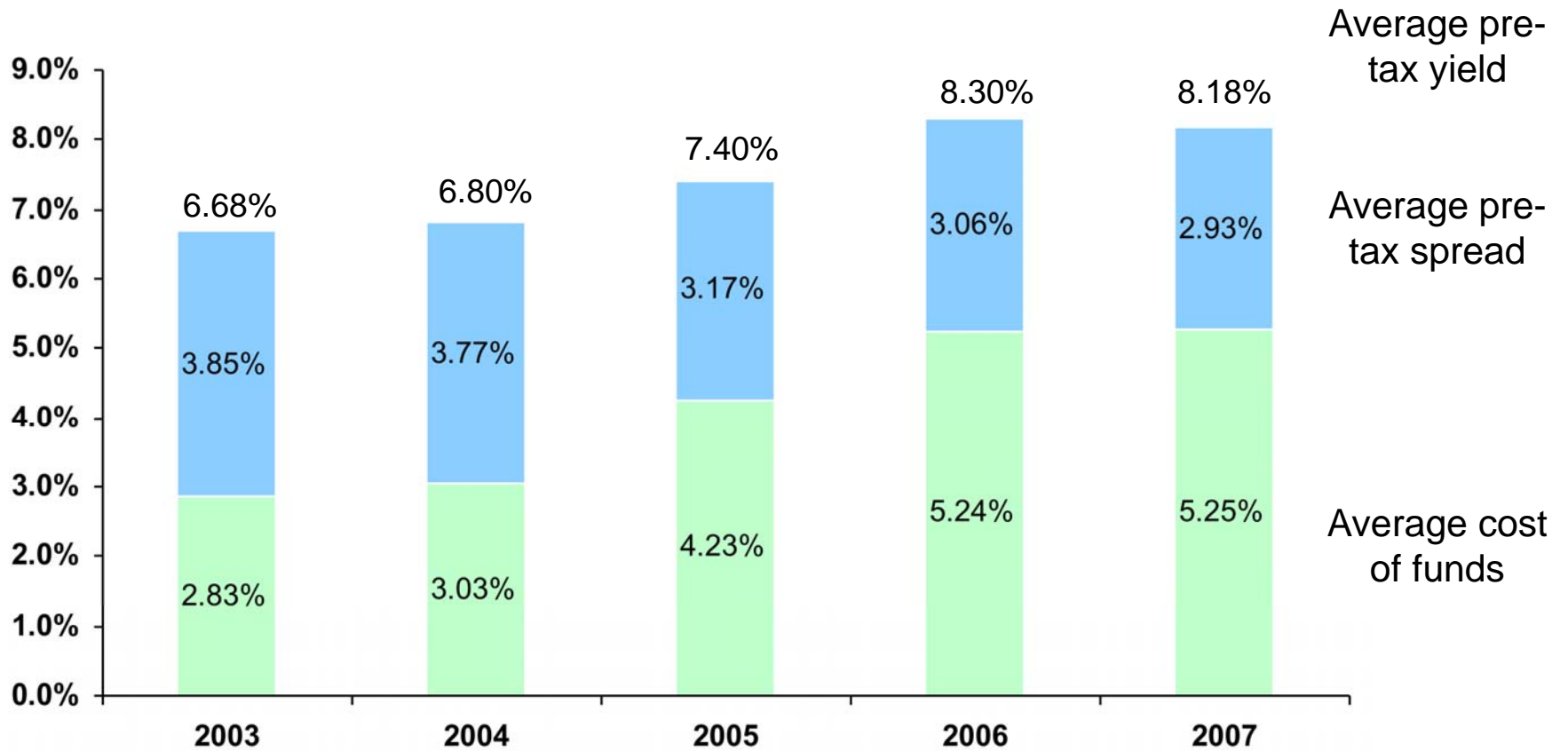


**Beyond the Crisis: The Future
of the Global Economy**

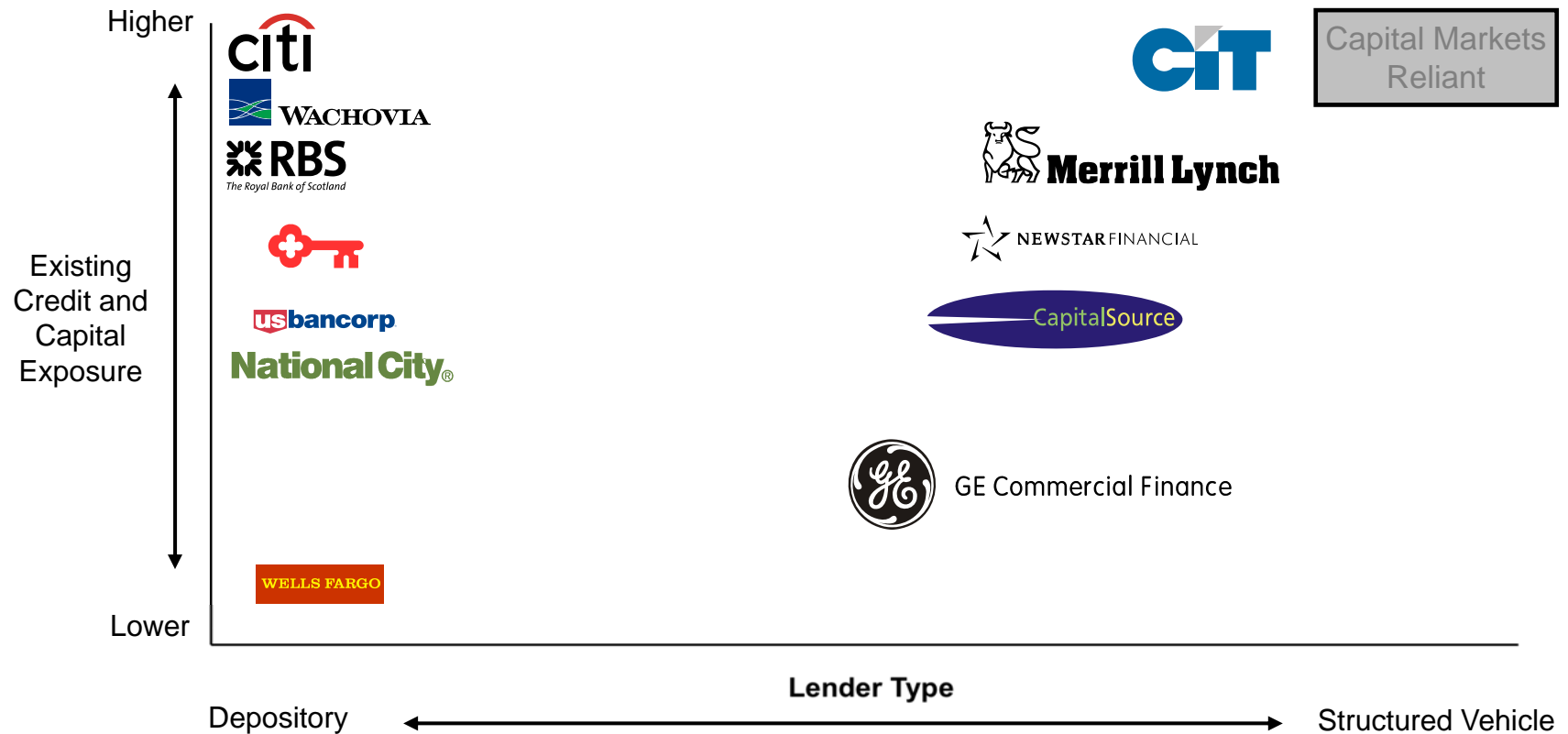
U.S. equipment finance business strategies

- Mature industry
- Economies of scale through consolidation
- Funding efficiency through increased leverage and use of off-balance sheet structured finance products
- Excessive focus on credit, documentation, accounting and “operations related” cost control initiatives

