Equipment Finance Funding, Securitization & Syndication: *Best Practices for Today and Tomorrow*

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

Established in 1989, the Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to inspiring thoughtful innovation and contributing to the betterment of the equipment leasing and finance industry. The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

Foundation research is independent, predictive, and peer-reviewed by industry experts. It is funded solely through contributions. Contributions to the Foundation are tax-deductible. Support the Foundation by making a 100% tax-deductible gift today at **www.LeaseFoundation.org**.

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Preface

Funding is, undoubtedly, the lifeblood of equipment finance companies. Consistent access to both short and long-term financing sources is important to maintain liquidity, especially during periods of economic turmoil. Some 15 years ago, the Great Recession proved the importance of having diversified funding sources and strong lender relationships to navigate tenuous capital market conditions. Many equipment finance companies applied lessons learned from that crisis toward developing strong best practices around their funding operations. That best practices playbook enabled them to continue financing customers after the COVID-19 pandemic precipitated a pause in the capital markets in March 2020.

Against this backdrop, the Equipment Leasing & Finance Foundation commissioned The Alta Group to analyze and report on the pandemic's impact on the funding, securitization, and syndication markets for the equipment leasing and finance industry. To effectuate this study, Alta conducted a series of surveys and in-depth interviews with members of the Equipment Leasing and Finance Association and industry lenders to ascertain how the pandemic impacted their ability to borrow, what challenges it created for borrowers, and what new lessons emerged.

We encourage the reader to benefit from the learnings revealed in this study specifically:

- How the pandemic differed from the Great financial Recession,
- What funding tools are available to industry participants,
- How the funding, securitization, and syndications markets performed since the pandemic,
- What to expect from emerging funding opportunities, and most importantly,
- Which best practices enabled industry peers to weather the most recent storm.

As the world enters what appears to be the endemic stage, the need for strong funding practices is being tested yet again with the emergence of substantial inflation, continued global supply chain shortages, and the most significant geopolitical event in modern memory, Russian President Vladimir Putin's invasion of Ukraine.

Valerie L. Gerard
Co-CEO

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Co-CEO

The Alta Group


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Purpose of the Study

The Equipment Leasing & Finance Foundation commissioned The Alta Group to research, analyze, and report on the pandemic's impact on the funding markets for the equipment finance and leasing ("EF") industry. Over the course of this Study, the reader will gain an appreciation for how the funding disruption precipitated by the global lockdown differed from a similar event during the Great Recession, how funding, securitization, and syndication options responded to the pandemic, which best practice funding strategies industry participants can apply to their funding programs, and how to prepare for future developments in the funding world. It is the hope of the Study research team that the reader will benefit from the experience of other industry lenders and be able to apply lessons learned in their own organizations.

Executive Summary

As the severity of the COVID-19 pandemic became evident in early 2020, equipment finance industry observers and participants became concerned about its effects on funding markets. Many were drawing parallels to the industry's most recent significant funding disruption, the Great Recession of 2008-2009. To assess the markets, this study surveyed industry finance professionals and funding sources through two separate questionnaires; the first went to senior financial executives and the second to syndications professionals. In addition, targeted phone interviews were conducted with senior industry executives of independent, bank, and captive finance companies, lenders to the industry, securitization issuers, and rating agencies to expound upon the themes discovered through the questionnaires.

Certainly, there were parallels between the pandemic and the Great Recession. As in the recession, there were industries such as oil and gas production, restaurants, hospitality, and others that saw widespread financial issues during the pandemic. In addition, business practices had to change to address external factors, as both events caused significant changes in consumer and business consumption patterns.

There were, however, significant differences between the two events. Unlike the Great Recession, financial institutions remained relatively healthy through the pandemic. Government relief programs helped to minimize the financial impact on employers and buoyed demand for certain goods. Also, the sharp impact of the Great Recession on corporate liquidity drove companies to utilize more conservative financial strategies such as retaining cash and eschewing leverage as a hedge against future disruptions to funding.

Key Findings: The study found that the performance of the equipment finance industry was considerably better than feared through the pandemic. Government programs such as the SBA's Paycheck Protection Program ("PPP"), buoyed portfolio performance for many equipment finance companies, helping to minimize delinquency and default figures. Also, pandemic-related supply chain issues paid an unanticipated dividend in the form of increased holdover rent due to the lack of new products with which to replace end-of-lease equipment. The liquidity amassed by many businesses as a hedge against future recessions bought time for many borrowers to shift strategies to take advantage of areas of high demand.

Unlike the Great Recession, the pandemic saw the availability of capital to the equipment finance industry and its clients increase. Favorable performance by equipment Asset-Backed Securitizations ("ABS") has allowed these markets to remain open despite the economic impact of the pandemic and has attracted new investors to the asset class seeking a safe means to generate favorable returns. Also, with lower volume levels during the pandemic, combined with greater cash balances on corporate balance sheets and higher levels of consumer savings, banks had more capital available to lend in an economy where borrowing was already depressed. Finally, supply chain issues drove down industry volume levels, with delivery issues causing equipment finance firms to delay transactions pending equipment delivery.

Funding Capabilities: The study's review of the funding markets revealed that most of the traditional tools used by equipment finance companies remain unchanged. What has changed is that bank lines, private and public ABS are becoming available to firms earlier in their lifecycles than even in the recent past. Among the primary reasons for this change are:

- The equipment finance market has proven its resiliency through financial cycles, allowing it to be viewed as a strong risk-reward play.

- The extended low-rate environment has attracted investors seeking yield to equipment ABS.
- More private ABS underwriters are joining the market and gaining comfort with smaller firms.
- M&A activity in the industry has increased the availability of experienced management teams, many of them starting or joining newer companies.

Best Practices: Discussions with industry leaders also uncovered best practices utilized by companies that have been able to optimize their funding models, using the entire spectrum of vehicles available to them. While not an exhaustive list, some of the key responses we received were:

- Diversification of funding sources and mechanisms: Market changes and strategic shifts dictate that multiple vehicles be utilized, and sources diversified by type and short/long term mix.
- Staggered long-term facility maturity dates: This approach prevents being tied to company results and market conditions in place at the time of renewal.
- Back-up lending facilities: Having secondary sources of funding, e.g., discounting facilities, available if there is a disruption in a primary source, e.g., ABS or bank line, can be crucial in allowing an equipment finance firm to continue operations in difficult economic times. This requires providing those secondary sources with enough business to keep the relationship viable even if their facility is not crucial to current operations.
- Proactive lender/investor relations effort: Lenders and investors appreciate a free flow of information and advance warning allows them to address potential issues without being backed into a corner. They can also help provide strategic guidance in how to best achieve future funding goals.
- Sharing of real-time portfolio reporting: The ability to address performance questions in real-time can help address lender concerns and build confidence in the company's servicing capabilities.

Blockchain: Technology and market demand are driving evolution within the funding landscape. The shift to blockchain technology is already changing the way that ABS transactions are getting done. Blockchain by its nature creates a secure transaction with permanent reference points that make fraud more difficult. The technology has the potential to eliminate considerable duplicative effort in the due diligence and portfolio management functions, which will in turn help drive issuer and investor costs down. More thorough vetting of the process needs to occur, but several proof-of-concept issuances have already hit the market with favorable results on the security and workflow fronts. Blockchain-enabled securitizations are likely to become the norm by the end of the decade due to the security and efficiency benefits, as well as general market enthusiasm behind the product. The potential also exists for blockchain to expand to syndicated transactions and beyond.

ESG: Another potential game-changer for the industry is the adoption of environmental, social, and governance strategies, commonly known as ESG. Investor demand is driving the establishment of ESG-related investment vehicles which could open markets to industry participants that generate "green" assets. One such offering was issued by Trinity Industries Leasing Company in January 2021, in which the company raised approximately $350 million by issuing "green bonds" in compliance with principles established by the International Capital Market Association.

The public declaration of ESG strategies has become common, with many firms committing to net-zero carbon emissions and announcing social initiatives to enhance brand image and community standing. In addition, governance issues are growing in importance to company boards and investors alike, as cybersecurity and external threats multiply by the day. ESG has the potential to create opportunities for the industry to fund the emerging technologies necessary to address the attendant issues. Also, as the war for talent continues, having an expressed ESG strategy with measured results has become critical to attracting new employees to the industry.

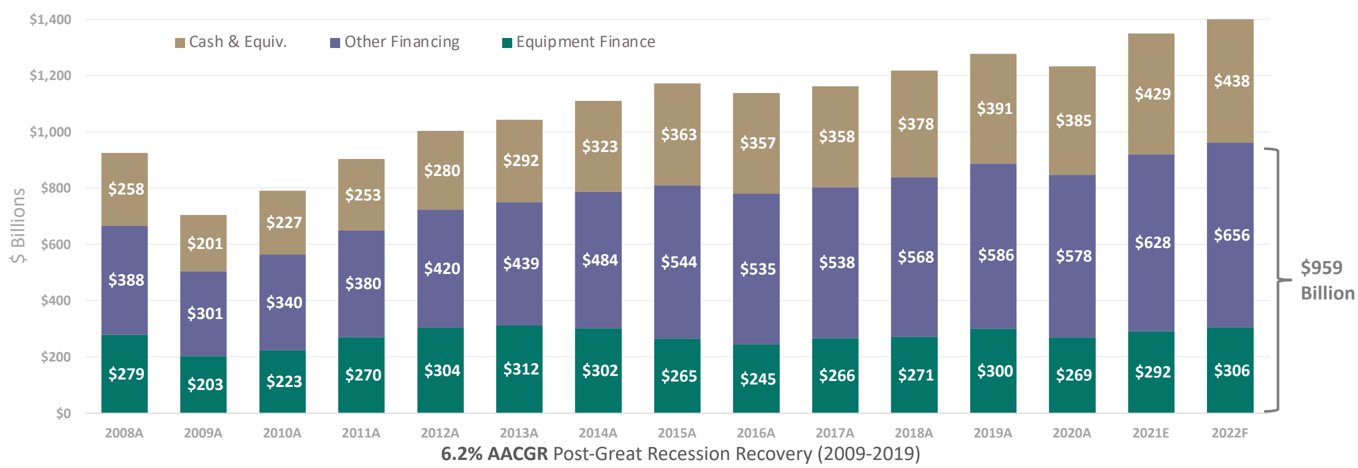
Summary: The equipment finance industry has long enjoyed a reputation for resiliency, and its performance through the pandemic has reinforced that reputation. Industry participants certainly need to focus on macro-issues such as the pandemic, but incremental change can be just as impactful to a company's funding capabilities and business models. Attention to detail and communication can build funding relationships and help firms navigate the bumpy roads that may lay ahead. Ukraine, inflation, blockchain, and whatever lies beyond the horizon have the potential to drive change to funding markets. Equipment finance firms need to be sensitive to potential risks and aware of opportunities to position themselves for the future.

A Funding Black Swan Event? Financial Recession v. Pandemic

Comparative Industry Performance – Great Recession and Global Pandemic

Comparing key performance indicators during the Great Recession to the experience during the Pandemic provides a useful statistical backdrop to understanding the health of industry today. Exhibit 1 provides overall industry sizing from 2008 to 2020. The overall size of each bar indicates the total amount of capital equipment and software sold in the United States in each particular year. The green portion of each bar is the amount of equipment financed via leases or loans. The purple sizes the amount financed by other means such as credit cards or working capital lines. The brown portion indicates equipment paid for in cash or equivalents.

Exhibit 1: Addressable Equipment Finance Market & Current Financing Sources



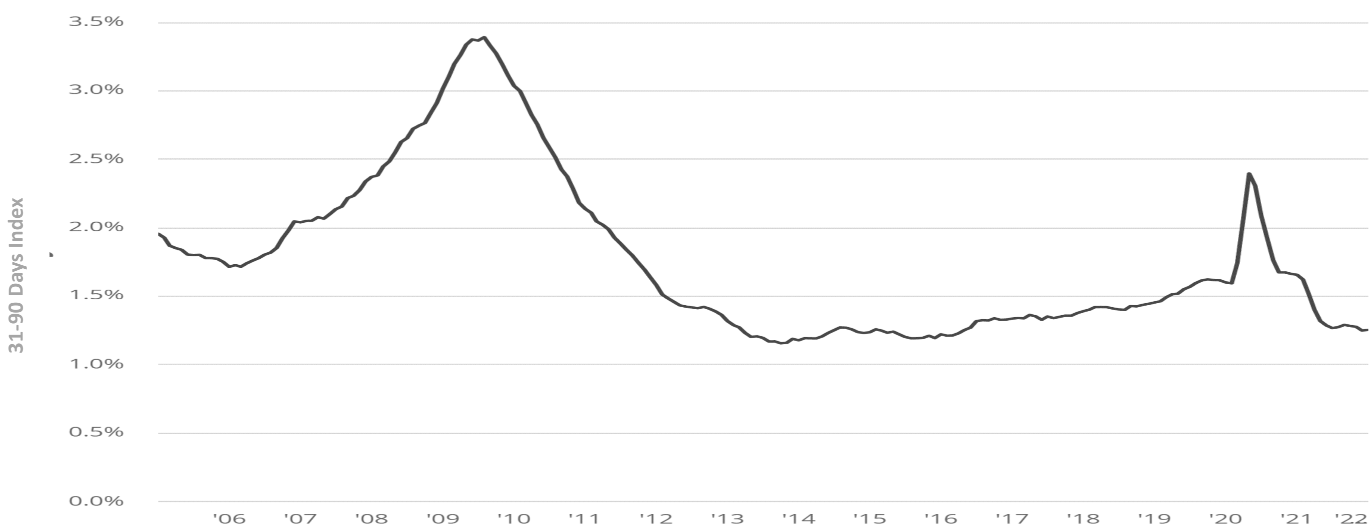
$959 Billion	8-9%	4-5%
Estimated Addressable Market for Equipment & Software in 2021 [1]	Revised 2021 Forecast Annualized Growth in Equipment & Software Investment [2]	Preliminary 2022 Forecasted Growth Rate [2]

Sources: [1] Proprietary Data Analytics, The Alta Group, LLC. [2] U.S. Government Department of Commerce Bureau of Economic Analysis (BEA) Private Fixed Investment in Equipment and 2022 Equipment Leasing & Finance U.S. Economic Outlook Update – Equipment Leasing & Finance Foundation – Issued December 2021

From 2008 to 2009, both overall capital spending and the value of equipment financed decreased by 24%. In fact, neither overall capital spending – nor equipment finance levels rebounded until 2012. By comparison, overall capital spending from 2019 to 2020 reduced by 10% while EF volume was down by 3.5%. The 2020-2021 expected numbers show a 10% increase in capital equipment spending with a corresponding 8-9% increase in equipment finance. Overall, the EF industry has enjoyed a 6.2% average annual compound growth rate from 2009-2019. The preliminary forecast for 2022 boasts a 4-5% annual growth rate.

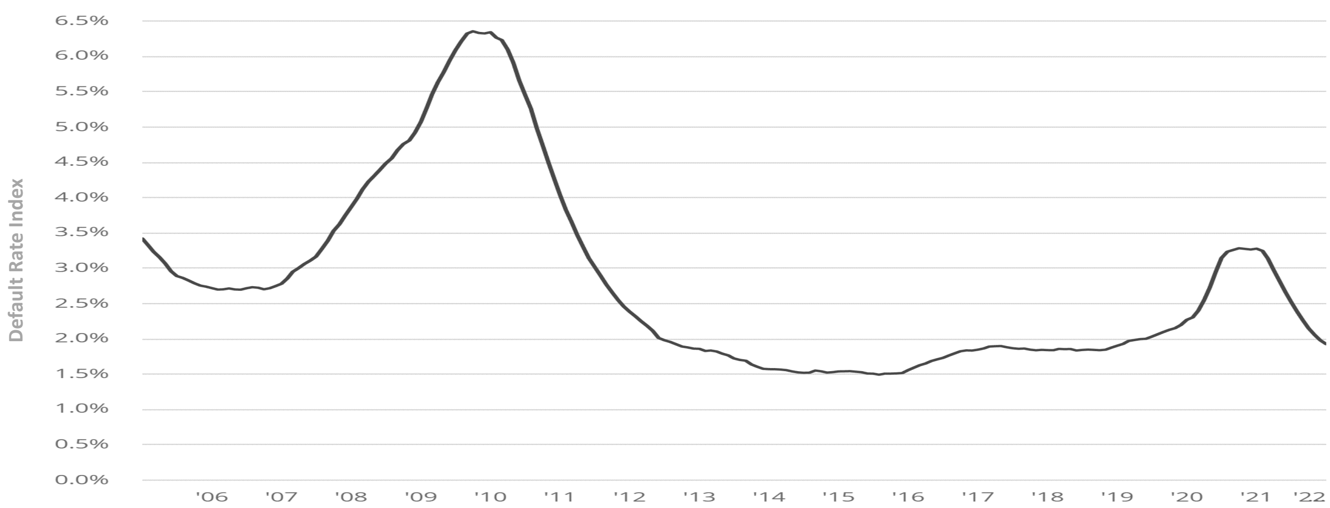
From a portfolio quality perspective, a similar story emerges. Exhibit 2 shows the Equifax 31-90 delinquency index from 2006-2022. During the height of the Great Recession in 2009, this delinquency measure for the industry overall rose to nearly 3.5%. The delinquency index did spike up close to 2.5% in mid-2020 but quickly returned to pre-pandemic levels. Exhibit 3 shows default levels from 2006 to 2022. During the Great Recession years default rose steadily from 2.5% in 2008 to 6.5% in 2010 before beginning to decline. Default levels increased from 2020-2021 from 2% to just under 3.5% but returned by 2022 to pre-pandemic levels.

Exhibit 2: Delinquency 31-90 Day Index



Source: Equifax Small Business Delinquency Index

Exhibit 3: Defaults



Source: Equifax Small Business Default Index (SBDFI)

To fully understand the volume downturn and delinquency and losses experienced during the Great Recession, it is important to understand the root causes. The Great Recession unfolded into a loan crisis sparked by issues with asset-backed sub-prime mortgage and student loans and the dramatic fall of Lehman Brothers that eroded confidence across the entire banking spectrum. The resulting absence of funding across the capital markets, including ABS and short-term commercial paper, reverberated across corporate America. Particularly adversely impacted were banks and the EF industry. (A more fulsome analysis of the relative performance of the equipment ABS market can be found in the *Equipment ABS Market Trends* section below.) The resulting lack of liquidity caused an unprecedented contraction in EF origination 2009.

The onset of the COVID pandemic in 2020 brought fears of it being the catalyst for a recession like that experienced in the 2008 to 2010 Great Recession. As the volume numbers demonstrate, the Pandemic did not cause a lasting adverse effect on EF firms. For the first half of 2020, portfolio stress was experienced, however, there was a surprising U.S.-wide economic resilience that emerged due to a few factors that will be explored further in this section including government stimulus programs and improved capitalization of the banking system.

Based on the market performance data for the industry and input from interviews across the EF ecosystem including lenders, bank independents, captives, rating agencies, and investment banks a few key reasons for the vastly better performance and market resiliency emerge. These key factors include:

- Lenders much better capitalized – stronger balance sheets.
- Government stimulus programs – PPP loans helped significantly to keep delinquency down and drive capital equipment demand.
- Capital markets are better capitalized and match funded, in both tenor and fixed rate.
- EF companies have diversified funding sources and staggered facility expirations to provide funding flexibility, and resiliency – added additional bank lines, adding U.S. and non-U.S. based lenders.
- Better data and portfolio management enabled by technology and discipline instilled since the Great Recession.

There is no question that industry performance during the pandemic benefited greatly from learnings from the Great Recession.

Current Market Environment

This section describes key characteristics driving the EF industry today. The first of these is the capital-rich environment the industry continues to enjoy. Layering on top of the availability of capital is the race to add assets on balance sheets in an era of reduced volumes driven by the pandemic and supply chain issues. These two dynamics together foster the competitive razor-thin margin environment evident in many sectors of the industry. All of these dynamics combined provide the backdrop for the current active M&A market.

Continued Capital Rich Environment

The market has been awash with capital for the past few years, and if anything, the pandemic increased the liquidity available to EF companies. There are several drivers of this phenomenon according to our survey of industry participants:

- Facing the unknown impact of the pandemic, companies built on already high levels of cash, resulting in low utilization of traditional bank credit products. Lease finance has been seen by the lending market as a safe, profitable alternative means to employ significant capital.
- Fed funds have been near zero for an extended period, sending many institutional investors looking to EF as a source of favorable yield.
- Lack of investment in capital equipment caused by uncertainties from the pandemic depressed originations.
- Supply chain delays have made it difficult to employ capital, as deliveries of many equipment types have been delayed.
- Non-traditional participants such as life insurance companies are entering the funding market, adding capital to an already crowded funding picture.
- Mergers and acquisitions of lease finance companies by banks and other financial institutions have taken a number of players out of the financing market, with the void being filled by new entrants.

The equipment leasing industry remains attractive to capital providers as evidenced by high levels of liquidity and razor-thin margins. As discussed in the Methodology section included as an appendix to the paper, more than a dozen interviews with lessors and lenders to the industry were conducted as part of the research for this paper. In addition, an electronic survey was distributed to CFOs across the industry. Without exception, responses from the electronic surveys and interviews noted very high levels of liquidity across all sectors. CFOs noted increasing offers for lending with offers coming in some cases from non-traditional sources such as insurance companies and family offices. Lenders to the industry discussed a very competitive environment in pricing and associated structures and terms, (discussed in more detail in Section 2), noting that more banks have entered the lender finance space in recent years. None of those interviewed noted any pullback in lending, tightening of terms, or increases in pricing during the pandemic.

Volume and Asset Growth Pressures

The continued capital-rich environment has met with pressures on portfolio asset growth driven by three primary factors:

- A pullback in lending in the in the 2nd and 3rd quarters of 2020 due to concerns about the impact of the Pandemic resulting in tightening credit terms and lower levels of origination.

