

Recessionary Opportunities for Strong Originators

By Scott Wheeler, CLFP

The commercial equipment finance and leasing industry is scheduled for a reset in 2023. There is no longer a debate of whether the U.S. economy will experience a recession, but rather how impactful (deep) the recession may be. There are three main factors to consider: 1) recessions do not last forever — the average recession since WWII lasted just 10 months; 2) the commercial equipment finance and leasing industry emerges from every downturn stronger and better prepared to serve its clients; and 3) the strongest industry participants are rewarded through a recessionary period, and the weaker participants are eliminated. Therefore, every sales team and individual originator must ask the following questions: How do I become a survivor? How do I come through a recession as one of the strongest in the industry? What do I need to do to prepare for long-term success in the commercial equipment leasing and finance industry?

Originators are ultimately judged by the quality of assets that they generate. During a recessionary period, the amount of business an originator generated last year or in the last three years has less impact on his internal or external reputation. The performance of an originator's legacy portfolio matters more than the volume. More importantly, can an originator establish quality relationships based upon the current economic circumstances — and what value does each originator currently offer to all his stakeholders (employer, vendors, end-users, investors, partners)? Most originators currently selling in the industry have never sold in a rising interest rate environment. Most of today's originators have never experienced a major downturn; they are stressed by the possibility of tough times. However, veterans in the industry know that challenges create opportunities for those who are ready to sell value over price, be creative with products and structure, and who understand every aspect of the finance and leasing process from lead generation to portfolio management. Those with the most industry knowledge and ability to provide advisory services rather than an order-taker mentality will prevail by generating the highest quality assets.

Strong originators are pro-active in tracking and being involved with their legacy portfolios. (Assets that originators have generated in the past.) Top originators know that to predict future quality they need to know how past transactions are performing. They want to avoid past mistakes and focus on end-users, vendors, niches, industries, and equipment types that perform in all economic cycles. Like top performing vendors that assist in repossessions and remarketing of transactions which have become delinquent, top originators

offer their expertise and connections to help portfolio managers mitigate challenges within their personal portfolios. Fully understanding the life cycle of a transaction improves an originator's ability to pre-qualify future transactions, creates stronger selling skills, and, above all else, allows an originator to be an industry professional. Recessionary times remind originators that being a sales leader is more than generating the most business. Long-term success comes from understanding all aspects of the commercial equipment finance and leasing industry and being a vital part of the risks and rewards, which are associated with the assets they generate.




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Top originators thrive during recessionary times by flaunting their financial literacy. They can advise small and medium businesses about the cash flow advantages of their products. They are comfortable discussing leverage, liquidity, and other key ratios which are important in credit analysis. Top originators go beyond an application-only mentality and can work full-disclosure transactions when needed. Over the past decade, the industry has developed commoditized originators who believe that credit decisions are solely based upon three to five matrices (time in business, personal credit scores, business scores, and equipment types.) During a recessionary period, top performing originators are capable and willing to facilitate application-only transactions, but when needed, they can also package a full-disclosure transaction and add value. (It is unfortunate in 2022 that so few originators have this capacity, are frustrated, and may be left behind as the economy experiences a temporary setback.) Professionals in the commercial equipment finance and leasing industry provide a strong financial perspective and can relate the benefits of their products and services within the context of the overall economy. They confront rising interest rates, supply chain challenges, liquidity constraints, and changing economic factors; they confirm that their products offer powerful solutions in all economic situations. Recessionary periods create voids in the market as commodity products diminish and participants contract their credit requirements. Market voids create opportunities for originators who have the financial ability to fully analyze risk and reward and attract the highest quality transactions.

Recessionary periods reward originators who can structure transactions to meet the individual needs of their customers. Sales skills must be sharpened to determine the details of each transaction and the ability to align specific finance and leasing structures that truly meet the needs of each client. In a rising-rate environment, a transaction's structure trumps yield. In a rising-rate environment, originators are required to structure transactions that mitigate risk for their employers (or funding sources) while offering cash flow savings for the customer. In a rising-rate environment, offering flexible and creative transactions takes on a different meaning and requires originators to think and act outside of their comfort zone or commodity boxes. Over the past decade, the industry has trained originators to be one dimensional. Originators have had limited structure options and have offered one-size-fits-all solutions. (Often the only deviation from a standard structure was for weaker credit transactions which required larger down payments or shorter terms.) During a recessionary period with rising interest rates, the strongest credit transactions will request additional options for cash flow savings (eg, fair market value options, second amendment clauses, PUTS, etc.) Originators will need to sharpen their selling skills to determine the appropriate situations to offer creative structures and how best to sell additional products when available. Changing market conditions will provide opportunities for those originators who are willing to offer creativity and are able to sell the benefits of unique structures which are designed specifically for stronger clients that qualify for the best programs. Structure matters.

One of the most influential lessons learned from the 2008 downturn was that equipment knowledge is critical. Over the past decade, originators who best understood the equip-

ment that they financed and leased excelled in the market. Equipment knowledge will further be rewarded during the recessionary period. Vendors and end-users want to conduct business with equipment specialists. Credit departments want to work with originators who are connected to the industries and equipment that they solicit. Strong originators know the difference between tier-one, tier-two, and tier-three equipment and the type of end-users that align with each tier of equipment. Equipment knowledge will assist in reducing risk and mitigating losses throughout the recessionary period. Top originators are focused on the equipment that they have the greatest knowledge.

Savvy originators and sales managers are confronting the current economic changes with confidence. They are re-engaging with their vendors and end-users from a position of strength and sustainability. They are helping their clients navigate rising interest rates and recessionary conditions by offering sound financial advice related to acquiring commercial equipment. Top originators are taking the time to fully understand their clients' needs and wants; they are providing real solutions to the strongest qualified clients. The strongest originators understand that temporary recessionary periods eliminate weaker participants and expand the opportunities for well-positioned originators that fully understand all aspects of the commercial equipment finance and leasing process. 

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