

Wheeler Business Consulting's 2011 Predictions for the Small Ticket Equipment Financing/Leasing Industry

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No one has a crystal ball. However, it is appropriate to look at recent developments, economic trends and other predictions to forecast what 2011 may have in store for the small ticket equipment leasing/financing industry.

The current recovery has been sluggish at best with GDP growth in the 2.5% range for most of 2010. The U.S. economy needs to post significantly larger growth rates (4.0%-7.0%) before the economy will rebound enough to ease unemployment rates and create overall economic stability. The GDP growth rate is expected to improve in 2011, but not enough to significantly improve the unemployment rate - the unemployment rate will continue its range between 8.75% and 10%. The U.S. and global economic situation remains fragile, with many uncertainties, not the least being growing debt and impending inflationary pressures (devaluing the dollar and other currencies). However, the economy is moving in the right direction and monetary and political policies are starting to be focused on issues which will steadily improve consumer and corporate confidence. The U.S. economy is resilient and corporate decision makers are forward thinkers who are, and will be, looking for the opportunity to move ahead of their competition. It doesn't take much to motivate the entrepreneurial spirit to be innovative and the process is already starting. Much of the corporate innovation and growth will require equipment acquisitions which will be funded through the equipment financing/leasing industry. Most transactions funded in 2010 were for replacement of older equipment, rather than acquisitions prompted by business growth, or new efficiencies to promote future growth. Positive buying trends will be enhanced in 2011. Corporate businesses will be acquiring equipment not only to replace outdated and obsolete equipment, but specifically for growth reasons - good news for the small ticket equipment leasing/financing industry. Commercial and industrial (C&I) lending has decreased for most of the past two and half years; however, the tide has changed and lending activity, for commercial & industrial needs, is expected to increase by 2% to 4% in 2011.

The demand side of our industry will continue to improve at a steady pace in 2011. Small and medium sized business will invest in efficiencies (new equipment for growth) prior to significantly re-hiring permanent workers. The efficiency stage of the recovery is one of the first indicators of a sustainable economic growth pattern. Businesses will be moving away from a survival mode toward a more aggressive growth mode. Financing/leasing originators who are well positioned in their specific niches have already seen some improvement in equipment demands in the last half of 2010. The improvements will continue in 2011; however, the originator will need to be pro-active in his/her marketing efforts in order to capture the business.

The supply of funds in the industry, although significantly improved in 2010, continued to narrowly chase quality transactions - the highest quality transactions were being funded at historically low yields and low margins. Less strong businesses paid a premium for their borrowing in 2009 and 2010; and often times were unable during the two year period to secure any reasonably priced funds for their needs. In 2011, financial organizations (banks, lessors, finance companies and investors) will be anxious to rebuild their C&I portfolios with a consistent emphasis on credit quality - even at the cost of lower obtainable margins. However, as the year progresses there will be mounting pressure to begin to moderate on credit requirements in order to improve yield opportunities. Look for some new entries of funding in 2011 by local, regional and national funding providers who will offer moderately priced products for transactions which are a minimally below the acceptable credit standards set in 2009 and 2010. These funding options will include enhanced credit underwriting processes to better understand and assess risk. Originators and funding organizations who are capable and willing to participate with full disclosure packages for small ticket transactions will greatly benefit from these additional funding capabilities. It is through these capabilities that our industry will experience the greatest opportunity and growth over the next few years.

Our industry has touted for years, as one of its benefits, the ability to hedge against inflation; because of the fixed pricing of our products. For the first time in nearly twenty five years this benefit will gain more significance in 2011 and 2012. The fiscal and monetary policies of the U.S. government has successfully created an environment of very low interest rates over the past few years. However, I am uncertain how much longer the Federal Reserve can prolong the inevitable - inflationary pressures will begin to mount in 2011. The recent rise in commodity prices, especially oil and food prices, will quickly flow through our economy. I am cautiously optimistic the inflationary pressure will be properly managed and not be allowed to soar too rapidly (a quickly soaring inflationary rise would have a significant negative impact on the recovery). The balance is crucial in our recovery and should be closely watched in 2011. A low level of inflation may actually cause a positive impact for our industry as inflation causes a sense of urgency for businesses to act more swiftly before the cost of equipment and cost of funds increase further. Historically, urgency prompts more opportunities in our industry and emphasizes our ability to react quickly to the needs of business clients.

Competition in the small ticket equipment financing/leasing industry has waned in the last few years with the exiting of many organizations nationwide. The lower levels of activity, deteriorating portfolio performance, and overall confidence in the market has kept the pure number of competitors low; however, the competition has been fierce to win the higher quality transactions by the active participants. 2011 will offer a window of opportunity for all current participants as business increases without an immediate influx, at any great degree, of new originating organizations. Once the market shows

signs of further recovery, there will be quick infusion of re-entries and brand new participants into our industry. 2011 will offer the opportunity for originators and organizations to establish strong foundations and business relationships which will position them for the next few years of growth. Commercial banking relationships have been strained over the last few years. Banks are anxious to re-enter the lending business in 2011; however, they will act cautiously because of newly enacted and not yet fully understood regulatory requirements. Therefore, banks will be less proactive with smaller, less income producing, single transaction relationships which were sought out by commercial banking managers in years past; thus, creating opportunity for more flexible, innovative and creative leasing/financing originators to service single equipment transactions.

I am bullish on the opportunities in the commercial equipment leasing/financing industry in 2011. I believe it is an excellent time to be active in the market, or to consider entering the market. The conditions are prime for individuals or organizations who are well versed on all aspects of the industry and are willing to pro-actively align themselves with vendors, end-users and other stakeholders. The market will reward those individuals who are knowledgeable, well positioned, innovative and capable of offering superior services. The commercial leasing/financing business is not difficult; however, the market requires expertise, integrity and a pro-active marketing approach. An originator or organization must provide value to every transaction to his/or its effectiveness in the market and capture a fair return on his/or its efforts. For those individuals and organizations who have all the necessary attributes, the 2011 market will provide the opportunity to grow their business significantly with double digit increases in volume and bottom line profits.

The above information is the opinion of Scott A. Wheeler (CLP). Comments are welcome by contacting Scott: 410-877- 0428 or scott@wheelerbusinessconsulting.com

Scott Wheeler, President, founded Wheeler Business Consulting LLC in 2008. With over twenty-eight years of leasing experience and an Executive Masters in Business Administration, Scott provides consultative services to individuals and organizations who are engaged in the financing/leasing industry. Scott works with originators, owners and management teams of broker operations, independent lessors, banks and national funders who are looking to reach a higher level of productivity, profitability and corporate development. On a selective basis he assists individuals who are entering the industry through his comprehensive Leasing School and on-going mentoring and coaching programs.