- The increase in end-users paying cash vs financing. Factors driving the increase in cash purchases are the infusion of cash to businesses through government stimulus packages providing capital for businesses to use for equipment purchases and business operating expenses.
- Continued issues across the equipment supply chain. Emergence from the initial period of the pandemic has ushered in sustained quarterly GDP growth, characterized by increased demand for goods and services while worldwide manufacturing struggles to dig out of the effect of reduced output during the height of the pandemic. This has been particularly pronounced in the high technology sectors and transportation assets which include increasing amounts of microchips.

Demand for equipment has not been consistent across equipment types, however. Technology and telecommunications to facilitate work from home experienced a large spike in demand where other asset types such as restaurant/hospitality and office imaging experienced a prolonged decline.

Given these pressures on financing demand, most firms missed their 2020 growth target, and - many experienced portfolio contractions. On book portfolio run-off coupled with lower-than-expected new business, volume has resulted in a portfolio contraction of over $20 billion in companies among the Monitor 100.

The 2020 new business volume among the Monitor 100 was down over 9% with fifty-three of the one hundred firms accounting for over an 18% new business volume drop totaling a $28 billion reduction.

Exhibit 4: Equipment Finance Origination Volumes 2020 v. 2019

NEW BUSINESS VOLUME (NBV)	2020 NBV	NBV Change '19-'20			Firms w/ '19 to '20 *INCREASE*			Firms w/ '19 to '20 *DECREASE*		
2021 Monitor 100™	Total *($Billions)*	#	Tot. Chg. *($Billions)*	%	#	Tot. Chg. *($Billions)*	%	#	Tot. Chg. *($Billions)*	%
Captives	$80.1	12	-$2.8	-3.4%	4	+$1.2	+3.4%	8	-$4.0	-8.2%
Independents	$10.3	22	-$1.0	-8.7%	14	+$1.3	+25.4%	8	-$2.3	-39.0%
U.S. Banks & Ins. Cos.	$89.8	57	$14.5	-14.0%	24	+$3.8	+22.4%	33	-$18.4	-21.0%
Foreign	$19.5	9	-$2.3	-10.1%	5	+$1.0	+7.1%	4	-$3.2	-42.7%
Monitor 100 ™	**$199.8**	**100**	**-$20.6**	**-9.3%**	**47**	**+$7.4**	**+10.4%**	**53**	**-$27.9**	**-18.6%**

Source: 2021 Monitor 100™ FYE 2020 with FYE 2019 comparisons

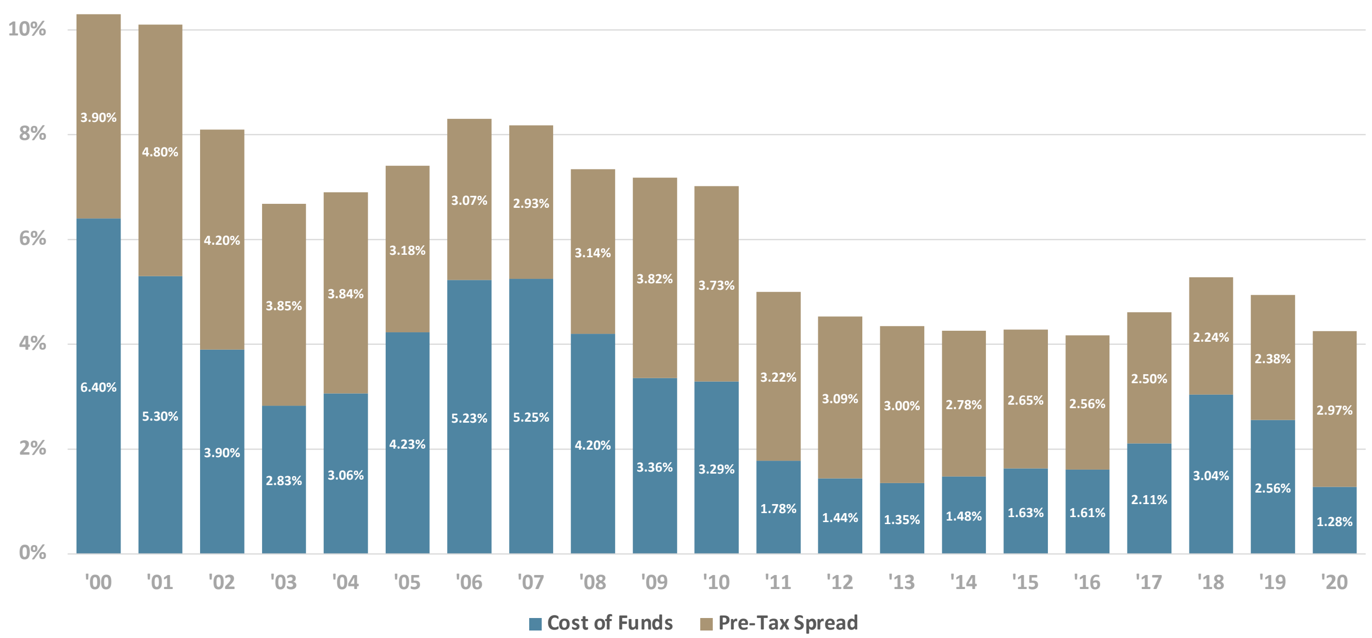
Exhibit 4 shows the impact of the origination challenges across the EF industry. It measures the increase or decrease to Net Book Value ("NBV"), across the Monitor 100 overall and within EF company types – Captives, Independents, US Banks, and Foreign owned EF companies. Overall, the data show a 9.3% decrease in portfolio NBV for the Monitor 100. Foreign-owned and Independents experienced the most precipitous reductions with 42.7% and 30% respectively. The total dollar decrease in NBV was just under $28 billion reflecting an 18.6% reduction in overall NBV.

One of the implications of lower NBV balances is a reduction in syndication volumes. With lower NBV levels, organizations are opting to keep assets on-book that in a more favorable asset growth environment they might otherwise have chosen to sell in the syndication market. The following section on the syndication market includes a deeper dive into current dynamics in the syndication market. The net impact of the pressure on NBV growth is that the level of syndication in the market has decreased. Organizations are choosing to keep assets they might otherwise have sold for margin gain. At the same time portfolio managers that might have sold off assets for exposure limits in certain areas are nudging the caps a bit to keep Net Earning Assets ("NEA"), on the books.

Continued Margin Pressure

The combined impact of the pressure on financing volume and the high level of liquidity in the market chasing fewer deals is creating a highly competitive market for transactions with razor-thin margins. Of course, margins vary widely by ticket size credit, product type, term, and other factors. Yet the trajectory of the cost of funds and margins demonstrates the tight margins experienced especially for banks and captive finance organizations.

Exhibit 5: Historical Cost of Funds and Pre-Tax Spreads 2000-2020



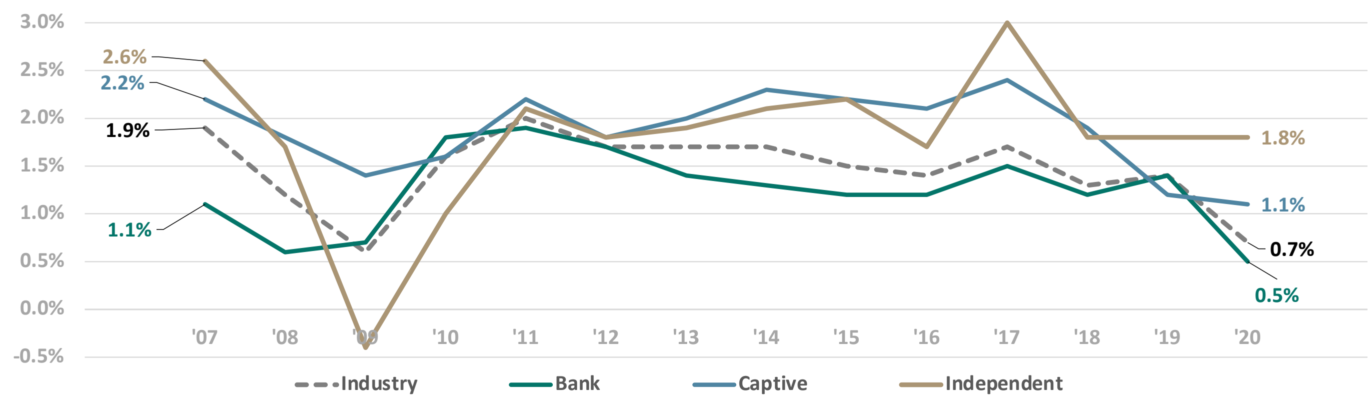
Source: ELFA 1999-2021 Survey of Equipment Finance Activity Reports (FYE 2000-2020)

Exhibit 5 outlines the trend in the cost of funds and pre-tax spreads for the same year over the course of 2000-2020. The early aughts years coincided with the dot com-induced recessionary period and demonstrated the highest cost of funds and pre-tax yields in the 20-year period. Looking at the height of the Great Recession, 2009 experienced a reduction in the cost of funds by eighty-four basis points driven largely by rate reductions and government-sponsored programs such as TALF (Term Asset-Backed Securities Loan Facility) were opened up to equipment assets. Since the Great Recession, in each of the years of the ensuing recovery period, margins have decreased to historically low levels. 2018 experienced an increase in the cost of funds due to four rate hikes that year on the heels of strong economic growth and low unemployment numbers. However, as industry cost of funds rose ninety-three basis points in 2018, overall pre-tax margins decreased to their lowest levels of the 20-year period to just 2.24%. After 11 straight years of pre-tax margin erosion, 2019 saw a slight margin increase of fourteen basis points. 2020 saw the lowest cost of funds of the 20-year period as the Federal Reserve in March of that year lowered rates to a range of 0% to-0.25%.[1] In that same period, the second year of pre-tax margin increase occurred raising a full fifty-nine basis points to 2.97% - the largest increase in the 20-year period. Not surprising given the tighter credit windows resulting in selectivity and ability to command price for executed transactions.

Overall, the continued tight margins relative to other asset classes, illustrate the attractiveness of equipment lease transactions given their low-risk return profile. Having reviewed the volume, margin, and portfolio quality statistics for the industry it is instructive to look at profitability and the factors that are affecting overall returns for the industry. Exhibit 6 graphs return on assets or ROA on a portfolio weighted average basis for the industry overall and for Banks, Captives, and Independents. After falling to a Great Recession low of 0.6% ROA for the overall industry, ROA rose steadily before declining annually since 2013 except for 2017. 2017 return numbers are an outlier as companies with deferred tax liabilities from true lease depreciation were able to accelerate earnings from the reduction in corporate income tax rate which went into effect that year.

A look based on EF company type reveals variance in profitability performance. Independents' returns rose during the post-Great Recession recovery steadily before declining in 2016. The decline that year is attributable to GE Capital largely exiting the industry reclassifying itself as a captive finance company within their SEFA survey response that year. After bumping up in 2017 due to the impact of corporate tax rate reductions they have remained steady since 2018. Bank ROA show the most significant drop, particularly in 2020 where it came in at just 0.5%. The drop is attributable to both the reduction in overall assets due to volume pressure and increased reserves during the initial quarters of the Pandemic. Captive ROA'S reduced in 2019 due to competitive factors and potentially seeded in their unique ability to make trade-offs between product margins and financing returns.

Exhibit 6: Return on Assets (Dollar Weighted Average)



ROA (Mean)	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
Industry	1.9%	1.2%	0.6%	1.6%	2.0%	1.7%	1.7%	1.7%	1.5%	1.4%	1.7%	1.3%	1.4%	0.7%
Banks	1.1%	0.6%	0.7%	1.8%	1.9%	1.7%	1.4%	1.3%	1.2%	1.2%	1.5%	1.2%	1.4%	0.5%
Captives	2.2%	1.8%	1.4%	1.6%	2.2%	1.8%	2.0%	2.3%	2.2%	2.1%	2.4%	1.9%	1.2%	1.1%
Independents	2.6%	1.7%	-0.4%	1.0%	2.1%	1.8%	1.9%	2.1%	2.2%	1.7%	3.0%	1.8%	1.8%	1.8%

Source: ELFA 2008-2021 Survey of Equipment Finance Activity Reports (FYE 2007-2020)

Although 2021 SEFA is not available at the time of publishing this research paper there is reason to believe that 2021 will show a rebound in ROA numbers. Industry interviews in January of 2022 revealed volumes for

December were up across the board. Many reported this resulted from a reduction in supply chain stress and others attributed it partially to an air of uncertainty about inflation and interest rate hike creating a sense of urgency in equipment acquisitions with fears of higher prices overall in 2022. This dynamic was coupled with the effects of supply chain issues during 2021 driving profitability for many organizations even though overall originations were down. The key reasons reported for the increased profitability is end of term residual gains through renewals, extensions, and sale on existing equipment which have a more profitable profile, coupled with continued stellar portfolio performance. Companies are keeping existing equipment in place longer because of supply chain challenges to procure new assets along with notably increased prices for new equipment available. A CFO of a large independent remarked, “Profitability and portfolio performance is going almost unbelievably well.”

Active M&A Market

The current search for asset growth, high liquidity, and uncertainty abo future inflation and overall market conditions is driving a rise in M&A activity across the industry. Exhibit 7 lists the key M&A transactions announced or completed between the 4th quarter of 2021 and the 1st quarter of 2022. Predictions across the industry are for continued strong M&A activity throughout 2022. In a market with sustained high liquidity and ample opportunities to borrow those looking to sell or acquire assets, both have an opportunity. This will likely continue to accelerate in the next few quarters while interest rates remain low.

Another factor influencing M&A activity is Fintech-related. There was a vast acceleration in the adoption of technology to support eCommerce selling during the pandemic. Experiences during the pandemic have demonstrated to the EF industry both the effectiveness and customer demand for embedded point of sale financing solutions. Transactions like the Wafra, Inc. acquisition of Financeit are likely to accelerate as companies assess build versus trade-offs to deliver eCommerce embedded finance solutions.

Exhibit 7: Key Acquisitions Announced or Completed October 2021 to March 18, 2022)

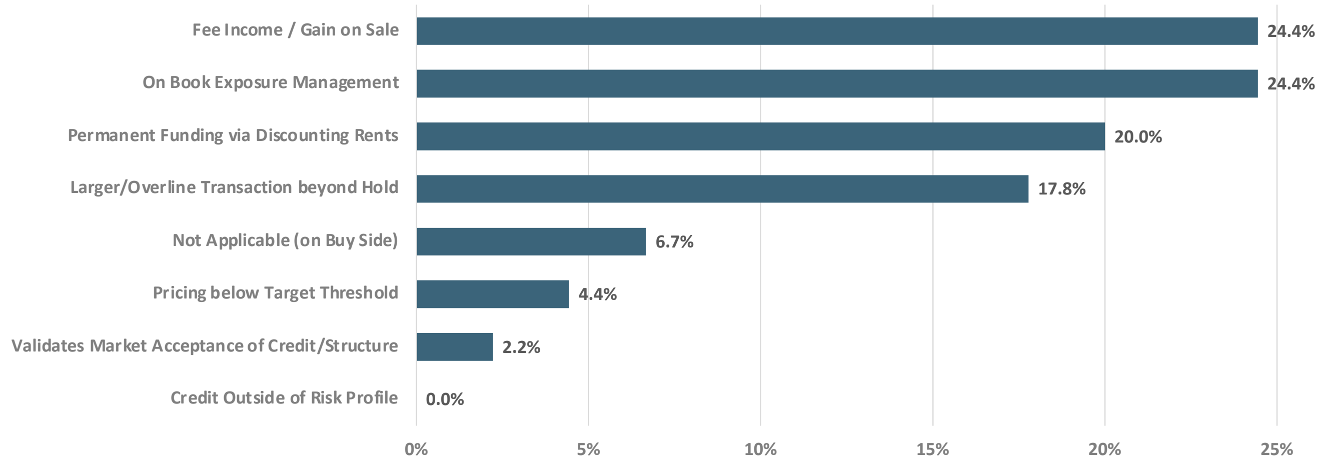
Acquired	Acquiror
CIT	First Citizens Bank
Elite Capital Team	Dext Capital
Summit Funding Group	First Financial Bancorp
Olinn Finance	Credit Agricole
Keystone Equipment Finance	Commercial Credit
Bank of the West	BMO Harris Bank
Balboa Capital	Ameris Bank
Financeit	Wafra Capital
Diversified Capital Credit	TimePayment Corporation
Marlin Business Services	HPS Investment Partners
IRH Capital	GreatAmerica Financial Services
ACG Equipment Finance	American Bank
Encina Equipment Finance	Franklin BSP
Vantage Financial	Peoples Bank
First Horizon Bank	TD Bank

Source: The Alta Group, LLC

Syndication Market – Current Trends

Sell-Side: As part of our survey of syndications professionals, we asked the community what the primary reason was that their companies were active in the syndications market. Their responses were segregated by buy-side and sell-side, understanding that many participants are active in both. The respondents represented a cross-section of industry players, with diversity among company size, originations focus, time in business, and a number of other factors. The top reasons respondents gave as to why they participated on the sell-side are as follows:

Exhibit 8: Primary Sell-Side Reasons to Syndicate

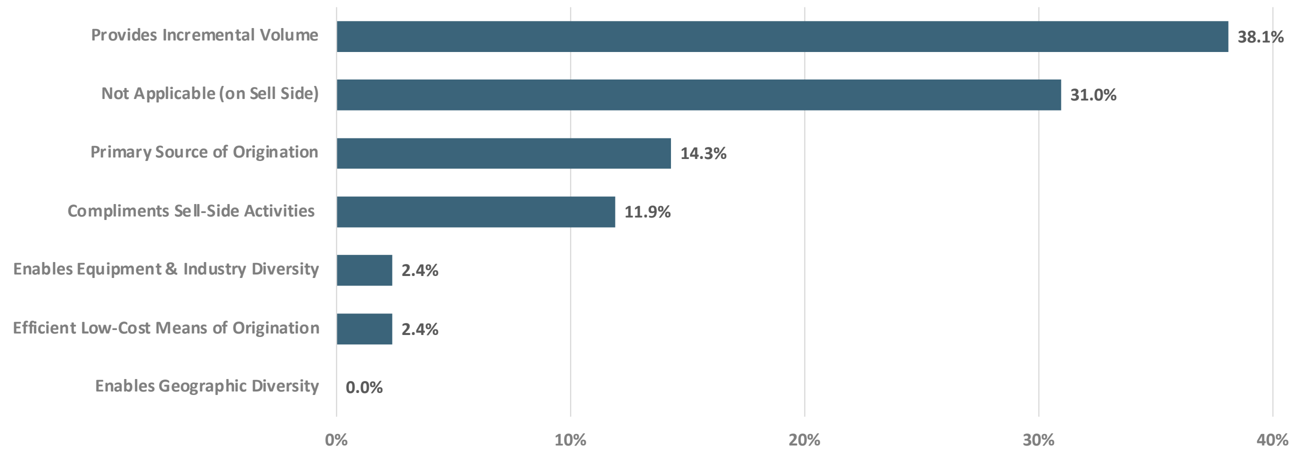


Source: The Alta Group, LLC

Accelerating transaction income and exposure management were the two top reasons companies sold transactions, with discounting as a primary funding vehicle and managing to a hold position making up the bulk of the other responses. Secondary reasons included rates not meeting the company's hold criteria, market validation of transaction structure, and reciprocity with their buy-side efforts.

Buy-Side: Similarly, we asked our respondents what their company's primary reason was for buying transactions:

Exhibit 9: Primary Buy-Side Reasons to Syndicate



Source: The Alta Group, LLC

Clearly here, two factors dominated the results, with incremental volume being the largest, and nearly 15% of respondents indicating that it was their primary source of business. Secondary reasons include reciprocity with syndications partners, providing geographic, equipment, and industry diversity, and being a low-cost originations engine to supplement other efforts, in both existing markets and exploring new ones.

2020 Syndication Trends: Our respondents indicated that syndication volume was down for 2020, with 45% responding that buy-side volume was down vs. 31% reporting that volume had stayed the same and 24% reporting an increase. On the sell-side, 61% indicated having decreased activity, 32% indicated it had stayed the same and 7% reported an increase. Approximately 46% of respondents reported seeing more companies utilizing cash to buy equipment while 32% attributed a decrease to less equipment being sold in general. These results were also attributable to conservatism by potential borrowers waiting for clarity on the depth of the pandemic's effects on the general economy and their specific markets.

While a wait-and-see attitude was common as it related to asset purchases in the early days of the pandemic, it was a necessity in industries that were severely impacted by its effects. Airlines, leisure facilities (health clubs), restaurants, oil and gas drilling, and auto parts were all affected due to sharp drops in demand. As work from home arrangements became the norm, sellers of office products and supplies also felt significant drops in demand.

The drop in volume related to the pandemic contributed to excess market liquidity and was exacerbated by a sharp rise in bank deposits. Banks are measured by return on capital and need to employ deposits in the form of loans and leases to create those returns. Exhibit 10 below depicts the loan and deposit trends of four major banks reported for December 2021 compared to the previous year.