Years of tightening U.S. equipment finance spreads

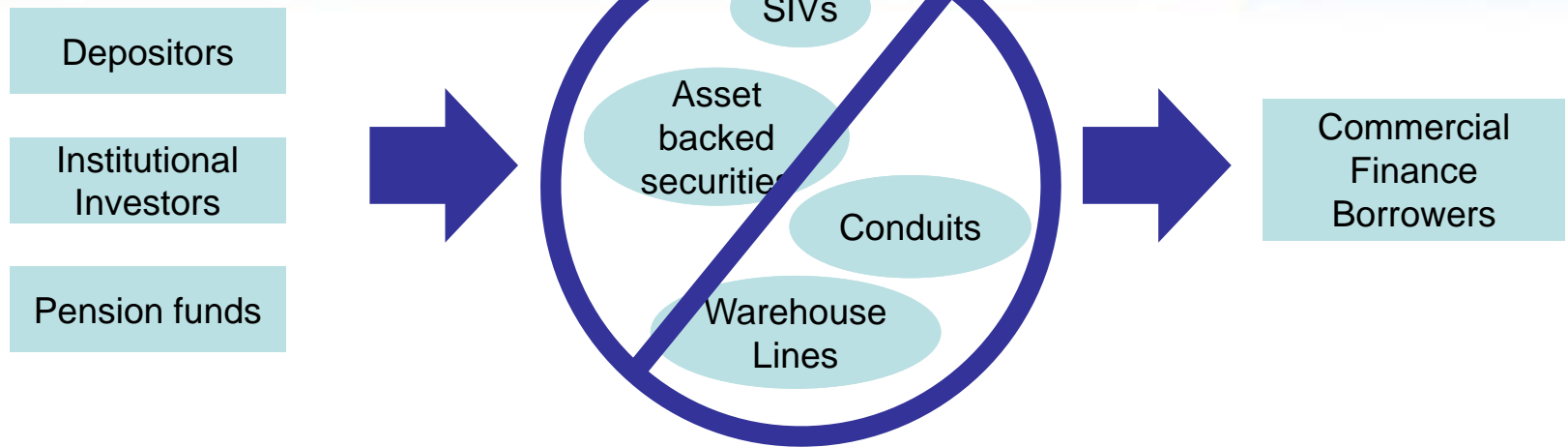


The equipment leasing and finance industry is capital constrained...

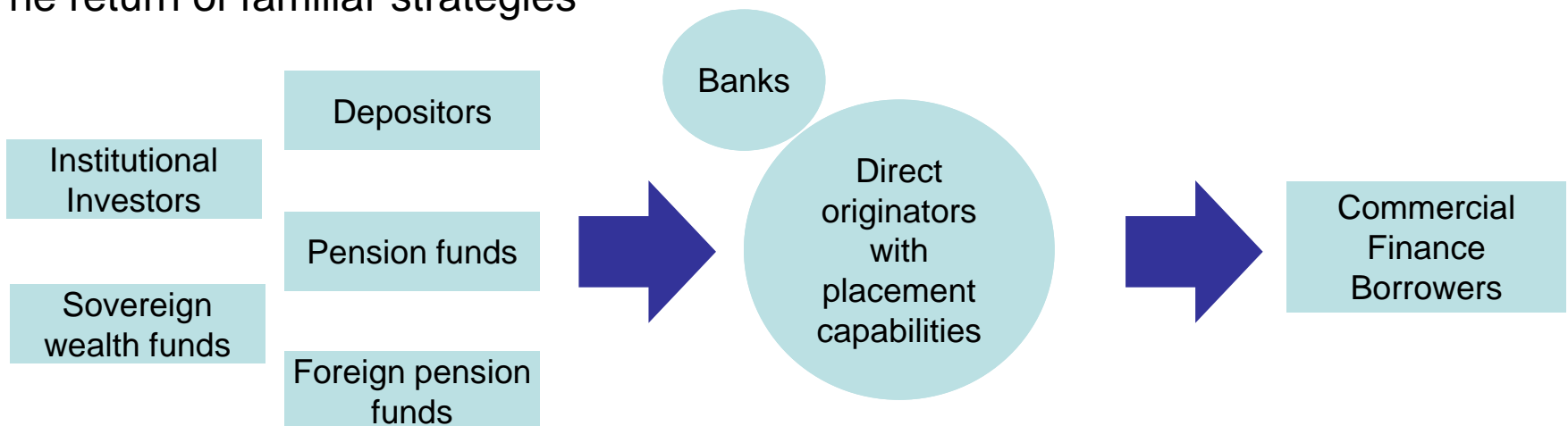


...Creating both opportunities and challenges.

The "Engineered Finance" Era



The return of familiar strategies



Possible new strategies

Improved.....

- customer service
- customer intimacy
- sales, distribution models
- CRM
- service offerings

Obama!



U.S. Politics

Posted on November 9, 2008 by mlipk1



Additional challenges in the U.S. equipment finance marketplace

- Margin compression (expecting improvement in 2009)
- 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

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 that transitions into a darker blue on the right side.

EQUIPMENT LEASING AND FINANCE ASSOCIATION

Financing a Growing Economy

Bill Verhelle, Chairman

Equipment Leasing and Finance Association

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