Exhibit 10: Public Bank Trends – Deposits vs. Loan Balances ($ millions)

	Average Deposits ($ millions)				Average Loan Balances ($ millions)			
	December '21	December '20	$ Gain	% Gain	December '21	December '20	$ Gain	% Gain
Bank of America	$2,000,000	$1,720,000	$280,000	16.3%	$945,000	$845,000	$100,000	11.8%
Wells Fargo	$1,470,000	$1,380,100	$89,900	6.5%	$875,000	$899,700	($24,700)	(2.7%)
Chase	$2,500,000	$2,136,000	$364,000	17.0%	$1,100,000	$1,042,000	$58,000	5.6%
Fifth Third	$167,541	$158,626	$8,915	5.6%	$109,487	$109,360	$127	0.1%

Source: 2020 & 2021 Published 10K Reports on Bank of America, Wells Fargo, Chase, Fifth Third (EDGAR)

The banks reported varying levels of loan balance growth, but all of them reported deposits far outpacing changes in loan balances. These results were reflective of the general banking market and are part of a longer-term trend. The combination of higher deposits and modest asset growth has created pressure for banks to deploy funds, while at the same time, excess liquidity has caused banks to hold assets that otherwise might have been syndicated. The net result is that demand in the secondary market has outpaced supply.

Supply Chain: While demand for equipment has returned, supply chain bottlenecks are hampering the availability of financeable assets, as manufacturers struggle to obtain the raw materials and components necessary to meet the increased demand. Approximately 77% of respondents indicated that they had experienced transactions being significantly postponed by supply chain issues and 41% indicated that their volume was down due to equipment simply not being available. While some improvement in the supply chain backlog has been reported, many economists are not forecasting a return to normal until 2023 or later. Since software is mostly delivered electronically, it has been only minimally impacted by supply chain issues and has been an area of strength for a number of EF companies during the supply chain difficulties.

The ELFA's MLFI-25 Monthly Index data for December 2021 shows that volume for December was marginally down from December 2020 but was up 49% from November 2021. The strong year-end showing provides a reason for optimism that asset levels will approach normal levels later in 2022, as post-closing requirements are met for December transactions. Whether the increase is sufficient to warrant a return to deal syndication in light of the previously mentioned bank liquidity levels remains to be seen.

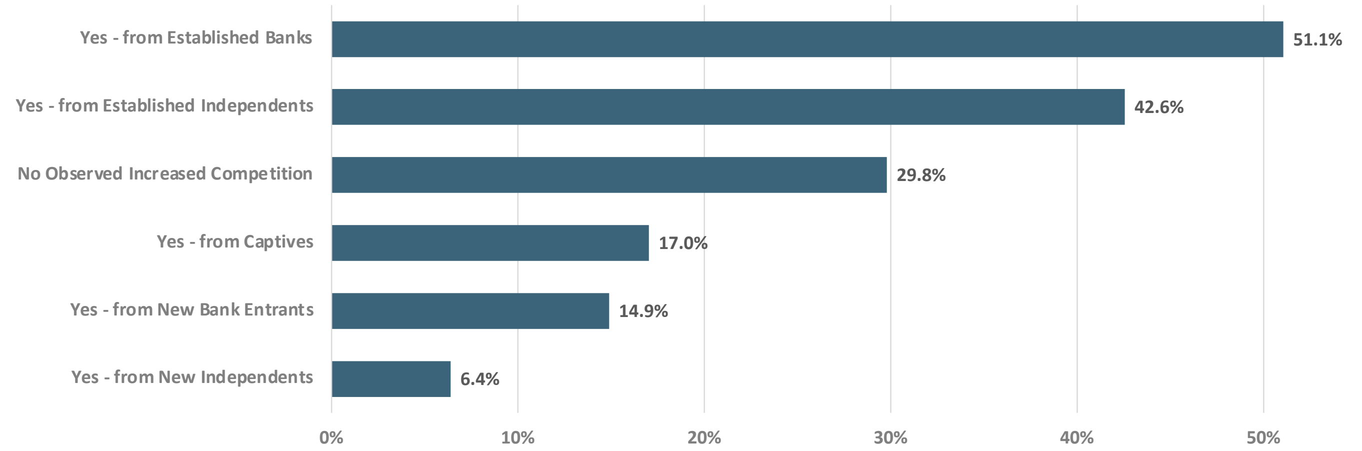
Asset Management Considerations: Supply chain issues are causing prices to increase on what new equipment is available due to supply and demand considerations. Because new equipment is in such short supply, demand, and prices for used equipment are also substantially higher. The duration of this market dynamic will depend on how quickly supply chain issues can be improved, as well as ongoing demand for new and used products. This value anomaly is creating several issues for asset management and other risk professionals.

- Loan-to-value ratios are artificially high due to collateral values being temporarily inflated, which may drive the need for secondary collateral pledges or larger down payments.
- Residual values are being impacted due to price inflation for new and used equipment. Since the duration of price inflation is increasingly difficult to forecast, the residual setting is highly dependent on forecasted economic conditions and assessment of future equipment availability.
- Residual performance of existing portfolios is up sharply due to high used equipment values and unusually strong stick factors as equipment stay in place while market factors sort themselves out. This phenomenon is beneficial to the near-term profitability of lessors, and also may drive future volume as the older equipment eventually would need to be traded in or upgraded to maintain its functionality.

Pricing: The industry-wide reduction in funds employed had a profound impact on the syndications market. With many industry participants experiencing lower asset levels, more participants looked to the secondary market to fill the void. Simultaneously, sell-side syndications professionals had fewer transactions to sell, as lower asset levels drove companies to hold transactions that normally would have been syndicated. These factors conspired to drive transaction spreads lower. Nearly 70% of our survey respondents indicated that transaction spreads had decreased since the onset of the pandemic. Based on the Fed's 25 basis point rate increase on March 16, 2022, with more expected later this year, industry participants need to be aware of the possibility of interest rate erosion should rates change between transaction close and ultimate funding. Interest rate swaps and locks are critical in managing interest rate risk. It remains to be seen as to whether the rising Fed rates will translate to higher transaction rates given the current hyper-competitive environment and levels of liquidity in the market.

Competition: As described above, market conditions have created a heightened level of competition for those transactions that are available in the market. Exhibit 9 below reflects that approximately 51% of our respondents reported seeing more competition for transactions from established banks and about 43% saw competitive pressures from established independents. This is a dynamic caused by the previously discussed liquidity in the marketplace, with participants casting a wider net to bring in volume. The need for earning assets is also driving new participants to the EF market. New bank entrants were reported by 15%, while new independents were reported by 6%.

Exhibit 11: Competition



Source: The Alta Group, LLC

Process: The pandemic dramatically changed the way business is transacted and is likely to have lasting effects. Travel restrictions drastically curtailed in-person meetings, changing the way prospecting, client calls, and client entertainment is done. Meetings immediately transitioned to online apps such as Teams, Webex, and Zoom. Even client entertainment went virtual with virtual wine tastings, cocktails, and cooking classes. What remains to be seen is to what degree business travel and in-person entertainment returns as the pandemic subsides, as businesses have realized significant savings from these changes. Other process changes realized from the pandemic include:

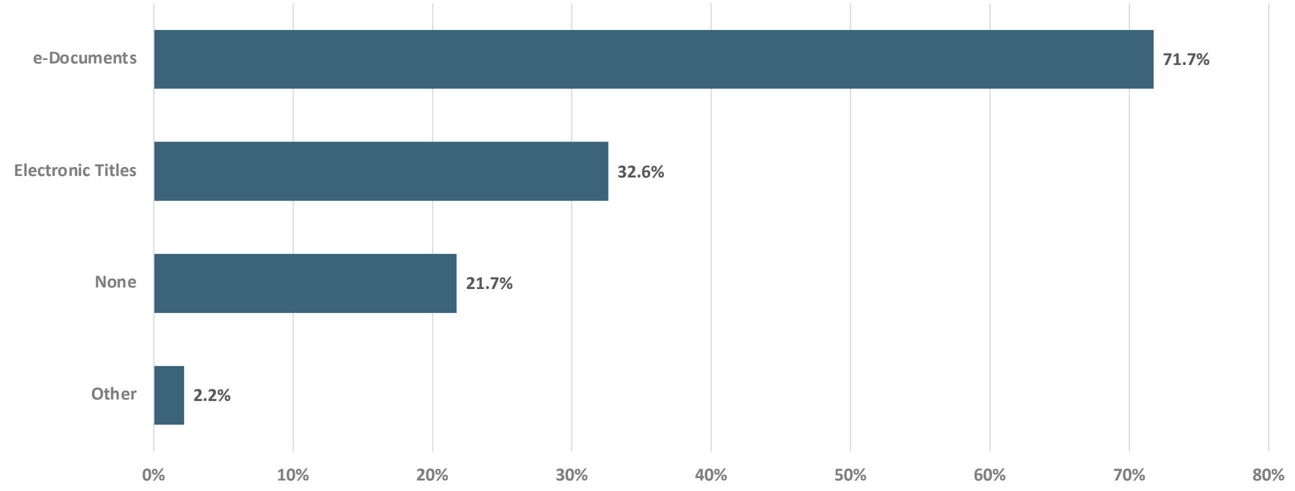
- Webinars replacing in-person conferences.
- Collateral inspections done remotely.
- Lack of in-person meetings driving the continued expansion of KYC requirements.
- Prospecting going primarily one-to-one rather than utilizing networking events.
- Utilization of business process tools to address proximity-related issues caused by the proliferation of remote work environments (see below).

E-Documents: The challenges brought on by the pandemic drove the adoption of syndication tools, especially e-docs, e-titling, and e-vaults. As shown below, approximately 70% of our syndications respondents indicated that they were using e-docs. While many of them had been using this tool prior to the pandemic, our interviews reveal that utilization had expanded for several reasons, as these tools allowed for the easy transfer of documentation to a lender, they helped overcome the logistical challenges of tracking down signers who were working remotely and allowed for more collaboration between employees no longer all working in a central location. Other reasons cited for the use of e-docs include:

- E-vaults ease the lien perfection and management of chattel paper for secured lenders.
- Users recognize that stamping and signer ID features enhance security.
- Products are evolving to include virtual closing rooms with the ability to witness signatures via meeting apps.

- With hybrid home/office work models unlikely to go away, the products allow greater collaboration capabilities without the need for employees to co-locate.
- Case law continues to support e-doc enforceability.

Exhibit 12: Electronic Document Tools



Source: The Alta Group, LLC

E-Titles: Currently, 24 states offer electronic titling and lien recording, with half of those making it a requirement Since e-titles are a requirement of doing business in those 12 states, any firm doing business there must utilize the process. The benefits are that the burdensome process of recording, holding, and managing title documents is made easier, but without universal adoption, it only impacts business done in those states. Approximately one-third of respondents utilize e-titles, with the utilization number limited by the percentage of respondents that finance motor vehicles.

Syndication Tools: Somewhat less common is the utilization of transaction syndication tools. Among our respondents, almost 60% use Excel spreadsheets and other personal productivity tools to manage the securitization process. Approximately 25% use web-based securitization tools such as Intralinks, Saleforce.com, SyndTrak, and Syndifi to support deal tracking and document sharing, while 18% use their CRM platforms. It was common among bank-owned companies to use the same platform as the bank to make IT management less complex. Utilization of such tools also depends on the degree of client information that needs to be shared in the syndication process. A transaction for a publicly traded entity typically would not need to have much more than transaction terms shared, while a middle-market loan may have a full underwriting package with a considerable amount of confidential information that would need to be protected.

Wish List: Our syndications professionals were asked to provide a wish list of items that would make their roles more effective, productive, or easier. The responses are as follows:

- Average buy spreads based on credit quality metrics (i.e., public debt rating).
- List of buyers of equipment on foreign soil (Mexico, Canada, etc.).
- Current sale prices/spreads (over average-life or full-term SWAPS based on credit and/or collateral).

- Market clearing prices by credit rating and/or collateral type.
- Ratings of buyers and sellers by syndicated volume.
- Industry standard, secure web-based ‘e-SAFE’ or ‘e-VAULT’ for document retention and retrieval.

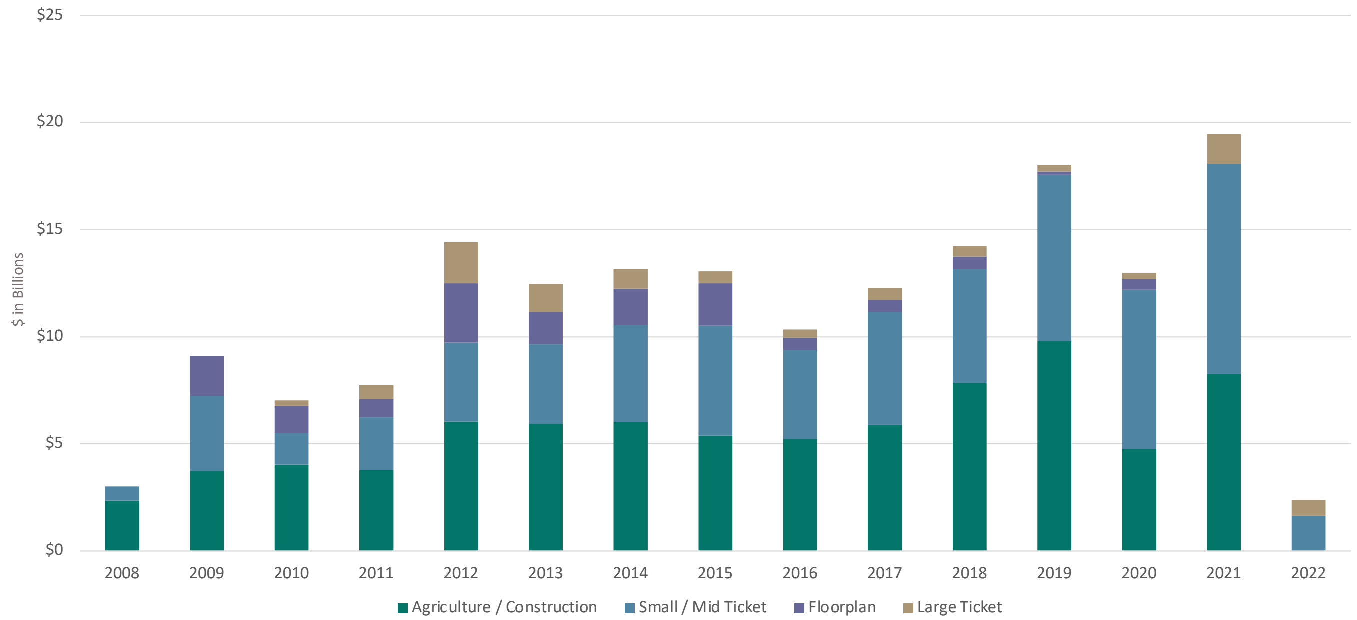
Many of these requests depend on the creation of a central repository similar to Gold Sheets in the banking community and willingness by industry participants to share what could be considered proprietary information. The e-vaults are in existence now but require subscription and are specific to the e-doc vendor, whereas syndicators would like to see a functional equivalent that could be shared across the industry.

Equipment ABS Market - Current Trends

The asset-backed securities ("ABS") market has long been a reliable source of funding for equipment leasing and finance firms for nearly four decades. In fact, it is a critical funding tool for many independents and captives because it is dependable and inexpensive. Larger EF firms capable of securitizing $100 million or more at any given time prefer the efficiency of the public ABS market while smaller EF firms have access to the private market. Equipment ABS truly affords accessibility for small and medium ticket equipment leasing and finance companies that do not have access to the unsecured debt markets.

Historically, equipment ABS deals have performed consistently over cycles due to strong underlying fundamentals as supported by strong credit quality metrics. Investors are attracted to these securitizations because they have relatively short durations, low delinquency rates, low charge-offs, and lack prepayment risk as compared to other assets. The combination of these factors is why issuers continue to enjoy strong access to the ABS market.

Exhibit 13: ABS Issuance (2008 to February 2022)



Source: https://finsight.com/equipment-abs-bond-issuance-overview?products=ABS&regions=USOA (2/24/22)

The State of the Market

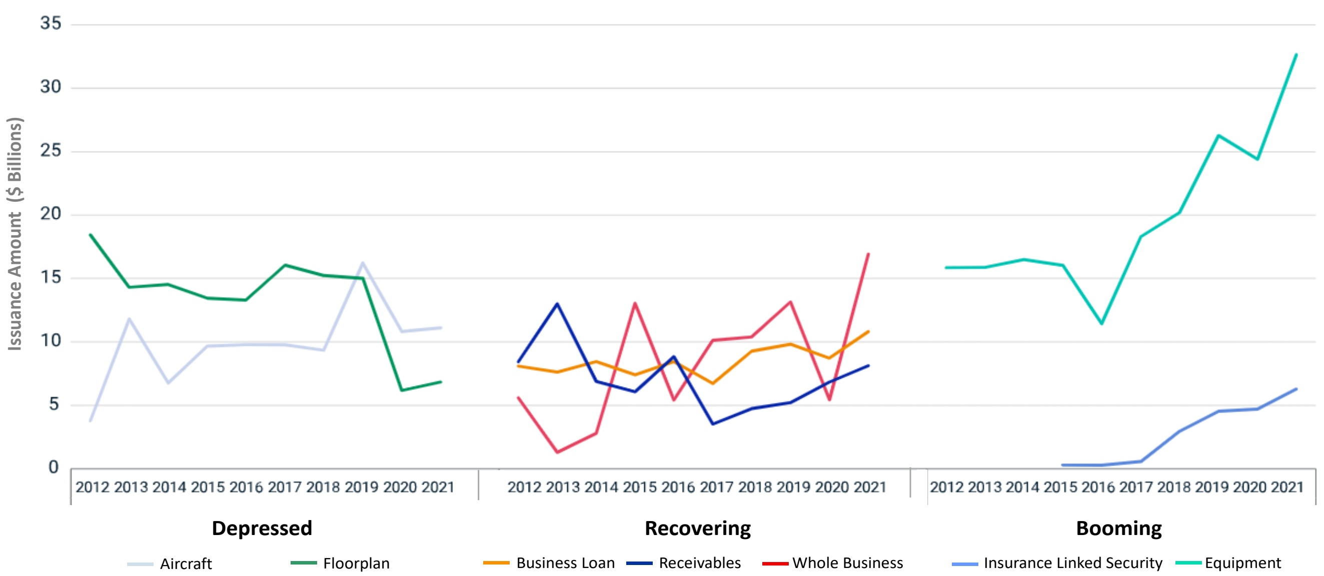
Despite the economic challenges created by the coronavirus pandemic, the equipment ABS market demonstrated its resiliency in 2020 and provided equipment leasing and finance companies with a reliable source of funding. Equipment ABS originations started out strong in 2020 before the global lockdown paused new deal flow in mid-March. ABS activity picked up in April when several large auto ABS issuers successfully returned to markets. Shortly thereafter, Dell Financial Services was the first equipment ABS issuer to return with a $1.0 billion deal in mid-April. Repeat issuers such as CNH and Deere resumed their programmatic issuance activities which prompted other issuance activity as well. Perhaps in a sign of the underlying health of the equipment ABS sector, investors embraced the public debut of Dext Capital's $124 million healthcare securitization in late Fall. By the end of the year, total equipment ABS originations declined to $13 billion from $19.6 billion in 2019 as credit tightened during the initial phase of the pandemic. Of the deals completed, they were spread among twenty-two discrete transactions. The mix of securitizations included $7.4 billion in thirteen small-ticket deals; $4.8 billion in seven agriculture/construction deals; a $489 million large-ticket deal and a $300 million floorplan deal.

Equipment ABS issuance returned to pre-pandemic levels in 2021 with thirty separate transactions totaling $19.5 billion. Repeat issuers included GreatAmerica Financial Services, Dell, Deere, CNH, Amur Finance, HP Financial Services, and Encina Equipment Finance. Two equipment leasing and finance companies issued their inaugural public equipment securitizations during the year. Crossroads Equipment Lease and Finance issued a $163 million equipment ABS deal backed by commercial truck loans. Atalaya Capital Management securitized $232 million of mid to large ticket equipment. Both deals were over-subscribed. Small-ticket securitizations accounted for the largest category with eighteen deals totaling $9.8 billion followed by nine deals in the agriculture construction space totaling $8.3 billion and three large-ticket deals totaling $1.4 billion.

Industry analysts predict another strong year for equipment ABS with 2022 issuances up some 25% to $24 billion. Of course, that level of activity is dependent on making progress with delays in the supply chain as well as the impact of number and steepness of interest rate hikes later in the year. Through the end of February, demand for equipment ABS paper continues into 2022 with four discrete deals totaling $2.4 billion. Small-ticket securitizations account for roughly two-thirds of the new issuance activity and large tickets amount to the other third.

While equipment ABS issuance appears to have recovered from the devastating effects of the pandemic, it is important to point out that not all ABS asset classes have fared as well.

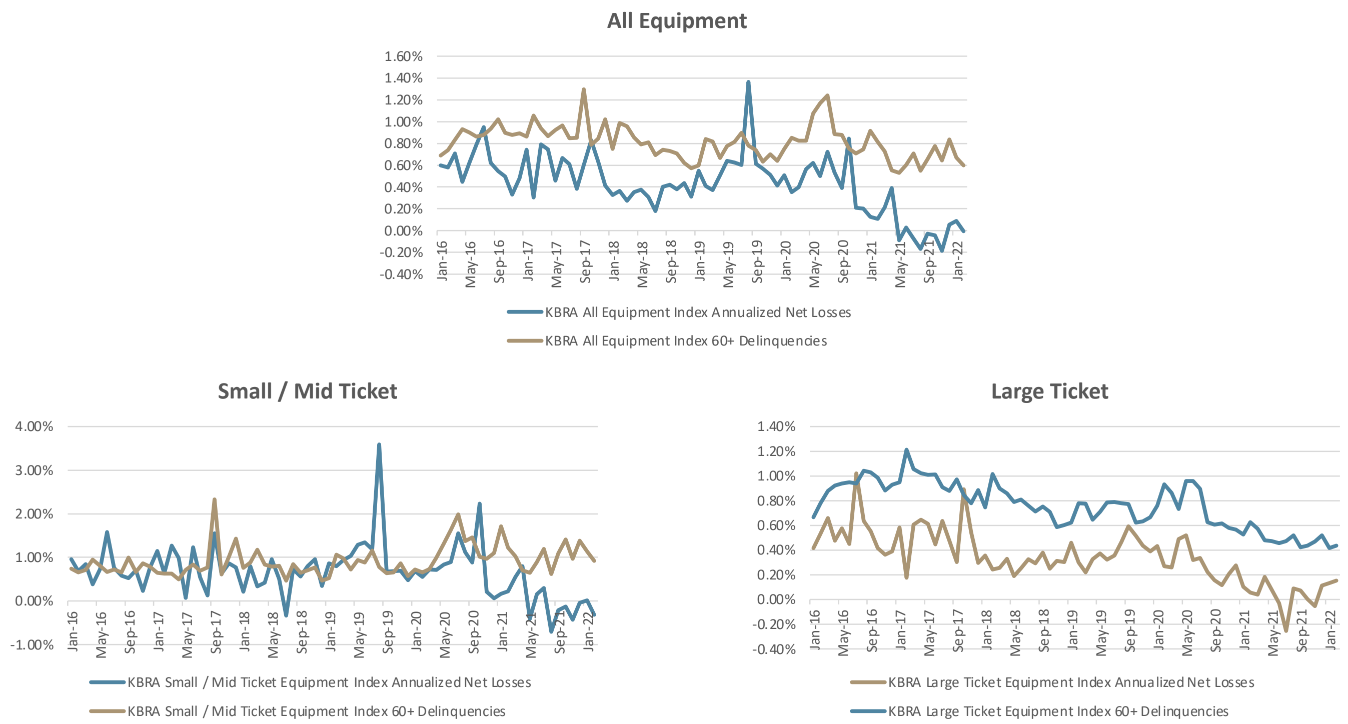
Exhibit 14: Commercial ABS Issuance Activity 2012 – 2021 by Asset Class



Source: https://www.msci.com/www/blog-posts/us-abs-strong-bounce-back/03004974146; viewed 2/21/22

Exhibit 14 above shows that the issuance of ABS deals from 2012 - to 2021 has been uneven since the start of the pandemic. Equipment ABS by far is outperforming all other commercial ABS sectors in part, due to the essential use nature of the underlying collateral, consistent portfolio performance, and a strong economy. Another reason is that the credit metrics of the outstanding equipment ABS deals remain very strong as described below. This performance is another reason why investors are attracted to the equipment ABS as an asset class.

Exhibit 15: KBRA Equipment Lease / Loan Indices



Source: Kroll Bond Rating Agency "Equipment Loan and Lease Indices": February 2022), published 3/4/22

The performance of outstanding equipment ABS proved resilient during 2020 aided, in part, by the Federal stimulus programs and borrower relief programs offered by EF firms. As a result, only a handful of equipment ABS was downgraded for performance reasons by the rating agencies. Exhibit 15 dimensions how net credit losses and delinquency levels jumped at the outset of the pandemic but not, as some participants feared, to the levels last seen in the Great Recession. Although the absolute levels are strong, performance metrics varied by type of securitization. Small and medium ticket-size transactions, which were hit hard by the business shut down, especially in the travel and hospitality sectors, recorded high credit losses and delinquencies and, by extension, greater acceptance rate payment deferrals. Most businesses that elected the payment deferral options are now current.[2] By contrast, credit losses in agriculture ABS stayed low reflecting farmers' strong financials.[3] It is noteworthy that only a handful of equipment ABS was downgraded by the rating agencies for credit performance reasons.

Borrower's ability to repay still benefitted from a continuation of the stimulus programs throughout 2021 and that kept net credit losses low. By the second quarter, however, net credit losses entered negative territory as recoveries on loans that defaulted in previous quarters outpaced actual credit losses. Part of this phenomenon is due to securitization reporting tenets which record accounts past due 120 days or more as a default and therefore charges off that account. Many such accounts were cured later with a one-time true up payment thereby reversing the initial charge-off.[4]

Delinquencies, which peaked in the second quarter of 2020 due to the pandemic, returned to more normal levels as the payment deferral programs enabled a curing of those early delinquencies. Small-ticket delinquencies ticked up in the latter part of 2021 as fiscal stimulus programs expired. Going forward, small ticket delinquency performance will be dependent upon the strength and depth of the post-pandemic economic recovery.

Looking Ahead

Equipment ABS market will remain an attractive funding source for EF firms given its performance history and strong investor demand. Issuance activity should remain robust for the next 18 months reflecting continued strong demand for new equipment which will be supported by the Infrastructure Investment and Jobs Act. Offsetting these positive trends are continued supply chain disruptions and inflationary pressures such as additional increases in equipment prices. Because of ABS's strong fundamental performance history relative to other ABS asset classes, equipment ABS will afford EF firms continued access to this effective source of funds in the future.

Industry Financial Trends

Berkshire Hathaway CEO, Warren Buffett, is cited for saying, "Only when the tide goes out do you discover who has been swimming naked."

The liquidity crisis that was both a cause and an effect driver of the 2009 Great Recession tested the capital coverage of operators within the EF industry – and revealed the inadequacy of some.

In the years leading up to the fall of Lehman Brothers and the general lack of financial market trust, there was an unbridled chase for portfolio growth that caused some to abandon core competencies and adopt flawed business models. For some, there was a lack of adequate controls, gaps in staffing competencies, and shortfall in process capabilities.

The Great Recession brought to light portfolio quality deterioration reflected in a spike of delinquencies and impairment write-offs. When companies face challenges to their asset quality, this is often accompanied by insufficient capital access needed to grow or even maintain the EF portfolio. This led to notable changes in the landscape of EF players. Once the world's largest EF company, GE Capital transformed itself into a captive financing GE-manufactured products in the years following the Great Recession.

As a rising tide lifts all boats, the years following the Great Recession have reflected a flourishing economy and a renaissance era for most EF companies. The COVID Pandemic paused the U.S. economy in the first half of 2020. There arose a nagging underlying fear that a prolonged country-wide quarantine shut down would create an adverse economic climate like 2009 and 2010.

For the past 7 years, The Secured Finance Network (formerly the Commercial Finance Association) has commissioned research firm Westat Corporation to conduct an annual member survey of asset-based lending activity. While much broader than direct lending to equipment finance, over the past six years credit commitments outstanding among ABL member companies surveyed have grown more than 25% while ABL outstandings employed have decreased by 1%. As a result, unused capacity has increased by over 50% between 2014 and 2020.

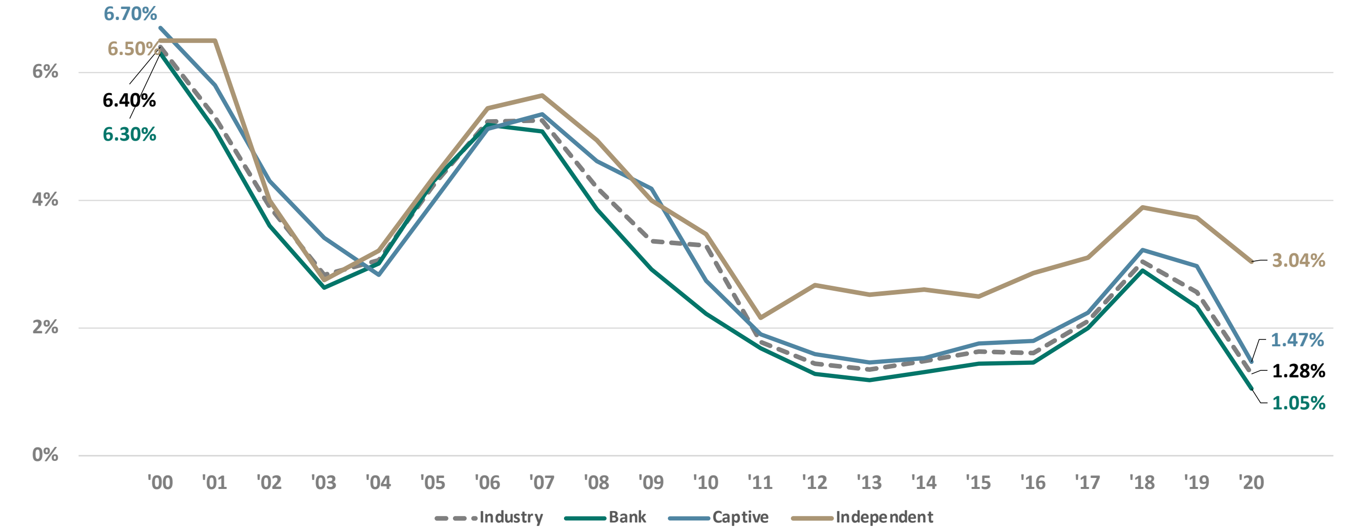
Exhibit 16: Secured Finance Network Survey of Asset Based Lending

Asset Based Lending (ABL) Annual Survey	$ Billions				
	FYE 2014	FYE 2020	Delta	% Growth	AACGR
Total Credit Commitments	$215.9	$273.9	+$58.0	+26.9%	+4.0%
Asset Based Loans Outstanding	$89.7	$82.9	-$6.8	-7.6%	-1.3%
Unused Capacity	$126.2	$191.0	+$64.8	+51.3%	+7.2%

Source: 2014 and 2020 Secured Finance Network Survey Report – prepared by Westat

Plentiful market liquidity has continued to drive down the cost of funds even further during the pandemic, down to an all-time record low average of 1.28%.

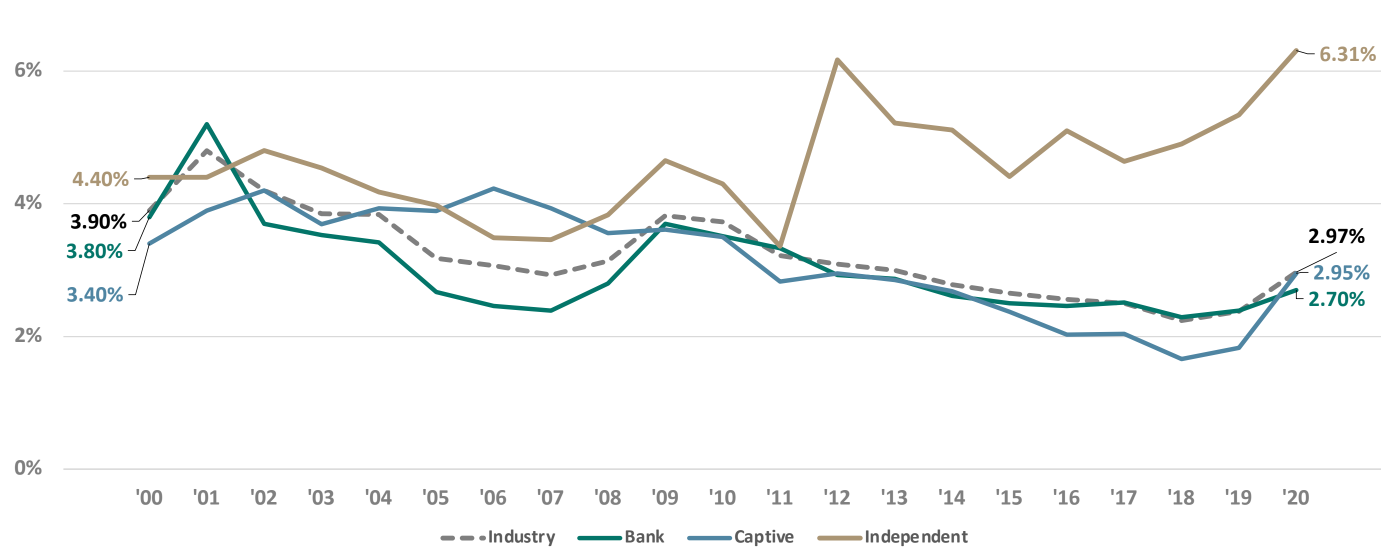
Exhibit 17: Cost of Funds



Source: ELFA 2008-2021 Survey of Equipment Finance Activity Reports (FYE 2007-2020)

While the cost of funds for Independents has decreased in tandem with that available to Banks and Captives, the cost of funds for the Independent averages more than a 150- basis point premium to that of Bank and Captive EF organizations. However, their market niche has enabled them to command a premium price for the transactions they finance resulting in a much higher spread than that enjoyed by Banks and Captives.

Exhibit 18: Pre-Tax Spread



Source: ELFA 2008-2021 Survey of Equipment Finance Activity Reports (FYE 2007-2020)

The 2021 SEFA report offers an additional look at capital adequacy – contrasting the Pandemic era FYE 2020 with Pre-COVID FYE 2019. Below is the average balance sheet of each type of EF organization in the most recent survey. The size of the average is dwarfed by that of industry Bank owned and Manufacturer owned Captives.

Exhibit 19: Balance Sheet Average Assets & Liabilities by Company Type

($000s)	AVERAGE ASSETS							
	Industry		Banks		Captives		Independents	
	FYE 2019	FYE 2020	FYE 2019	FYE 2020	FYE 2019	FYE 2020	FYE 2019	FYE 2020
ASSETS:								
Net Earning Assets	$2,264,148	$2,292,361	$3,288,635	$3,249,005	$2,322,699	$2,551,276	$402,248	$429,439
Operating Lease Assets	$458,806	$431,665	$446,374	$413,466	$1,154,455	$1,105,371	$57,530	$54,025
***<LESS>** Reserve for Losses*	*<$21,709>*	*<$23,910>*	*<$31,277>*	*<$32,360>*	*<$16,089>*	*<$23,529>*	*<$8,074>*	*<$9,077>*
NEA+OpLeases: Net of Loss Res.	**$2,701,245**	**$2,700,117**	**$3,703,732**	**$3,630,111**	**$3,461,065**	**$3,633,119**	**$451,703**	**$474,387**
Other Assets	$152,483	$158,338	$184,185	$205,539	$235,479	$210,940	$44,148	$42,179
Total Assets	**$2,853,728**	**$2,858,455**	**$3,887,917**	**$3,835,650**	**$3,696,544**	**$3,844,059**	**$495,851**	**$516,566**
LIABILITIES & NET WORTH:								
Total Short -Term Debt	*$137,100*	*$146,297*	*$53,303*	*$60,718*	*$536,313*	*$558,352*	*$43,477*	*$48,035*
Total Long-Term Debt	*$439,452*	*$414,638*	*$167,991*	*$141,072*	*$1,452,975*	*$1,384,939*	*$306,435*	*$311,680*
Intercompany Borrowings	*$1,575,116*	*$1,508,184*	*$2,820,209*	*$2,650,045*	*$446,828*	*$565,108*	*$42,386*	*$46,740*
Total Debt	**$2,151,668**	**$2,069,119**	**$3,041,503**	**$2,851,835**	**$2,436,115**	**$2,508,399**	**$392,298**	**$406,455**
Deferred Income Taxes	$145,824	$137,654	$227,890	$209,370	$126,029	$134,220	$11,580	$11,902
Other Liabilities	$105,246	$117,298	$93,777	$97,811	$289,323	$344,739	$13,645	$13,594
Total Liabilities	**$2,402,738**	**$2,324,071**	**$3,363,170**	**$3,159,016**	**$2,851,468**	**$2,987,358**	**$417,522**	**$431,950**
Net Worth	**$450,991**	**$534,384**	**$524,747**	**$676,635**	**$845,076**	**$856,700**	**$78,329**	**$84,616**
Total Liabilities & Net Worth	**$2,853,728**	**$2,858,455**	**$3,887,917**	**$3,835,650**	**$3,696,544**	**$3,844,059**	**$495,851**	**$516,566**
ASSETS UNDER MANAGEMENT:								
Securitized Managed Assets	*$2,364*	*$1,686*	*$1,242*	*$595*	*$9,533*	*$7,651*	*$0*	*$0*
Syndicated Managed Assets	*$186,625*	*$205,846*	*$193,112*	*$214,445*	*$419,935*	*$453,208*	*$33,047*	*$39,950*
Other Off Bal. Sheet Serviced Assets	*$52,226*	*$53,314*	*$89,823*	*$86,106*	*$0*	*$0*	*$16,995*	*$27,310*
Total Off-Balance Sheet Assets	**$241,215**	**$260,846**	**$284,177**	**$301,147**	**$429,468**	**$460,859**	**$50,043**	**$67,259**
Net Earning Assets	$2,264,148	$2,292,361	$3,288,635	$3,249,005	$2,322,699	$2,551,276	$402,248	$429,439
Operating Lease Assets	$458,806	$431,665	$446,374	$413,466	$1,154,455	$1,105,371	$57,530	$54,025
Total On Balance Sheet Assets	**$2,722,954**	**$2,724,027**	**$3,735,009**	**$3,662,472**	**$3,477,154**	**$3,656,647**	**$459,778**	**$483,464**
Total Assets Under Management	**$2,964,169**	**$2,984,873**	**$4,019,186**	**$3,963,618**	**$3,906,622**	**$4,117,506**	**$509,820**	**$550,724**
Number of Respondents	**78**	**78**	**41**	**41**	**14**	**14**	**23**	**23**

Source: ELFA 2021 Survey of Equipment Finance Activity Report (FYE 2020)

The most notable difference is the way in which these company types are funded. Bank EF subsidiaries have access to very low-cost bank deposits and therefore draw the majority of their capital from intercompany borrowings. Captives have the benefit of their parent treasury operations. The strong safety net of a parent company in the form of a bank or manufacturer captive is generally absent from the industry Independent. Responsible for raising their own funds, they appear to be disciplined in the use of medium and long debt instruments which more closely match the maturity tenor of transactions financed.

This illustrates the liability structure in place with these organizations:

Exhibit 20: Liabilities – Percentage of Total Debt

	PERCENT OF TOTAL DEBT							
	Industry		Banks		Captives		Independents	
	FYE ’19	FYE ’20	FYE ’19	FYE ’20	FYE ’19	FYE ’20	FYE ’19	FYE ’20
Total Short -Term Debt	6.4%	7.1%	1.8%	2.1%	22.0%	22.3%	11.1%	11.8%
Total Long-Term Debt	20.4%	20.0%	5.5%	4.9%	59.6%	55.2%	78.1%	76.7%
Intercompany Borrowings	73.2%	72.9%	92.7%	92.9%	18.3%	22.5%	10.8%	11.5%
Total Debt	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: ELFA 2021 Survey of Equipment Finance Activity Report (FYE 2020)

With past changes in gain-on-sale accounting and off-balance sheet liability guidelines, there appears to be only a nominal amount of off-balance sheet securitizations under management. However, within most all types of organizations, there is some level of originated finance business that has been sold or participated and therefore not on the balance sheet but is still being managed.

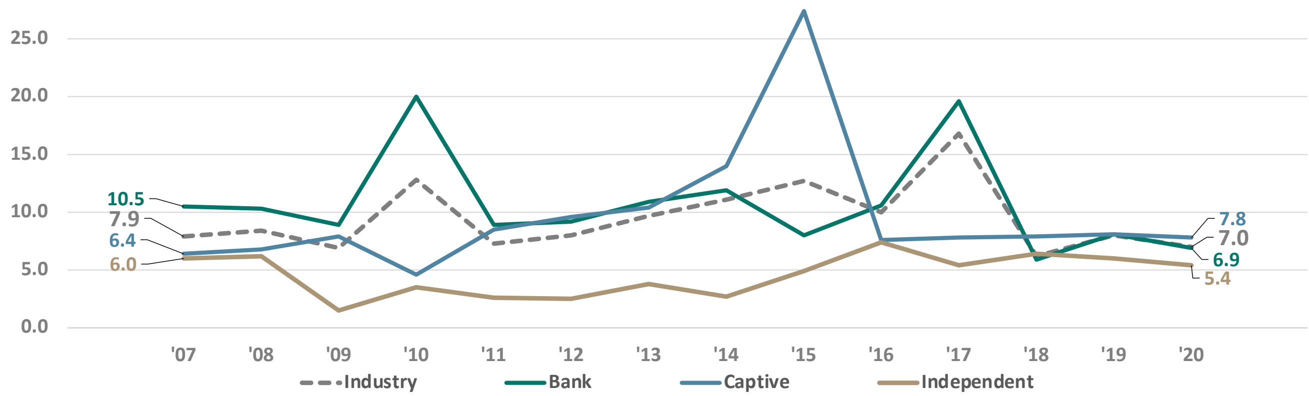
Exhibit 21: Percentage Assets Under Management

($000s)	PERCENT OF TOTAL ASSETS							
	Industry		Banks		Captives		Independents	
	FYE '19	FYE '20	FYE '19	FYE '20	FYE '19	FYE '20	FYE '19	FYE '20
ASSETS UNDER MANAGEMENT:								
Securitized Managed Assets	*0.1%*	*0.1%*	*0.0%*	*0.0%*	*0.2%*	*0.2%*	*0.0%*	*0.0%*
Syndicated Managed Assets	*6.3%*	*6.9%*	*4.8%*	*5.4%*	*10.7%*	*11.0%*	*6.5%*	*7.3%*
Other Off Bal. Sheet Serviced Assets	*1.8%*	*1.8%*	*2.2%*	*2.2%*	*0.0%*	*0.0%*	*3.3%*	*5.0%*
Total Off-Balance Sheet Assets	**8.1%**	**8.7%**	**7.1%**	**7.6%**	**11.0%**	**11.2%**	**9.8%**	**12.2%**
Net Earning Assets	76.4%	76.8%	81.8%	82.0%	59.5%	62.0%	78.9%	78.0%
Operating Lease Assets	15.5%	14.5%	11.1%	10.4%	29.6%	26.8%	11.3%	9.8%
Total On Balance Sheet Assets	**91.9%**	**91.3%**	**92.9%**	**92.4%**	**89.0%**	**88.8%**	**90.2%**	**87.8%**
Total Assets Under Management	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Number of Respondents	**78**	**78**	**41**	**41**	**14**	**14**	**23**	**23**

Source: ELFA 2021 Survey of Equipment Finance Activity Report (FYE 2020)

On a dollar weighted basis, the total debt to net worth has been trending down over the past few years. Bank EF debt to worth is about 7:1, down from just under 12:1 in 2014. But this leverage snapshot gives significantly more weight to Banks, Captives, and Independents with the largest overall balance sheets. Across the board, larger organizations operate with higher leverage.

Exhibit 22: Total Debt to Net Worth (Dollar Weighted Average)

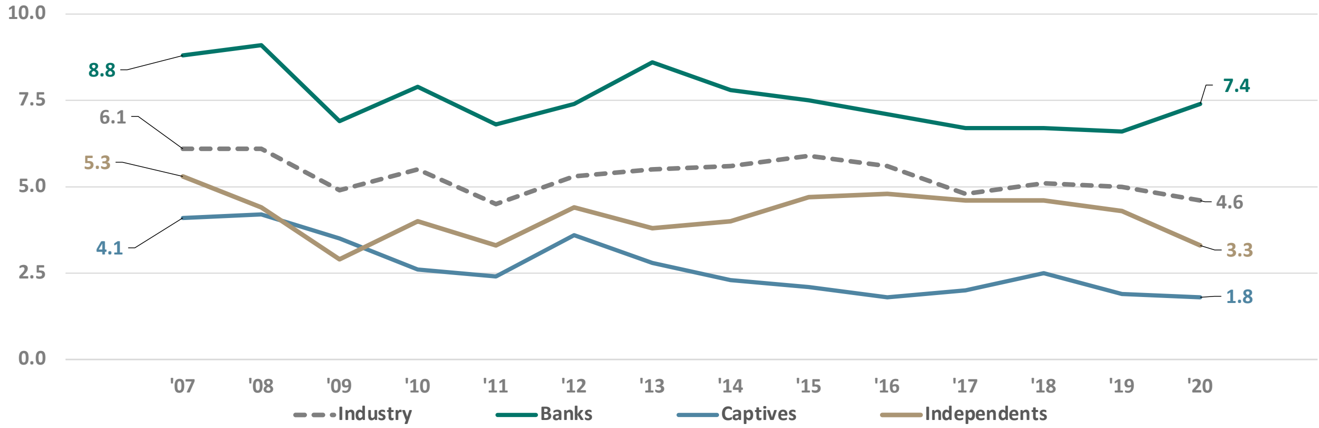


Total Debt to Net Worth (Mean)	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
Industry	7.9	8.4	6.9	12.8	7.3	8.0	9.7	11.1	12.7	10.0	16.8	6.2	8.0	7.0
Banks	10.5	10.3	8.9	20.0	8.9	9.2	10.9	11.9	8.0	10.6	19.6	5.9	8.1	6.9
Captives	6.4	6.8	7.9	4.6	8.5	9.6	10.4	14.0	27.4	7.6	7.8	7.9	8.1	7.8
Independents	6.0	6.2	1.5	3.5	2.6	2.5	3.8	2.7	4.9	7.4	5.4	6.4	6.0	5.4

Source: ELFA 2008-2021 Survey of Equipment Finance Activity Reports (FYE 2007-2020)

The smaller EF firm – Banks and Captives, as well as Independents, present a much more modest overall Total Debt to Worth when plotting the median (mid-point) of each organization type. While the reported Independent balance sheet dollar-weighted debt to worth was 5:6:1.0, the mid-point firm was only 3.3:1.0.

Exhibit 23: Total Debt to Net Worth (Median)



Total Debt to Net Worth (Median)	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
Industry	6.1	6.1	4.9	5.5	4.5	5.3	5.5	5.6	5.9	5.6	4.8	5.1	5.0	4.6
Banks	8.8	9.1	6.9	7.9	6.8	7.4	8.6	7.8	7.5	7.1	6.7	6.7	6.6	7.4
Captives	4.1	4.2	3.5	2.6	2.4	3.6	2.8	2.3	2.1	1.8	2.0	2.5	1.9	1.8
Independents	5.3	4.4	2.9	4.0	3.3	4.4	3.8	4.0	4.7	4.8	4.6	4.6	4.3	3.3

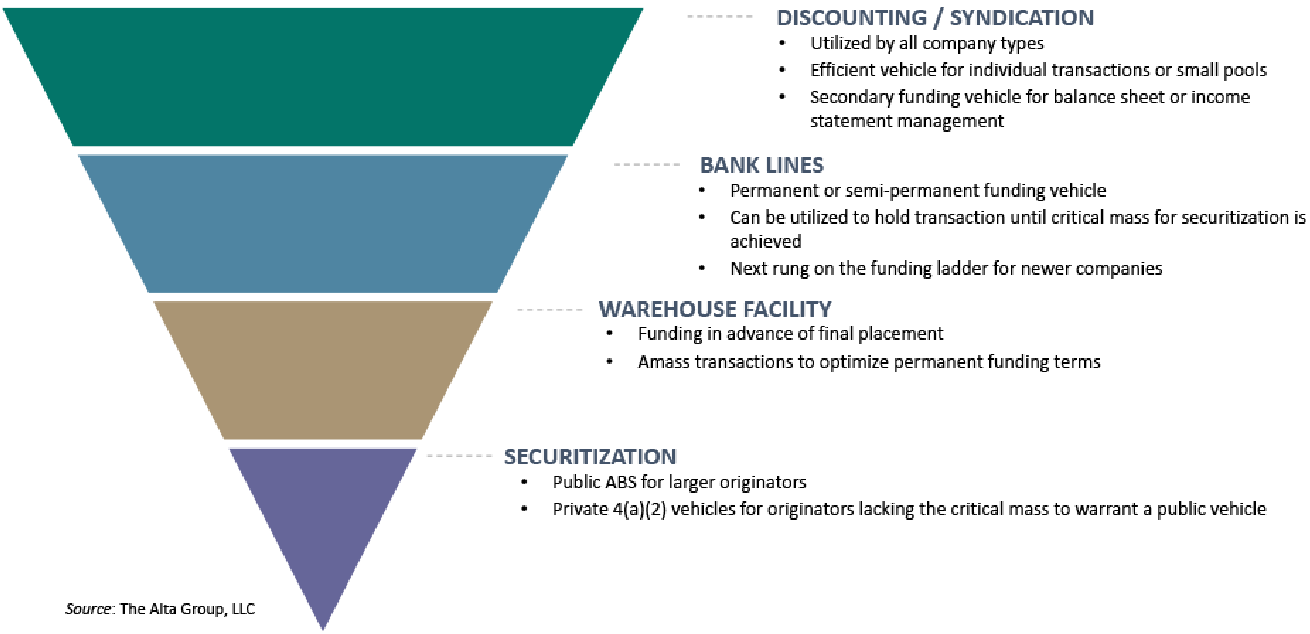
Source: ELFA 2008-2021 Survey of Equipment Finance Activity Reports (FYE 2007-2020)

The industry has not experienced a capital adequacy problem. Banks have access to the lowest cost of funds in their history. Captives and well-run Independents are being actively courted by a wide array of capital markets lenders from I-banks, insurance companies, bank debt, and other ABL products lenders.

Funding Tools - A Market Primer

While banks tend to fund their leasing companies with a combination of deposits, public debt, and intercompany borrowings, a variety of funding tools exist for Independent and captive EF companies and are depicted in Exhibit 24 below. Following is a discussion of these products and the types of firms likely to utilize them. No funding mechanism is exclusive to a particular type of company and as a company moves up the spectrum of time and volume, they are more likely to use multiple, or in some cases, all of the financing vehicles available to them.

Exhibit 24: Funding Source Sequencing



Source: The Alta Group, LLC

Discounted Paper: Discounting involves the financing of leases or loan paper by assigning a payment stream to a third party, with the price determined by present valuing the stream using a rate lower than that used in the transaction. This funding vehicle is extremely common in the EF industry and is utilized across a spectrum of company types and circumstances. Some examples are:

- A relatively new finance company or broker that does not generate the consistent volume or have the operating history to warrant a bank warehouse facility or other funding vehicles.
- An established EF firm generating investment grade or near investment grade paper, where the risk profile of the lessee/borrower is stronger than that of the lender. This allows the EF company to fund at a lower rate than would be available to it utilizing its own balance sheet.
- A vendor captive generating paper and utilizing the parent's balance sheet for temporary funding until permanent placement can be arranged. Typically, the volume generated by the captive would be insufficient to effectively utilize an ABS or other facility and the parent's interim funding renders a bank line unnecessary. Transaction size can range from small-ticket (funded in pools) to large-ticket (funded individually).

Transactions funded in this manner can be without recourse to the seller (other than standard representations and warranties), or with some measure of credit support from the seller, depending on the relationship type and the credit quality of the parties involved. A wide range of banks and finance companies provide this type of financing, with many of them specializing in industries and transaction profiles. Pricing varies with the credit rating of the end-user and the cost of funds of the lender.

Syndication: Syndication is a funding tool that in most respects is similar to discounting. All or a part of the payment stream is funded by a third party, as with discounting, and pricing is determined in the same manner. The primary difference is that syndication is generally a secondary transaction between financial institutions after the initial funding has occurred. A financial institution could have several reasons for using this funding vehicle, but as discussed in the Syndication Market Trends section of this presentation, it is typically used to fund transactions outside its hold parameters or to generate fee income by accelerating the profit in the transaction. Syndication is utilized by most, if not all types of equipment financing entities as a means to broaden the window of eligible transactions it can fund. This can be especially valuable for participants in the vendor finance segment as it allows financial institutions to be more of a "one-stop-shop" without going outside of its established risk assessment criteria (RACs). Pricing is determined by the risk profile of the obligor.

Bank Lines and Facilities: These facilities are very similar in structure to warehouse lines in that they are utilized to initially fund transactions and are secured by the underlying portfolio. The primary difference is that they can be used to provide permanent funding in addition to being an interim step to such funding. Bank lines typically are provided to larger and better-established leasing and finance companies with proven management teams and typically have larger limits and lower rates. Because they can be utilized for permanent funding, there is often an option to swap the floating rate to fixed. These facilities can provide funding autonomy to the borrower, as they are often structured to allow "automatic" funding provided certain predetermined criteria, such as collateral type, obligor credit rating, term, time in business, transaction size, and others are met. There are generally no cleanup provisions in these facilities. It is not uncommon for the lending and ABS issuance arms of a bank to work in tandem to provide an end-to-end solution to their client base.

Warehouse Lines: Warehouse lines, as the name suggests, are facilities used to temporarily fund lease or loan transactions that are permanently financed using another funding vehicle, usually within a 3–12-month time frame. Warehouse facilities are generally secured by the company's unpledged portfolio of lease or loan contracts, but blanket liens are also common. The typical warehouse line is $10 million and up, depending on the originations of the company and the length of time the EF company holds the transactions. These facilities often have periodic requirements to pay the facility down to a zero balance, commonly known as cleanup provisions. Finance companies utilizing these credit facilities are typically independents that have graduated from small lessor or broker status, and they utilize these lines to fuel their growth. They have established a history of generating consistent volume and performing assets while building equity. Regional banks are key providers of warehouse lines, but larger banks can also play in this market. Warehouse lenders can sometimes require a contractual right of first refusal for final placement of the transactions. Pricing varies based on the borrower and the underlying transaction characteristics but typically ranges from L+1-4%. It is not uncommon for the lending and ABS issuance arms of a bank to work in tandem to provide an end-to-end solution to their client base.

While these facilities are often used to provide permanent funding, larger operators also use them to warehouse transactions until critical mass is achieved to warrant a public or private securitization (see below).

Securitizations: Securitizations, or asset-backed securities (ABS) issuances, are transactions where an issuer structures a marketable financial instrument by pooling various loans and leases assets into one group, held in an entity outside the control of the issuer (bankruptcy remote). The issuer then sells interests in this group of repackaged assets to investors, either through a publicly or privately traded investment vehicle.

Public: These transactions are treated as a security by the SEC and are closely regulated. They typically have the lowest interest rates of the investment vehicles, but also have the highest upfront costs, so for them to be economically feasible, a financial institution must have the originations capability to fill multiple takedowns over time. Because these transactions are regulated securities, they have very strict structure requirements that contribute to significant upfront costs. Some of these are:

- Requirement for a true sale opinion and attendant accounting and legal fees.
- Establishment of a bankruptcy remote entity to own the contracts.
- Legal fees.
- Arranger fees.
- Servicer audits.
- Backup servicer fees.

While these funding vehicles have been reserved for the largest issuers historically, ranging from $200 million and up, over the past several years, the threshold for ABS issuance has been coming down. This is primarily due to the favorable performance characteristics of the asset class and the comfort level of investors with the risk-reward profile. Other characteristics that need to be satisfied prior to public ABS issuance may include:

- Consistent new business volume of $100 million or more.
- Five years of favorable, consistent delinquency, write-off, and recovery history.
- Availability of static pool loss performance from representative historical origination vintages, stratified by industry, collateral, or other factors requested by underwriters or rating agencies.
- Manageable concentrations with clients, geographies, industries, and others.
- Five-year residual realization history.
- Policies and procedures, along with substantial evidence of compliance and exception reporting.

This is by no means an exhaustive list of considerations, and requirements will vary by EF company, underwriter, and rating agency. The securities are offered in tranches, with the highest-rated tranche (often AAA) getting the first cash flows, and then cascading through the tranches (typically four or five) before the EF company gets cash for its retained piece. Each tranche is priced based on its ability to cover historic losses and its position in the cash waterfall. Market pricing and advance rates differ greatly by issuer and depend on its target market dynamics, historic delinquencies, write-offs and recoveries, and other issues addressed by the underwriter. A review of several 2020 transactions revealed weighted average pricing ranged from LIBOR +30 to 250bp.

Private: These transactions fall into two categories: 144(a) and 4(a)(2) offerings. The two structures are similar in that they are both private placements but differ because 4(a)(2) transactions generally are smaller, simpler, and have fewer investors, while 144(a) structures offer better pricing, but have more upfront expenses and rigor around due diligence and structure. Both are similar in structure to public ABS but are arranged to be sold to private investors. Since they are not sold as securities, there can be less rigor around structure, resulting in lower fees and structuring costs. These transactions are typically sold to a smaller group of institutional investors like insurance companies, public entities, or others with excess liquidity seeking secure transactions with yield. The facility size can vary, but they often require annual volume from $75 to $200 million. These funding mechanisms are primarily utilized by issuers not yet generating the consistent volume necessary to make public issuances economically feasible and are attracted by the ease of use and cost of funds lower than bank facilities. They are often used as steppingstones to a public securitization issuance. Since they are private transactions, pricing is not available, but it is safe to assume that they are priced marginally higher than the public transactions described above.

Underwriting: Regardless of where a company exists on the funding spectrum, lenders/arrangers will look for the same types of information as part of their due diligence process. Therefore, the earlier an industry participant understands and enacts the necessary controls, the more likely they will be able to optimize their cost of funds. Some of the RACs used in the process include:

- Strong, consistent portfolio data.
- Strong industry reputation.
- Ability to generate, understand and manage portfolio data.
- Credit quality of underlying clients.
- Seasoned and competent management team.
- Reliable volume flow.
- Effective management of vendor, geographic, client, industry, and other concentrations.

Ongoing Servicing: Lenders tend to manage the cash generated by the lease finance company much more closely if the company has a limited track record of servicing, including the use of a dedicated remittance lockbox. Also common is the requirement that a lender perform all the servicing of their segment of the portfolio on a private label basis. As long as the company has one funding source, this type of structure can work well, but with multiple funders requiring multiple lockboxes, portfolio servicing can be extremely confusing for the client base. Therefore, a growing lease finance company looking to future capabilities should seek where possible to control servicing, either through its own efforts or that of a third-party servicer. There are available lockbox arrangements that can segregate funds for multiple lenders, mitigating their risk and allowing the lease finance company to build its capabilities for the future. Among the benefits of retaining servicing responsibilities are:

- Avoids client confusion over receiving dissimilar invoices and remittance addresses.
- Consistent customer service.
- Professionalism.
- Clients feel that they’re dealing with a principal.
- Positioning for future, more sophisticated funding capabilities.

Other Considerations: EF Companies looking to move down the funding spectrum depicted in Exhibit 24 above should develop the portfolio reporting capabilities demanded by the funding market they seek. Tracking concentrations, delinquencies, write-offs, and recoveries by market and geography over time becomes critical as a company seeks more sophisticated financial products. Often, underwriters and rating agencies request specific information that may not be used by the EF company to manage the day-to-day business. Being able to produce ad hoc reporting to address these requests can build confidence in management and facilitate better transaction pricing and execution. Another way to assess readiness is to meet with prospective lenders, even if there is not a current need. This helps the EF company understand the requirements to take next steps and to keep abreast of market conditions.

Profiles and Best Practices

Enduring Themes in EF Funding Best Practices

In general, funding best practices are strategies and tactics used by EF companies that have the most efficient and effective treasury operations. Adopting best practices is good financial management that adds long-term value to the business in the form of reliable access to the capital markets, optimal financing options, and lower borrowing costs.

Our interviews with industry finance professionals revealed five funding best practices, all of which have been advocated by lenders, investors, and rating agencies for years.

- **Funding Source Diversity:** Ideally, EF firms will have a diversified suite of funding sources and products ranging from bank lines to warehouse facilities to active securitization programs. How active a funding program is, of course, depends on where an EF firm is along the growth curve. More mature EF firms should have multiple available borrowing sources offering a full funding tool kit while start-up or early growth EF firms will likely have only one or two funding sources initially. Another important element to funding diversity is having an optimal mix of short and long-term debt that compliments the portfolio tenor.
- **Staggered Maturities of Debt Obligations:** Maturing debt should be laddered to avoid a majority of debt coming due at once. This avoids potential inability to refinance debt in the face of some overarching capital markets turbulence or specific temporary financial or portfolio issues at the time of renewal. This approach also helps mitigate the risk of losing a funding source to acquisition or target market shift.
- **Back-up Facilities Testing:** Proactive EF treasury operations periodically validate their access to sufficient capital by utilizing alternative backup funding capabilities as insurance against market instability or lender strategic shifts. This approach may result in sub-optimal execution but ensures funding can continue if a facility is suddenly unavailable.
- **Match Funding:** Both rate and debt tenor should match the portfolio composition. Given most EF transactions are fixed-rate, a spike in rates will dilute the spread between portfolio yield and cost of funds. Younger EF companies borrowing through a floating rate facility will find it critical to execute a Swap-to obtain fixed-rate capital. Larger firms should hedge rate risk, with hedging strategy depending on rate trends and the market environment. Should a market liquidity event occur, a particular term or fixed price instrument may not be available.

  Such a market liquidity event did occur. On Tuesday, September 16, 2008, Lehman Brothers announced losses in their Reserve Primary Fund with $65 billion assets under management. This news triggered the modern-day equivalent of a bank run with an unprecedented $175 billion in Commercial Paper ("CP") redemptions over the next 2 days. The CP market was essentially frozen.[5]

  As one of the largest issuers of CP, AAA-rated GE Capital relied on the roll-over of their outstanding 30-day CP. A day later - Wednesday, September 17, 2008 - the credit default swap that supported the GE CP program doubled in cost. On Thursday, September 18, the market value of General Electric fell 20%. And on March 12, 2009, GE lost its coveted AAA rating.[6, 7]

- Proactive Relationships with Investors and Lenders: What the EF industry learned from the last recession is the value of frequent communications with their lenders. Some firms adopted more engaging lender relations activities beyond minimum monthly reports. This included frequent tele-conference sessions to review results and unfettered access to portfolio performance metrics. The importance of this was highlighted in the early days of the pandemic when customer forbearance requests increased. Proactive dealings with lending partners to work through issues ensured con-tinued steady funding access.

- At the height of the pandemic quarantine, there was a higher incidence of payment forbearance. at one firm was of concern to the lead banker of one EF firm. When called by the relationship execu-tive at their lead bank, the CFO was able to harness their operating system capabilities articulating the forbearance delinquencies by SIC code and zip code – and mitigation solutions that had been successfully adopted. This happened to be an issue isolated with business district quick serve restau-rants that resolved themselves through PPP and recalibrated hours of service and staffing in the next quarter. Issue identified and addressed on one phone call as the CFO put the nervous banker at ease and without necessitating any follow-on formal meeting or presentation by the EF collections leader.

Several other themes worth mentioning emerged through the information-gathering process:

- **Benefit of Contemporary Operating Systems:** The capabilities of contemporary EF operating sys-tems have become a strong tool for CFO communication with capital providers. An outgrowth of proactive lender communications was almost real-time sharing of portfolio delinquencies, defaults, and forbearances triggered during COVID. This sharing of information was instrumental in both maintaining and further building confidence with lenders, investors, and rating agencies. Those ac-tions facilitated a return to ABS deals because investors could see how portfolios fared during the real stress test called COVID.

- **Business Plan Alignment of Originations and Funding Capacity:** One often overlooked factor is congruence between the strategic plan for new business originations and a calibrated alignment with capital requirements. Within the business plan, this must be predictable. Too much unused capital will be a drag on earnings from unused fees and tarnish banking relationships. Inadequate capital will outstrip ownership equity and stress leverage covenants. This may even tempt a pull back on overall commitments to clients and vendors which could undermine confidence in an EF firm. Alternatively, this may drive the organization to chase new equity infusion or even new cause the firm to seek new ownership.

Having experienced past economic cycles, capital access challenges, and portfolio issues, these funding best practices appeared in mature and maturing EF firms. Seasoned finance leadership was a common thread as they directly influenced the adoption of these best practices.

Discussions with industry leaders and funding sources revealed a number of best practices relative to funding an EF company; some are tried-and-true while others emerged due to recent events in the economy. These best practices are discussed in detail below.

To illustrate how different companies are putting these best practices into action, there is also a description below of three different hypothetical company profiles, Experienced, Emerging, and Embryonic, with descriptions of how each might apply these best practices and how they may approach the funding challenges they may face.

Profile: The Established, Mature EF Company

A common profile within the EF industry is an independent that has been in business 20+ years, long enough to have weathered several business cycles. The Great Recession would likely have caused some funding disruption for these firms, but the survivors were able to work around such challenges by having multiple funding vehicles and structures, ABS facilities, discounting relationships, and bank lines. At the time, banks were consolidating around their core businesses and investor demand for ABS had greatly reduced. Resourceful companies had to maintain multiple funding mechanisms to ensure the survival of their businesses. Portfolio performance also suffered, as the economic crisis left few segments able to operate without some degree of hardship. Given the difficult environment, the management teams of the survivors have well-deserved reputations of having been battle-tested and able to adjust to difficult market conditions.

Exhibit 25: Profile & Financial Characteristics of an Experienced EF Firm

EF Profile Attributes	Profile of Typical Experienced EF Firm
Generic Description	• Mature established EF firm. • May be P.E., family or publicly owned
Years In Business	• 10+ years
Net Earning Assets	• Over $500 million
Annual New Business Volume	• Over $200 million annually
Company Leadership Profile	• Nominal senior leadership turnover • Incentive compensation designed to aligned loyalty with key staff
Business Strategy & Business Model	• Multiple business lines as an outcrop of legacy industry, equipment and origination • Credit policy and procedures in alignment with key funding sources
Typical Capital Access	• Multiple bank lines • Staggered bank line expiry dates to enable optimum management and debt transition • Established access to warehouse lines and securitization takeout
Debt Structure	• Most efficient capital pricing • Leverage in keeping with industry norms
Funding Relationship Management	• Well established suite of banks, warehouse and securitization partners • Deference to current bank relationships who have been partners though multiple economic and liquidity cycles
Best Practices Adopted	• Intentional approach taken to build upon foundation of proven core successes
Future State … Going Forward	• Care taken not to outgrow / outstrip equity • Validated and vetted strategic expansion
Possible End Game Options	• (1) Intention to maintain full autonomy and independence • (2) Leadership has no line-of-sight on being acquired

Source: The Alta Group, LLC

Many experienced companies have multiple business units with specific originations teams and market focus. Often these units are in different stages of development and market maturity and the ebbs and flows of each market offset each other. Often, mature companies seek out new markets because they complement the existing business from a transaction size and credit quality standpoint, thereby fitting in with an ABS funding strategy. Every EF business, however, sees opportunities outside of their established customer and transaction profiles from a deal size, rate, term, or collateral standpoint. Assuming they are otherwise acceptable from a credit standpoint, these transactions are often funded by discounting them, either as individual transactions or as pools of smaller deals, with a funding source with a greater (or simply different) bandwidth. This approach can be especially valuable in the direct and vendor segments, allowing the EF company to be more of a “one-stop-shop” rather than give the vendor or client a reason to seek other funding partners. Even when such transactions are not available, many EF companies will still discount transactions to make sure the capability is there when it is needed. Because funding is the lifeblood of the business, having multiple funding tools has helped many successful companies survive to maturity.

This is especially true of warehouse and bank lines, as M&A and management changes can change the market orientation of a bank overnight. Having multiple banks can help mitigate that risk. Having their facility expiry dates staggered can avoid the loss of funding capabilities due to temporary financial or portfolio issues with the EF company.

The key to maintaining multiple funding options is maintaining a partnership approach to managing funding relationships. Funders are at a natural information disadvantage, being a step removed from the company being funded. The willingness and ability to share portfolio information, often on-demand, can help the front-line funding personnel address issues raised upwards in the risk chain before they become problems. Also, when an issue does arise, having open and honest conversations about them can help both parties arrive at solutions while they still have the flexibility to address them.

Mature companies often have to evolve their systems capabilities over time. While longevity is generally an asset, it can also mean that a company has a legacy system that is able to generate adequate portfolio data - but relies on IT staff familiar with the system to be able to access that data. This creates a reliance on individuals familiar with the system to generate the granular level of reporting often required by ABS issuers and banks. To mitigate this risk, most successful operators have migrated to web-based systems with strong reporting capabilities. These platforms have much more intuitive interfaces and the flexibility to generate reports on demand, often without the intervention of valuable IT resources.

Profile: The Emerging Growth EF Company

Exhibit 26: Profile & Financial Characteristics of an Emerging EF Firm

EF Profile Attributes--	Profile of Typical Emerging EF Firm
Generic Description	• Launched with Private Equity Backing
Years In Business	• 3-5 years
Net Earning Assets	• $150-$350 million
Annual New Business Volume	• Over $75 million annually
Company Leadership Profile	• Average of 15+ years in EF; 1-5 years with Emerging firm • Senior leadership roles at other successful EF firms • Extensive experience demonstrated in business line of firm
Business Strategy & Business Model	• Singular industry and/or equipment type specialty • Single origination channel • Credit policy defined transaction size range … term … and structure
Typical Capital Access	• Minimum of 1 bank line - may have established 2nd line • Bank line complemented by selective non-recourse rent discounting • Warehouse line developed or well underway • Possible line of sight to securitization utilization
Debt Structure	• Leverage in keeping with industry norms 6:1 / 7:1 • Pricing premium to more established / experienced EF firms
Funding Relationship Management	• If more than one bank line, staged renewals in place • Fielding regular offers of interest from candidate lenders
Best Practices Adopted	• Initial portfolio business scaled through outsourced 3rd party servicer • Adopted agile use of current technology – cloud • Enabled business information to be securitization ready
Future State … Going Forward	• Balanced approach to growth • Equipment / industry diversification upon demonstrated capabilities
Possible End Game Options	• (1) Reinvestment of earnings to enable maturation into experienced firm • (2) Grow to become attractive acquisition candidate by larger PE firm • (3) Grow into an experience EF firm profile

Source: The Alta Group, LLC

Historically, newer entrants to the EF business had to demonstrate proof of concept by graduating from funding their companies through discounting, moving to more sophisticated capital products only after each step of the capital pyramid depicted in Exhibit 24 above was mastered. Over the past several years, the process of moving up the spectrum has accelerated for several reasons:

- The EF industry's performance during the Great Recession helped open the minds of capital providers to the positive aspects of the asset class.
- A number of start-up companies were started by or were joined by experienced management teams with financial support from private equity firms and family offices bolstering the credibility and desirability of these newer firms.
- Without the burden of legacy systems, newer companies have the ability to manage and report on their portfolios, whether by outsourcing servicing or acquiring newer web-based products.
- An abundance of capital has led lenders to seek new ways to deploy it without taking undue risk.

The firms that have been able to attract more sophisticated capital have two things in common. First, they have a repeatable, sustainable market niche that generates high funding volumes, whether by organic growth or originations team lift-outs and second, they can demonstrate strong business processes centered around generating a solid portfolio and having the ability to report on it with a robust ad hoc capability. While time in business is not irrelevant, it can be mitigated by a firm's approach and proficiency.

For an emerging company to optimize its funding, it is recommended to maintain an open, honest relationship with its lenders, regardless of the funding vehicle.

While there may be a modest rate premium relative to companies with a longer track record, the adolescent EF firm is being offered similar advance rates, terms, and conditions previously afforded only to firms with 10+ years of operating performance.

Regardless of product type, lenders are underwriting the following EF company characteristics:

- Time in business.
- Management team experience.
- Sustainable originations generating a favorable risk-reward profile.
- Concentration in industry or equipment type mitigated through other portfolio dynamics.
- Robust portfolio management and reporting capabilities.
- Strong bank relationship and viable funding alternatives reflecting favorable experience.

To the extent justified by volumes and portfolio performance, emerging EF companies have access to securitizations much earlier than just a few years ago. For those not generating the volumes necessary to warrant a public securitization, several firms are offering private 4(a)(2) securitizations as described earlier. These products offer better execution than bank facilities and represent an interim step between bank lines and public issuances, bridging the gap until the subject company can warrant the expenditures necessary to economically justify a public offering. The same rigor around policies, servicing, and portfolio performance are required, and companies seeking this funding vehicle should assess their capabilities accordingly, preferably well in advance.

Going Forward: Just as with the experienced profile above, and perhaps more so, managing lender relationships is critical to the success of the EF company's funding efforts. Also, especially with high-growth companies, each EF firm must be careful not to outstrip its ability to raise funds in the marketplace. It is also recommended that any emerging EF company listen to what funding capabilities are available to it. It can be difficult to find time to take all the calls one receives but staying close to the market can provide valuable intelligence and can help shape funding strategy going forward.

Profile: The Embryonic Innovative EF Company

The third profile examines a Fintech EF company. Another way to characterize this company type is an online-only or digital-first company. Because there are a variety of funding strategies that fintech B2B finance companies deploy, this case study will profile two companies, OnDeck/Enova as a more mature fintech model and a marketplace example. The B2B fintech model has been in place for more than a decade, with some having weathered the pandemic. Since deploying technology with finance is critical for all EF today, specifying attributes of a fintech model is instructive in defining the case study companies.

Exhibit 27: Profile & Financial Characteristics of an Embryonic EF Firm

EF Profile Attributes	Profile of Typical Embryonic Firm
Generic Description	• Launched with limited PE support; or, • Launched bootstrap
Years In Business	• 1-2 years
Net Earning Assets	• Likely under $50 million on book portfolio or entirely off book strategy
Annual New Business Volume	• Under $75 million annually
Company Leadership Profile	• Strong senior leadership technology pedigree • New to EF
Business Strategy & Business Model	• Market disruptor by design • Focus on game-changing market offering • Unique origination model in terms of go-to-market or product approach
Typical Capital Access	• Creation of a stable of syndication funding sources • Early stage brokering all transactions • Later stage, may keep residual and discount rent
Debt Structure	• Nominal or no balance sheet of on-book assets • May have select transactions funded for takeout
Funding Relationship Management	• With origination focus, enables funding source to service their funded portfolio • Design tracking system to know preferred deal profiles (credit/term/deal size/equipment type) within each established funding source
Best Practices Adopted	• Constant infusion of innovation to circumvent competition or disintermediation • Typically, no two embryonic firms are typical
Future State … Going Forward	• Continuous investment in technology to maintain state-of-art business model
Possible End Game Options	• (1) Seek to be acquired upon full proof of concept • (2) Pursue VC, PE or strategic equity infusion for continued growth

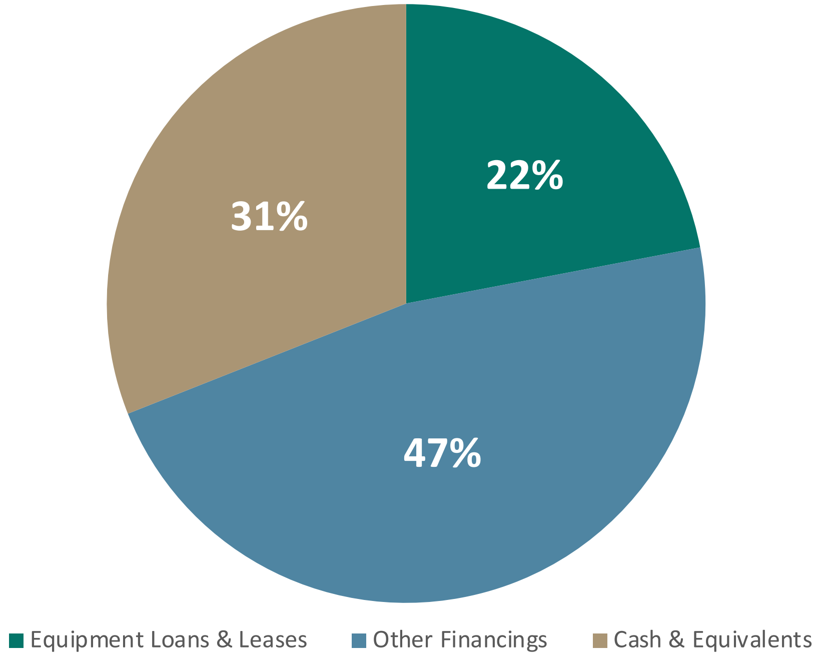
Source: The Alta Group, LLC

The first attribute of a fintech is that their business strategy and go-to-market strategy utilizes technology as the sole customer acquisition tool. Second, to the extent they utilize a vendor finance model, is that the financial tool is embedded at all vendor point of sale ("POS") options; a finance quote is provided on the vendor eCommerce purchasing site, included in automated RFP responses and/or at retail POS. Since it is a digital-first origination model, optimization of the finance experience for both the vendor and consumer is crucial to success. Also critical is the ability to design a suitable interface and the behind-the-scenes processes that drive a seamless experience.

Where fintech companies diverge into two categories is funding strategy. Some B2B fintech companies act as digital brokers, providing third-party offers from multiple sources, known as a marketplace model. Others fund on their own balance sheet, raising debt and equity in a wholesale funding model.

A fourth key fintech attribute is market focus in that they typically seek out underserved finance segments that blend well with a digital-first orientation. For the EF market, this most often includes small business borrowers and/or smaller OEMs or channel partners that have not typically had efficient access to offering EF solutions to their customers. To pinpoint the segment of the EF finance market fintech providers target, it is useful to look at the overall EF market. In 2020 the overall capital equipment market totaled $1.4 trillion. Approximately 31% or $438 billion was paid by cash or equivalents. Equipment leases and loans comprised 22% or $306 billion and the remaining 47% or $656 billion was financed using other means, such as credit cards, working capital, or bank lines. Fintech EF companies are primarily targeting the 47% of the market not using equipment leases and loans for equipment acquisition. Typically, the ticket size targeted is in the $10,000-$50,000 range and yields vary widely but 15%-25% is common.

Exhibit 28: Total 2020 Equipment Market Size by Finance Method



Sources: U.S. Government Department of Commerce Bureau of Economic Analysis (BEA) Private Fixed Investment in Equipment; 2022 Equipment Leasing & Finance U.S. Economic Outlook Update – Equipment Leasing & Finance Foundation – Issued December 2021; Proprietary Data Analytics, The Alta Group, LLC

Examples of publicly held fintechs targeting EF include Enova and Lending Club. Both examples are primarily consumer lenders with 10-30% of their business focused on small business lending. In the case of Enova, 13% of their commercial lending is for equipment purchases.[8] Enova employs a wholesale funding model utilizing several funding products. Their current mix of funding includes senior notes, revolvers, secured warehouse lines, and term ABS. The overall cost of debt for Enova in 2020 was 8.2% vs. with a weighted average in the SEFA reported data of 3.04% for independents.

During the pandemic, these fintech models were severely tested. In the case of OnDeck/Enova, the pandemic credit squeeze stretched its wholesale funding model to its limits. They ultimately sought an acquirer to provide the funding capacity and combined business model to withstand the pandemic and grow. Enova purchased OnDeck in September of 2020. During the pandemic, OnDeck quickly pivoted to becoming a leading PPP lender.

In the marketplace funding model, a fintech deploys an online only customer acquisition model and uses technology to optimize the offer(s). Their revenue is generated in fees paid from the finance proceeds and is measured as a percentage of the equipment cost. These fees vary but 6-10% of the original equipment cost is typical.

Exhibit 29 compares a sample marketplace funding model to SEFA small ticket data. The comparison takes a look at conversion metrics and average transaction ticket size. During the pandemic, marketplace models were also under significant stress. Lenders on the platforms pulled back on their approvals and lending levels entirely or significantly, especially in hard-hit areas such as the restaurant/hospitality segments. In 2021, as with EF companies in other markets, the supply chain issues further impacted fintech volume opportunities. December 2021 proved a turning point in the form of a return to normal for volume and growth rates. Given the lack of balance sheet, survival for marketplace models depended on capital on hand to cover operating expenses until volumes recovered.

Exhibit 29: Conversion Comparison – SEFA Small Ticket to Fintech

	2021 SEFA	Fintech Example
Submitted to Approved	72%	28%
Approved to Funded	71%	50%
Submitted to Funded	52%	14%
Average Ticket Size	$60,000	$21,000

Source: ELFA 2021 Survey of Equipment Finance Activity Report (FYE 2020) and The Alta Group, LLC

The submitted-to-approved metric reveals a stark contrast. While the SEFA respondents approved 72% of applications, the fintech example approved 28%, meaning the SEFA respondents approved transactions at 2.5x the rate of the fintechs. A look at the approved-to-funded conversion metric renders a closer result, with the SEFA respondents funding just over 71% of applications while the fintech converted 50% of applications. At face value, all metrics point to the SEFA small ticket originators having an advantage in conversion rates and dollars per transaction. What this data does not reveal is whether or not the SEFA small ticket or fintech example may be more efficient from an overall customer acquisition cost perspective.

The variance in conversion metrics is likely a direct result of the difference in business models. More traditional small ticket lessors have an element of credit selection that is inherent in vendor programs by virtue of the way small-ticket vendor finance companies interact with the sales teams and channel partners, culling out poorer credit transactions prior to submission. Fintech digital-only originators, by contrast, experience the e-commerce shopping cart dynamic where submissions may not necessarily reflect a buyer with immediate intention to purchase equipment.

Going forward, the key success factors for fintech EF originators will be continued investment in technology and efficient customer acquisition, use of data to continually optimize deal flow with funder placement, and the ability to embed financing at POS in a way that adds value, sales, and customer retention for vendor eCommerce selling strategies.

An advantage of managing deal flow with multiple vendors and lenders is the ability to use data and machine learning techniques to place transactions with the lenders most likely to approve them and offer terms acceptable to those borrowers. As such it is a model with the ability to optimize the user experience, deliver deals in lenders' sweet spots while delivering higher approval levels than a single lender strategy.

Traction on embedding finance at POS grew exponentially during the pandemic. Since then, companies are doubling down on e-commerce strategies. Fintechs are well positioned to work with eCommerce leaders in vendor organizations to drive sales through embedded finance strategies.

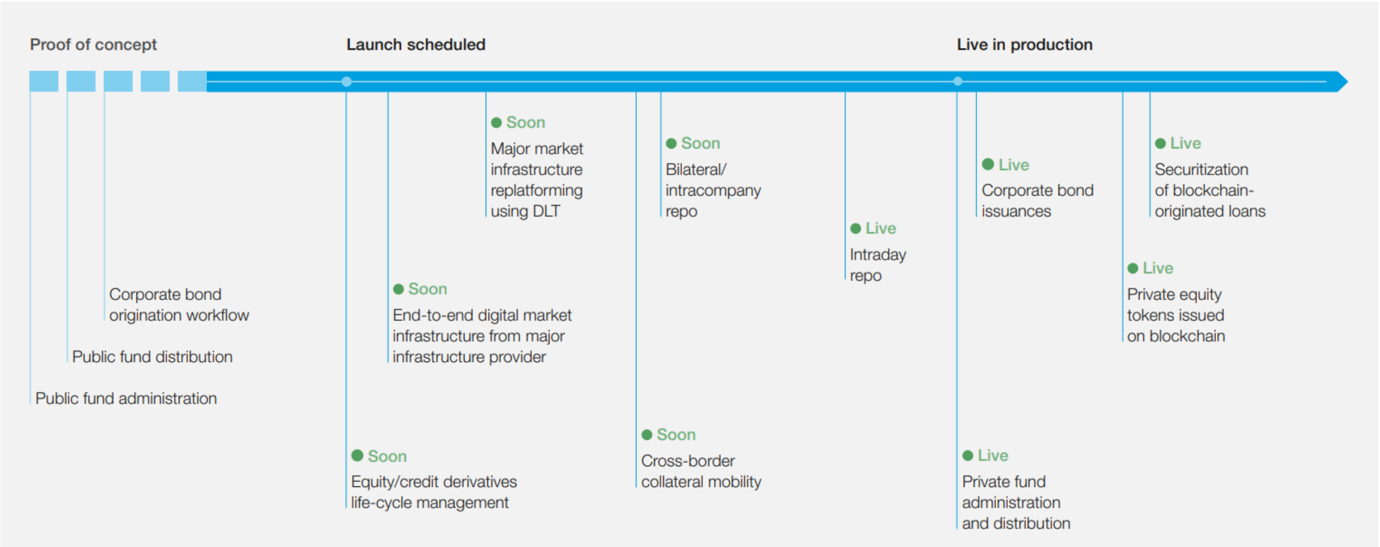
Future Trend-Blockchain-Enabled Securitizations

While blockchain may seem like some newfangled technology, it has been around for more than a decade. Blockchain started out as the technology behind cryptocurrencies like Bitcoin and has since grown into a powerful efficiency tool by reducing manually intensive, time-consuming processes. By August 2016, the World Economic Forum ("WEF") declared that blockchain would become "the beating heart of the global financial system," serving as the catalyst for the major digital transformation of the financial markets.[9]

Most capital markets functions are relatively expensive, opaque, and inefficient processes that are backboned by extensive manually intensive procedures, the reliance on excel spreadsheets to manage data, and the use of paper loan documents.[10] Blockchain technology offers the prospect of replacing that antiquated approach by streamlining processes, increasing efficiencies, enhancing transparency reducing costs, and accelerating transaction speeds ultimately making funding cheaper, faster, and more accessible.

As depicted in Exhibit 30 below, capital markets participants are increasingly embracing blockchain technology as the vehicle for improving the delivery of products, achieving greater efficiency, and enabling new services through the monetization of data. Even regulators and rating agencies are beginning to express confidence in blockchain technology. While adoption has been slow to date, the time for blockchain-enabled capital markets products is underway.

Exhibit 30: Blockchain Applications in the Capital Markets



Source: "Digital Assets, Distributed Ledger Technology and the Future of the Capital Markets – Insights Report 2021" (page 10) by World Economic Forum and Boston Consulting Group.

Blockchain 101

In its simplest form, blockchain is a database using distributed ledger technology ("DLT") that records transactions and maintains data between multiple computers on a shared network in a way that allows multiple participants to securely share access to the same data and information.

DLT starts with blocks of data that contain details around a particular transaction. Each block is linked cryptographically in chronological order thus forming a single chain that represents a one true history of all transactions executed on that blockchain. To accomplish this, DLT relies on the use of Smart Contracts which are essentially computer code that is uploaded to a ledger rather than relying on basic data entry. Once that data is on the blockchain, it is immutable - meaning that it cannot be edited or changed. As a result, participants on a blockchain can trust each other's digital records without relying on intermediaries to provide the necessary information. The blockchain is safe from tampering or hacking given a triple protection mechanism.

Blockchain Meets Securitization

Asset-backed securitizations represent an excellent use case for blockchain because the underlying assets are rather opaque. In addition, the current state is expensive given the sheer number and amount of fees charged by a host of intermediaries from investment banks, lawyers, rating agencies, and the like. It also relies on manual intervention, cumbersome excel spreadsheets, and duplicative work processes. For example, individual loan and lease files need to be validated and revalidated by every participant at every step of the securitization value chain. Exhibit 31 dimensions several of these inefficiencies or pain points across the securitization value chain.

Exhibit 31: Typical Pain Points in the Securitization Process

Origination

- Application
- Processing
- Underwriting
- Closing

Structuring

- Establishing SPV
- Pooling and transferring loans to SPV
- Structuring and underwriting of the security
- Rating process
- Documentation
- Issuance

Issuance

- Investor due diligence
- Price discovery
- Investor appetite
- Closing and settling

Servicing

- Collecting principal, interest and escrow payments
- Administering funds
- Tracking past dues
- Handling defaults and credit events
- Monitoring collateral
- Distributing payments to investors
- On-going performance management

Source: The Alta Group, LLC and The World Economic Forum (https://www3.weforum.org/docs/WEF_Digital_Assets_Distributed_Ledger_Technology_2021.pdf) page 58.

The origination and underwriting of underlying loans and leases often experience long lead times, lack of standardization of data whether it is contract terms, credit profiles, or collateral, and still rely on paper-intensive processes. Structuring a securitization is a highly complex, manual, and costly process that involves a myriad of advisors from lawyers, accountants, and investment banks. Evaluating the potential pool of assets to be securitized is a slow process because it requires pulling an extensive amount of paper-based information about the individual assets into complicated excel models. The rating process is another time-intensive element as it requires repetitive meetings and sharing of a tremendous amount of excel spreadsheets and financial models with multiple rating agencies. A similar lengthy process occurs during investor due diligence which sometimes creates an asymmetry of information among potential investors. Servicing is marked by extensive manual processes to monitor, collect, and reconcile payments. Information sharing occurs after potential credit events or performance issues.

> *"One thing is clear: Blockchain and smart contracts could catapult the securitization industry into a new digital age."*[11] – Structured Finance Association and Digital Chamber of Commerce

Blockchain-enabled securitizations improve traditional processes in several ways. The biggest enhancement comes to the DLT itself with the creation of a single, authoritative source of information (or "truth" in blockchain parlance) that is available to all stakeholders creating a more level playing field among potential participants.

It offers the following eight critical efficiencies:

- **Increased transparency of information** reduces information asymmetry between participants, especially for due diligence reviews. Smart Contracts play an important role in providing standard portfolio data. Participants will get a more complete view of the pool of underlying assets for items such as performance and payment history. Greater transparency helps with secondary market pricing discovery and liquidity while delivering better experiences for originators, rating agencies, trustees, investors, legal firms, underwriters, and regulators.
- **Trust in the reliability and availability of information** affords greater trust among participants and leads to faster payments. Smart contracts provide evidence that required steps in the process have been followed, allowing investors to avoid duplicative due diligence efforts. Some capital markets professionals even believe that this may result in greater trust in the securitization market itself.
- **Streamlining processes and the resultant disintermediation of non-value-added parties** is a natural outcome from the efficiencies created by DLT. Manual processes around settlements of trades, processing payments, reconciling accounts, and adhering to regulatory requirements become more efficient. For example, inefficient and risk-laden processes to verify asset ownership and reconcile securities accounts can be eliminated given a single information source. Having more reliable and available information on the blockchain may reduce the roles of some intermediaries such as investment bankers, lawyers, and accountants and by extension, may reduce transaction costs while increasing efficiency and execution speed.
- **Faster processing speed** comes from reducing inefficiencies around trading and servicing activities. Through disintermediation and simultaneous recording of information, blockchain can significantly reduce, if not eliminate, time lags in information and payment flows throughout the securitization process.[12] In turn, this would mean improved prices, volume, spreads, and perhaps even greater investor interest.
- **An auditable trail of data** is available throughout the securitization lifecycle. From loan origination to ownership changes in the secondary market, blockchain generates a chronological and immutable audit trail of all transactions.[13] Such a capability provides regulators and auditors with a clearer view of ownership and title of the underlying securitized assets.

- **Enhanced compliance** is available in real-time, as regulators and auditors can access records on the blockchain to trace the ownership of the underlying securitized assets and any related transactions.
- **Superior security:** Blockchain's capacity to increase the security of transactions and mitigate fraud is fundamental to data integrity on which participants rely throughout the securitization lifecycle.[14]
- **Fraud risk is minimized** given the immutable record created using DLT.

Blockchain is not a panacea for all that ails the securitization marketplace. While new DLT-related risks may be emerging as blockchain-enabled securitizations come into fruition, there are legitimate concerns around five areas, as follows:

- **Blockchain technology** remains relatively new. While DLT has been reliably used in many applications over the last decade, it is not bullet-proof.[15] Rigorous testing of smart contracts and other blockchain applications is necessary until its reliability is unequivocally demonstrated. In addition, blockchain technology must prove its ability to work with legacy IT systems and address interoperability issues between different blockchain platforms.
- **Data security and privacy** is inherently strong but must be proven to be impregnable with so much information entrusted to a single technology (DLT). Tempted by both the amount of information and the funds captured in one place, a successful cyberattack could have a devastating impact not only on the securitization marketplace but for any financial product using blockchain technology.[16] The risk of cyberattacks may add new risk management considerations for rating agencies and investors. Privacy issues may arise as the architecture of DLT means that data is distributed across a network and available to multiple participants who may not need that sensitive information.
- **Regulatory protocols** must adapt to the use of blockchain as a valid regulatory reporting vehicle by financial institutions. They must approve blockchain's methods for entering, verifying, tracking, and protecting data. It is entirely possible that regulators may insist on a regulatory presence on the blockchain.
- **Legal frameworks** must incorporate a set of new requirements that are not covered by current case law. These items include, and are not limited to, which legal jurisdictions govern ownership issues, security interests, and enforceability of smart contracts. There is a need to develop a legal standard by which data is added to the blockchain and by extension, what companies need to change in their own internal processes and procedures to meet that standard.
- **Rating Agency criteria** around structuring a securitization will be driven by many legal considerations. Some of the items most frequently mentioned include whether a DLT changes the bankruptcy remote nature of SPVs; whether there is an increased non-performance liability for technology providers of the blockchain; and whether e-vaults are required to store smart contracts under US law.

Challenges notwithstanding, the benefits of blockchain-enabled securitizations have the potential to transform the current securitization industry into a more efficient, cost-effective market. By eliminating duplicative manual processes, lowering transaction costs, and improving processing speeds, the securitization market would enjoy tighter spreads, better prices, and higher trading volumes.

Developments in Blockchain Enhanced Securitization

While the application of blockchain technology to securitizations is still at an early stage, momentum is building to implement fully digital securitizations across multiple asset classes. Early adopters of blockchain-based securitizations are taking an incremental approach by digitizing select elements of a securitization transaction such as reporting and due diligence activities as opposed to a wholesale shift of securitizing completely on the blockchain.

Interest in deploying blockchain-enabled securitizations has been strong in both Asia and Europe since 2017. The Chinese government has encouraged its financial sector to use securitization as a mechanism for more efficient use of capital.[17] As a result, Zheshang Bank issued a $68 million 354-day securitized loan backed by trade finance receivables from a large group of companies. Last year, China's Zheshang Bank used its proprietary accounts receivable blockchain to issue a loan note for $68 million backed by trade receivables. In this case, the underlying assets were also blockchain-based. The invoices were placed on the blockchain from where they were paid, transferred, pledged, and redeemed.

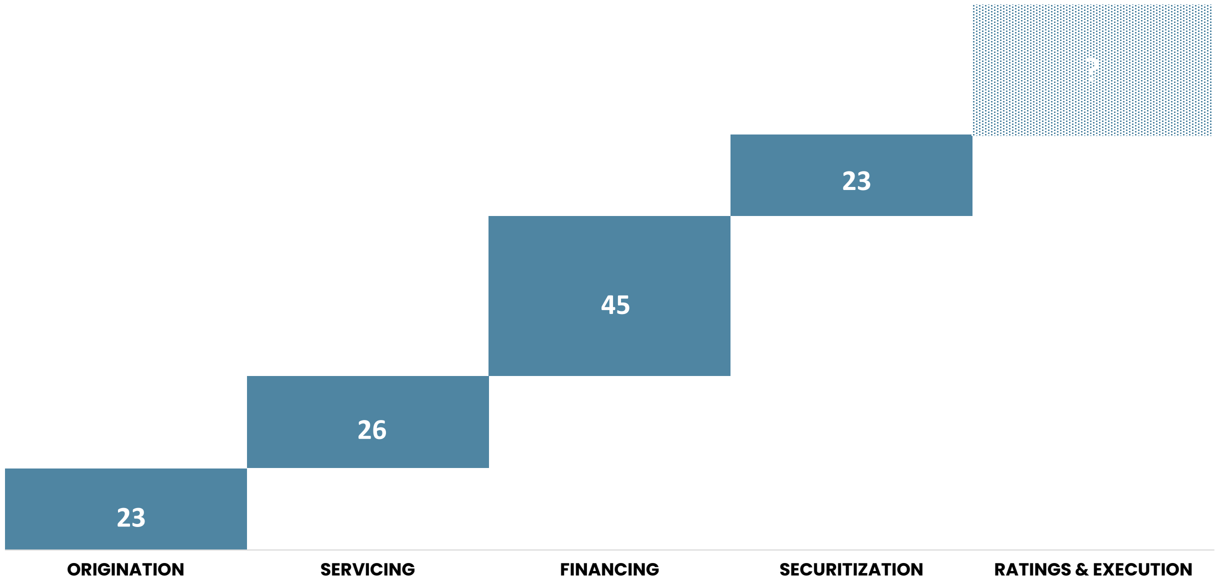
In late 2018, the European Investment Bank Group ("EIB") launched the first corporate loan securitization in the European Union. It granted BBVA a EUR60 million synthetic guarantee to finance up to EUR360 million in investment projects for Spanish SMEs in a "synthetic securitization." EIB, BBVA, and other parties negotiated the deal using blockchain technology so all steps, from initiation to signing, were logged on the blockchain Hyperledger Fabric platform.

Back in the U.S., Figure Technologies, Inc. ("Figure"), through its consumer lending arm, issued the first securitization backed by loans originated, serviced, financed, and sold on its Provenance blockchain platform. This $149 million ABS transaction was backed by home-equity lines of credit. This transaction was significant for three reasons. First, the securitization was to be completed on a blockchain platform whereas others to date had been proof of concept deals that tracked an off-chain securitization.[18] Second, the transaction was a complete transaction from origination to the secondary market, unlike other deals which had digitized a single process.[19] And third, it proved that blockchain-enabled securitizations, at least on the Provenance platform, can be executed 'cheaper, faster and better.'[20] To that end, Figure demonstrated that it realized over 100 basis points in quantifiable efficiencies as suggested by Exhibit 32. Using that experience, Figure suggested that these efficiencies represented over $30 billion in savings due to efficiency gains for the $3 trillion securitization market.

Shortly thereafter, Vanguard, on behalf of an anonymous large US ABS issuer, completed a blockchain pilot which digitized the SPV (special-purpose vehicle) process. Using the blockchain platform from Symbiont, Vanguard aggregated traditional car loans and created an SPV on the blockchain to hold them. The SPV then issued digital securities to investors on the blockchain where they have since traded. By digitizing the ABS issuance process, the transaction enjoyed improved information flow, enhanced price discovery, secondary market liquidity, increased speed, and reduced costs.[21]

In September 2021, Redwood Trust, Inc. issued the first blockchain-enabled securitization in the non-Agency residential mortgage-backed securitization ("RMBS") market. It priced a $449 million securitization of jumbo residential loans using a blockchain platform by Liquid Mortgage. Investors and other participants will receive daily reporting of payment data as opposed to the traditional monthly reporting timeline. The transaction is an important first step in Redwood's vision of offering fully digitizing mortgages.

Exhibit 32: Immediate Margin Improvement Realized by Figure's First ABS Deal



Source: Figure's "Securitization on Provenance" Whitepaper

Last year, Bank Frick of Liechtenstein issued the first-ever fully blockchain-based corporate loan securitization called GreyPeak 2021-1. The entire transaction, including securities issuance and settlement, ongoing covenant testing, and rule-based cash flow management via predefined waterfall structures was processed using smart contracts on a blockchain platform created by Cadeia, a Munich-based fintech. This securitization reduced settlement times, lowered transaction costs, and improved coordination by all participants.

While only a small number of blockchain-enabled securitizations have been completed to date, the highlighted transactions represent small success stories that will eventually turn into larger industry themes. In addition to the deals coming to market, there are growing partnerships between lenders and blockchain platform providers. One interesting partnership is the 2021 partnership between private equity firm Apollo Global Management and fintech Figure Technologies. Apollo and Figure agreed to collaborate on several blockchain-enabled initiatives including on-chain fund listing, asset securitizations, and digital marketplaces. Apollo chose to work with Figure for its deep knowledge of financial services and its Provenance blockchain platform. Given Apollo's focus on fintech innovation, this partnership could lead the way in quickly bringing fully digitized securitizations across multiple asset classes.

Implications for the Equipment Leasing and Finance Industry

The equipment leasing and finance industry has always been cautious about embracing new technologies. While many industry players are seeking to adopt more digital tools, blockchain has been rather elusive as non-financing use cases such as UCC filings, Know Your Vehicle, and Asset Management has not gained traction.[22] However, as the capital markets adopt blockchain solutions, it will have a demand-pull effect on Treasury departments for all equipment finance and leasing companies. Market participants believe the most immediate and obvious blockchain application is around securitizations.

At the 2021 ABS East Conference in Miami, Florida, there was widespread agreement among attendees that ABS blockchain adoption would likely happen within the next 12 – 18 months. This includes not just consumer-facing assets like mortgages and credit cards but also commercial equipment of all types. Large asset-backed issuers, investment bankers, and investors were quite enthusiastic about the coming adoption of blockchain technology. Even the rating agencies recognized a need to reexamine its analytical framework and emphasize the importance of using the right digital solutions to effectively manage risk. Full acceptance of blockchain-enabled securitization will likely take some time given the number of parties that have to get on board – investors, underwriters, rating agencies, trustees, accountants, law firms, and servicers. Interestingly, some underwriters suggested that the increasing role of ESG and the underlying need to disclose additional information in a more concise, user-friendly, and efficient manner may be a catalyst for blockchain adoption across all industries.

To prepare for the coming blockchain revolution, EF companies must start thinking about being blockchain-ready. Some ideas include:

- Talk to current lenders about their plans for blockchain-enabled securitization; inquire as to whether they have partnered with a particular blockchain platform.
- Be proactive in reaching out to leading financial services blockchain platforms like Provenance and Symbiont to understand how their DLT works.
- Read white papers written by the various DLT providers.
- Invest in the education of Treasury staff on blockchain and smart contracts.
- Begin conversations with the rating agencies on their views around digitized securitizations.
- Work with industry organizations such as the Equipment Leasing & Finance Foundation and the Equipment Leasing and Finance Association to produce research and conference sessions on the topic of blockchain-enabled securitizations.

All equipment leasing and finance companies should educate themselves on blockchain ABS transactions. Established issuers will likely be the first to digitize equipment lease-based securitizations and bring learnings for the industry. But there is a huge opportunity for smaller EF firms as well. The elimination of costly intermediaries will likely make smaller dollar securitization transactions economically feasible thus improving their cost of funds relative to larger players.

Future Trend - ESG Funding Opportunities

Environmental, Social, and Governance or ESG factors have influenced strategy and priorities for many in the EF industry for over a decade. The social and environmental events since the inception of the pandemic have resulted in a marked increase in attention across industry stakeholder ecosystems about the impact ESG companies' operations have and how and what they communicate about it. In fact, 78% of EF companies interviewed for the ELFF ESG Imperatives paper, indicated that ESG was a strategic focus area for their company.[23] Similar to EF companies, funders to the industry are also increasingly focused on investing capital with companies that are demonstrating positive ESG impacts.

The challenge for EF companies and funders alike is that the standards for measuring and communicating ESG impact today are varied and burgeoning across the globe. As such, navigating a changing landscape of funders expectations with regard to ESG can be challenging. Given the quickly evolving and still nascent yet fast-moving nature of ESG standards and materiality metrics, the purpose of this section is to provide a snapshot of where ESG is impacting funding in the EF industry today, how it may serve to attract additional capital in the future and provide a couple of commercial examples of green bond and ABS.

EF companies interviewed for this research indicated that although ESG factors are not having an effect today on availability or terms of funding it is an area, funders are talking about, and they expect it will have an impact in the future. A CEO of an EF company shared that in finalizing recent negotiations to secure a new bank line, ESG did not affect pricing but rather provided a tailwind effect in the process. The fact that they provide funding in the healthcare industry which the funder considered positive from an ESG perspective resulted in favorable terms in an already capital-rich funding environment. A CFO of a large independent noted that due diligence questionnaires from bank funders have begun to inquire about ESG strategy. In another example, a fund lending to the industry noted that insurance industry investors in the fund were beginning to base capital allocation decisions on the potential ESG impact of allocated dollars.

The tides are showing clear evidence that more and more capital will be allocated towards ESG positive investment activities. In April of 2021, GFANZ or the Global Alliance for Net Zero was announced. In November of 2021 at the Glasgow COP26, (Conference of the Parties), climate change conference, it was announced that 440 members controlling 4130T in global assets released a report on progress and plans towards the net-zero global economy. Although their specific metrics and disclosures are still under development with guidance expected by mid-2022, there is a stated focus on measuring the impact of investments including scope 3 emissions, (scope 3 emissions defined as indirect emissions resulting from activities such as assets financed).[24] Since the largest global banks are the owners of the majority of EF companies and comprise the largest funders to the industry it is reasonable to expect that assets that have a positive ESG impact will enjoy the benefit of increasing capital competition to fund eligible assets.

Amid the movement towards ESG capital allocation, there is relevant progress happening in materiality and disclosure frameworks which will be critical in shaping the ESG capital allocation environment. COP26 ushered in a watershed moment as fifty disparate measurement frameworks coalesced under the newly formed International Sustainability Standards Board ("ISSB"). The ISSB is governed by the International Financial Reporting Standards("IFRS"). The goals of the newly formed ISSB are threefold[25]:

- First, develop a comprehensive baseline of high-quality sustainability disclosures for listed companies.

- Second, the foundation persuaded two existing groups to join its sustainability initiative — the Climate Disclosure Standards Board and the Value Reporting Foundation (VRF). The VRF, in turn, houses the Integrated Reporting Framework and the SASB industry standards.
- Third, the foundation published two prototypes for disclosures — on climate and general sustainability — to give the new board a running start. The prototypes were written by the Technical Readiness Working Group, organized by the foundation, which includes experts from the organizations above, as well as the Taskforce on Climate-related Financial Disclosures and the WEF.

These developing standards will no doubt influence policy in the United States. In October 2021, the SEC requested formal feedback on developing required reporting standards to best inform investors seeking ESG investments. At the same time, the agency has been monitoring lawsuits related to inflated ESG claims or 'greenwashing.' In March of 2021, the SEC formed the Climate and Environmental, Social and Governance Task Force (ESG Task Force) within its Division of Enforcement.[26] The sole purpose of the task force is to prosecute ESG violations. These efforts by the SEC and ISSB will likely over time lend clarity to those looking to invest capital towards ESG efforts to gauge relative materiality and performance providing guidance to funders across industries including EF.

Rating agencies are also evolving their ratings processes and standards to better inform ABS investors on relative ESG related credit risk. There is a spectrum of current approaches by leading agencies spanning from highlighting ESG related risks in an ABS rating report to assigning a relative ESG risk rating. It is important to note that by and large the assessments across agencies are not considering new elements, but rather organizing and communicating the elements in ways that relate them to specific E, S & G factors. For example, a report related to agriculture equipment may note the concentration of equipment in recently drought-prone areas or those adversely impacted by other negative weather events with the potential to negatively impact crop yields outlining the risk of credit default of the underlying agricultural equipment lessees. Governance factors may include the overall assessment of management competence and resiliency including DEI, (diversity, equity, and inclusion), factors.

An industry-specific example of a company defining their capital markets offerings in ESG terms is Trinity Leasing which announced in January of 2021 their green bond framework supported by Sustainalytics which is a Morningstar company and provider of ESG research and data. The framework specifies four key essential components of the Green Financing Framework. Those components are[27]:

- Use of proceeds- eligible asset category is Clean Transportation,
- Project evaluation /selection – Trinity investor Services is charged with overseeing portfolio selection and monitoring,
- Management of proceeds – full allocation to refinance eligible green assets
- Reporting – annual reporting will include breakdown of green portfolio by value and the commodities transported.

According to a Nasdaq report on the announcement[28],

"The Green Financing Framework enables TILC to issue green financing instruments, including green non-recourse ABS bonds and green loans, supported by green eligible assets. TILC will manage and report on eligible projects and assets, in line with the Green Bond Principles, 2018 and the Green Loan Principles, 2020.

Under the newly issued framework, currently, eight of TILC's outstanding debt financings, representing over $4 billion of railcar-related debt, meet the criteria and qualify for the Green Financing designation. Crédit Agricole CIB acted as Trinity's Green Structuring Advisor and will continue to support Trinity as a long-term partner in its sustainable finance efforts."

As an early mover in designating green ABS assets, the Trinity ABS framework can be instructive. However, given the burgeoning disclosure frameworks and capital flows towards ESG assets more green offerings and scrutiny on them are sure to follow.

Summary – A Look Ahead

As research for this paper ends one clear conclusion is that the EF industry remains fundamentally healthy. Concerns about potential severe impacts that surfaced two years ago as we entered the pandemic never materialized. Rather, EF remains a fundamentally compelling market for funders delivering an attractive risk-return equation. Funders, lenders, and borrowers were all much more prepared during the pandemic than the Great Recession due to factors described in detail throughout this research. To summarize those key factors, include:

- Overall stronger, better capitalized balance sheets,
- Capital markets better- capitalized,
- Flexibility in EF companies built since Great Recession in funding facilities,
- Better portfolio management enabled by technology investment and
- Government stimulus programs provided continued cash flow for businesses to maintain loan payments and afford capital equipment.

All of the work and investment since the Great Recession paid off during the pandemic creating resiliency that enabled much better performance than most would have predicted at its onset. This resiliency is a strength that the industry can draw on to weather future storms and take advantage of evolving market opportunities. Best practices across the industry point to the strong advantage that thoughtful investment in portfolio management and planning for flexibility in funding facilities provides. The fact that there was only a small blip in capital markets funding to the industry in 2020 is a testament to the confidence in the investment and rating agency community in portfolio reporting and strengthened risk management practices. CFOs learned the lessons of the Great Recession and added and diversified funding sources and staggered maturity schedules. All these best practices did not go unnoticed by those entering the market as new funding sources given the attractiveness of EF assets relative to other asset classes.

A Look Forward

As the EF industry moves into the future two factors are certain; one, the resiliency built into funding is an invaluable asset and, two, that volatility will continue across the economy placing ever-increasing value on it. The strongest EF companies will continue to invest in people and technology to be agile amid uncertainty.

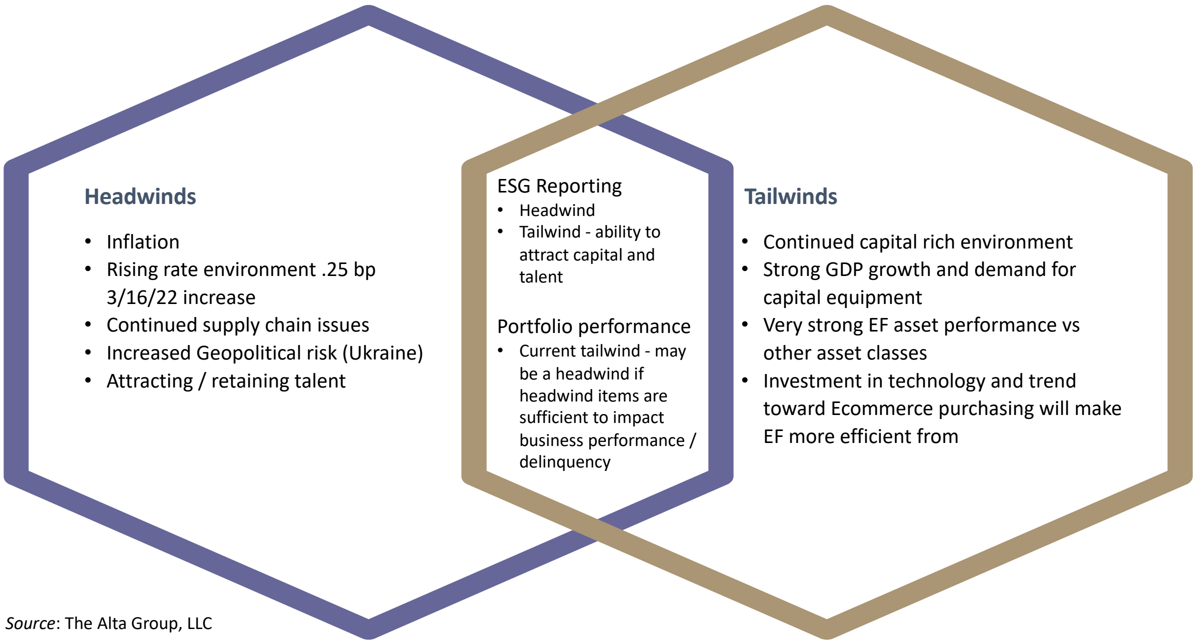
In interviews with EF company leaders, the most common topics top of mind for them as they look ahead include:

- Increasing Know Your Customer (KYC) requirements.
- State and local legislation are becoming burdensome to the industry.
- The rising-rate environment and the clients' ability to manage through the pitfalls.
- Governmental programs designed to help firms weather the pandemic are or will soon be ending, potentially causing portfolio issues. Of particular concern are the restaurant, hospitality, and retail segments.

- Continuing hyper-competitive market could limit the ability to pass through rate increases.
- Will the ESG net-zero commitments by banks and ABS players fundamentally change the funding market.

As this research concludes in the middle of March 2022 some headwinds and tailwinds for the industry are evident and evolving, many foreshadowed the interview results outlined above. Others are new and unpredictable such as the invasion of Ukraine and the associated economic impact. All evidence points to continued volatility across the globe. The resilience of EF positions the industry well to weather unforeseen storms and take advantage of market opportunities. Listed below in exhibit 33 are key headwinds and tailwinds in 2022 and beyond that EF companies must navigate.

Exhibit 33: Headwinds and Tailwinds Impacting Equipment Finance



Source: The Alta Group, LLC

The Pandemic built on resiliency with its foundations in the Great Recession. The industry learned quickly to adapt technology and build organizational flexibility to benefit customers. All will serve well to continue to attract funding and manage whatever the future has to hold for this vital industry.

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About the Researchers

Valerie L. Gerard
Co-CEO, The Alta Group

Valerie L. Gerard is Co-CEO of The Alta Group and leads the Strategy & Competitive Alignment practice. She brings deep leadership and advising experience to Alta. In her work with clients, Valerie helps companies design and implement value-creating solutions. She partners with leadership teams on both strategic and tactical issues from growth strategies and business model optimization to multi-vendor customer financing programs and long-term capitalization.

Valerie is a recognized industry expert and national speaker who writes frequently on current industry trends. Recent publication topics include: creating a world-class multi-funder vendor/customer financing program, implementing Blockchain in the EF industry, embracing ESG, designing long-term capitalization strategies, and working effectively with rating agencies and activist investors.

Recently, Valerie was named one of the "Top 50 Women in Equipment Leasing" in the inaugural class by The Monitor, a leading industry publication. She is a two-term member of the Board of Trustees for the Equipment Leasing & Finance Foundation where she serves on the Editorial Review Board for the Journal of Equipment Lease Financing. In addition, she is an active member of both the Industry Future Council and the Research Committee and a founding member of the Equipment Lease and Finance Association's Women's Council.

Prior to joining Alta, Valerie served as Chief Financial Officer for SmartMoney and chief investor relations officer for many S&P 500 and FTSE 100 firms including CIT, Dow Jones & Company, and AT&T Capital. Earlier in her career, she ran the Finance and Leasing Company Ratings Group for Fitch where she published original research including the first risk-adjusted capitalization model for non-bank financial firms. She completed the Advanced Management Program at the Harvard Business School and received a Bachelors of Art degree in liberal arts from Vassar College.

Gary LoMonaco
Director, Strategy & Competitive Alignment Practice, The Alta Group

Gary LoMonaco joined The Alta Group in 2021 as a director working primarily in the firm's Strategy and Competitive Alignment practice. He has spent over 35 years in the equipment finance business, with a broad range of expertise in the vendor and captive finance markets. He has held senior management roles in a number of prominent firms, with hands-on management of credit, operations, documentation, syndications, sales, originations, and vendor program management.

Gary is passionate about using his broad-ranging background to drive clients' success in establishing and optimizing finance capabilities in vendor and captive companies. He also is passionate about the environment and social concerns, having provided executive leadership for two ESOP-owned companies, sponsoring a number of initiatives to foster employee engagement, educate them about the benefits of employee ownership and minimize the carbon footprint of the firms. His commitment to the environment was fostered by his father, a prominent environmental engineer.

Prior to joining The Alta Group, Gary held senior management positions with Sirius Computer Financial Services, Forsythe/McArthur Associates, Banc of America Leasing and Capital, Fleet Capital Leasing, Heller Financial, and several other firms. He is active with the Equipment Leasing and Finance Association (ELFA), having served twice on its board of directors and served as chair for both the Vendor and Captive Finance and Independent Business Councils. Gary holds a BS degree in Business Administration from Southern Illinois University.

Patricia Voorhees
Director, Strategy & Competitive Alignment Practice, The Alta Group

Patricia Voorhees is an advisor in the Strategy & Competitive Alignment practice focusing on the Fintech and sustainable finance markets with over 25 years of experience in commercial finance and technology. She works across the Fintech ecosystem advising Fintechs, international banks/ finance companies on investments/ acquisitions, capital raising, alliances, and strategies that foster B2B finance innovation and sustainability.

Patricia believes that Fintech can enable solutions delivering positive impact in addressing some of our most pressing challenges such as inclusion and sustainability and support the realization of the UN Sustainable Development Goals. She offers her experience and energy towards those goals. She is a conference speaker, guest lecturer, and author of several articles on the circular economy, fintech, and inclusive finance.

Prior to joining the Alta Group Patricia was with GE Capital for over 16 years holding various executive positions including General Manager of Office equipment finance and Managing Director of M&A where she led many successful acquisitions and vendor captive strategic alliance development efforts. Patricia began her career at IBM in Systems Engineering and Client Management roles. Patricia holds a BA in economics from Western Connecticut State University and MA degrees in Ethics and Society and Education for Peace and Social Justice from Fordham University.

David S. Wiener
Managing Director, Strategy & Competitive Alignment Practice, The Alta Group

David Wiener is regarded as a leading authority on equipment finance demographics having curated the most comprehensive personal library on U.S. equipment finance statistics and historical trends. He served 16 years as ELFA Research Committee Chair and 12 years as a trustee on the Equipment Leasing & Finance Foundation.

As a managing director with The Alta Group, David has served as a strategic advisor to many equipment finance firms on a variety of engagements including acquisition due diligence, process improvement, professional development, and new market entry. Prior to joining Alta, David launched and directed the capital markets platforms for three of the top-ten vendor leasing firms, collaborating on the execution of over $50 billion in transactions.

He has co-authored white papers for the Equipment Leasing & Finance Foundation including The Place of the Independent Equipment Leasing & Finance Company and Municipal Leasing & the Risk of Non-Appropriation. David is a member of the editorial board of the Monitor.

About the Alta Group

The Alta Group is the leader in global consulting and corporate advisory services to the equipment leasing and asset finance industry. Alta is dedicated exclusively to the business of equipment leasing and asset finance. Since 1992, Alta has represented equipment leasing and finance companies, financial institutions, manufacturers, and Service Providers, offering management consulting and expertise in global market entry, vendor and captive finance, professional development, legal services, asset management, mergers, and acquisitions, and digital business advisory. Alta has advised over 100 equipment leasing and asset finance firms.

The Alta Group is truly a global expert serving the United States, Canada, Latin America, Europe, the Middle East, Africa, and Asia-Pacific with more than 100 professionals, who collectively speak eleven languages, in 44 offices around the globe.

Alta's equipment finance knowledge is derived from true hands-on experience as market leaders, industry participants, leasing executives and senior managers, and in successful companies and transactions. Alta is distinctively a principals-only consulting practice which means all of its client work is hands-on and conducted exclusively by a team of seasoned senior-level equipment finance industry veterans.

The Alta Group

Methodology

The Study is based on information gathered using a three-pronged approach:

- **Quantitative**. Alta used several resources, including the ELFA SEFA report to dimension funding activity, volume trends, and capital adequacy within the equipment leasing and financing industry.
- **Qualitative.** Alta used a combination of surveys and detailed interviews among industry participants to address the current funding environment. Two surveys – one general industry with CFO/ Treasury community and the other dedicated to syndication desks. Interviews featured industry lenders across a spectrum of equipment specialization and ticket size. Interviews participants included captive, independent, and bank lessors as well funders, and rating agencies.
- **Quantitative/Qualitative Synthesis.** Alta analyzed the data sources and interview findings, overlaid with its own knowledge of the capital markets, to reach the study's findings and conclusions.

Primary and Secondary Information Sources

Information sources for this study come from a variety of valuable sources, both qualitative and quantitative. Descriptions and practices are placed in the context of accepted business academic theory and best practices where possible. Given the sensitive requirements for the interviews, Alta agreed not to publish individual survey responses in an effort to preserve interview respondent confidentiality. The information sources include:

- CFO survey – tool used, length of survey, target audience, respondent composition.
- Syndication survey – tool used, length of survey, target audience, respondent composition.
- Formal interviews with eight equipment leasing and finance companies. Principals of The Alta Group interviewed industry-leading senior executives. These interviews averaged 60-90 minutes in length and were performed on a common set of questions as detailed in the appendix. All interviews were conducted independently by teleconference. The interviewed firms by EF type are:

Co. Type	Firm	Interviewed	Title
Captive	Cisco Systems Capital Corporation	Danliel Juni	CFO
Independent	Dext Capital	Kyin Lok	CEO
Independent	Element Fleet Management	Vince Belcastro	Group Head, Syndications
Bank	Fifth Third Bank	Scott Kiley	SVP Capital Markets Group Head
Bank	Fifth Third Bank	Michael Hube	SVP Syndications Team Lead
Independent	GreatAmerica Financial Services	Joe Terfler	EVP & CFO
Independent	Kwipped	Robert Preville	Founder/CEO
Independent	Kwipped	Travis Sherbine	Chief Growth Officer
Bank	Truist Equipment Finance	Steve Spivey	Managing Director, Capital Markets
Independent	Verdant	Robert Moskovitz	CFO

- Formal Interviews with six other industry participants such as lenders and rating agencies. These interviews averaged 60 minutes in length and were performed using a common set of questions as detailed in the Interview Questionnaire at the end of this Study. The companies interviewed by company type include:

Lender Type	Firm	Interviewed	Title
I-Bank	Securcor	Brian Rodd	President & COO
I-Bank	Securcor	Thomas Howse	Executive Vice President
I-Bank	SLR Capital Partners	Matt Tallo	Partner
Insurance Co.	Sun Life Capital Management	Rajan Ariyur	Managing Director, Structured Products
Bank	Wells Fargo Capital - Lender Finance	Stewart Hayes	SVP / Managing Director

- Informal interviews. Alta conducted follow-up informal interviews with several lessors to gather their funding experience at year-end.
- The extensive database of the ELFA, especially the 2008 to 2021 editions of the "Survey of Equipment Finance Activity" Report (FYE 2007 to FYE 2020).
- Various studies from the Equipment Leasing & Finance Foundation including:
    - Lender Finance: How Does the Capital Stack? (2015)
    - Securitization: A Renaissance for Equipment Finance? (2015)

Appendix

Survey of Practices in Equipment Finance Capitalization: Funding Securitization & Syndication

A survey of capital availability was conducted using the premium online version of SurveyMonkey™ that enabled an expanded questionnaire design. The survey included twenty-five multiple-choice questions supported by two open-ended questions. The survey design was finalized upon review and editing by an adjunct steering committee of the Equipment Leasing & Finance Foundation who provided peer review input. The weblink to participate was sent via an e-mail invitation to a target group of ELFA executives of member companies who originate and fund their own transactions. Responses were submitted by the CEO, CFO, Treasurer, and Capital Market Leaders of forty-nine major member companies. While on the low end of expected participation, this was representative of the industry including EF companies who originate Direct, Indirect, and through Vendor/Dealer programs. A copy of the CFO Capital Availability survey questionnaire is contained in the Appendix section of this report.

Survey participant demographics were as follows:

Company Type	Census	%
Banks	14	29%
Captives	5	10%
Independents	29	60%
Total	48	100%

Ticket Size	Census	%
Small (<$250,000)	16	29%
Middle ($250,000-$5,000,000)	25	10%
Large (>$5,000,000)	7	60%
Total	48	100%

Primary Origination	Census	%
Direct	22	46%
Indirect	9	19%
Vendor	15	31%
Other	2	4%
Total	48	100%

Annual Volume	Census	%
Under $100 million	20	41%
$100-$250 million	9	19%
$250-500 million	10	21%
$500 million-$1 billion	3	6%
Over $1 billion	6	12%
Total	48	100%

The actual standardized online survey questionnaire follows:

The Equipment Leasing & Finance Foundation has commissioned a study of current best practices in equipment finance with respect to funding, securitization & syndication. One facet of this study is to capture current insights from industry executives with respect to capitalization. The attached link launches an easy, intuitive, top-of-mind on-line survey which you should be able to complete in less than 10 minutes. Deadline for completion is COB Wednesday September 20.

This survey is being sent to the lead ELFA contact within all active equipment finance firms. If you are not the right person to complete the survey, kindly forward this e-mail to the appropriate finance leader in your organization. Once forwarded, the recipient simply needs to click the button below to start the survey. Thank you in advance for your participation.

1. Indicate your function within your organization
   ☐ Chief Financial Officer
   ☐ Treasurer
   ☐ Chief Executive Officer
   ☐ Capital Markets Leader
   ☐ Other (please specify)_______________________

2. What best describes your firm's PRIMARY means of transaction origination? (SELECT ONE)
   ☐ Vendor Program Origination
   ☐ Direct Origination
   ☐ Indirect Origination (Buy-Sell / Broker / 3rd Party Purchased)
   ☐ Other (please specify)_______________________

3. In your experience over the last 18 months, capital availability to fund your business has (CHECK ONE):
   ☐ Increased
   ☐ Decreased
   ☐ Stayed about the same

4. In your experience over the last 18 months, the overall cost of funding has (CHECK ONE):
   ☐ Increased
   ☐ Decreased
   ☐ Stayed about the same

5. What do you foresee in the next 6 months with respect to cost of funds?
   (Check appropriate box and also note anticipated increase ("+") or decrease ("-")
   ☐ Stay about the same
   ☐ A DECREASE … Note below with a minus ('-") sign and anticipated number of basis points
   ☐ An INCREASE … Note below with a plus ("+") sign and anticipated number of basis points
   ☐ In basis points indicate expected INCREASE (i.e., "+5" or "+12") or DECREASE (i.e., "-4" or "-11")

6. Have you seen any changes in your average margin on transactions funded, based on market factors?
   ☐ No
   ☐ Yes. Margins / Spreads have INCREASED
   ☐ Yes. Margin / Spreads have DECREASED

7. Have you experienced any shifts in end user demand for financing? (CHECK ALL THAT APPLY)
   ☐ No
   ☐ Yes. Decreased demand for financing – customers using cash or bank lines
   ☐ Yes. Increase in demand for financing vs. cash purchases
   ☐ Yes. Request for longer transaction terms / duration
   ☐ Yes. Request for shorter transaction terms duration
   ☐ Yes. Request for alternative products (Describe in "Other" box below)
   ☐ Other (please specify)_______________________

8. Have you seen increased competition in your served markets? (CHECK ALL THAT APPLY)
   ☐ No
   ☐ Yes. From Existing Established Companies
   ☐ Yes. From New Bank Entrants
   ☐ Yes. From Captives
   ☐ Yes. From New Independents
   ☐ Yes. From New company types (Describe in "Other" box below)
   ☐ Other (please specify)_______________________

9. Have aspects of the supply chain disruption impacted your firm in the current year? (CHECK ALL THAT APPLY)
   ☐ Not at all
   ☐ Fundings have been significantly delayed due to delays in equipment deliveries
   ☐ Volume has declined due to delay in equipment availability
   ☐ Cost of equipment has increased
   ☐ Other (please specify)______________________

10. Within your portfolio, have you observed an increase in any of the following? (CHECK ALL THAT APPLY):
    ☐ Delinquencies
    ☐ Write-offs
    ☐ Restructures
    ☐ Other (please specify)______________________

11. Have you entered any new markets, finance products or transaction types over the last 18 months? (CHECK ALL THAT APPLY - If "Yes" please describe in "Other"
    ☐ No
    ☐ Yes – New finance product(s) - describe below in "Other" comment box
    ☐ Yes – New origination channels(s) - describe below in "Other" comment box
    ☐ Yes – New equipment type(s) financed - describe below in "Other" comment box
    ☐ Yes – New industries served - describe below in "Other" comment box
    ☐ Other (please specify)______________________

12. What is the composition of your capital structure (IN PERCENTAGES; Must equal 100%)
    ☐ Bank line
    ☐ Securitization
    ☐ Syndication
    ☐ Whole loan sales
    ☐ Discounting rental streams on individual lease transactions
    ☐ Equity
    ☐ Other

13. If "Other" is part of Q-10 above, describe here. Otherwise, proceed to Q-12.

    ____

    ____

    ____

    ____

    ____

14. Have you had any significant changes to the funding sources, mechanisms, or conditions over the last 18 months? (CHECK ALL THAT APPLY)
    ☐ No
    ☐ Yes. New provider of capital to our organization; but a traditional established provider to the industry
    ☐ Yes. Added new provider of capital which represents a new non-traditional source.
    ☐ Yes- Securitization
    ☐ Yes. Advance Rates (Describe in "Other" box below)
    ☐ Yes. Leverage (Describe in "Other" box below)
    ☐ Yes. Covenants (Describe in "Other" box below)
    ☐ Yes. ESG related disclosures (Describe in "Other" box below)
    ☐ Other (please specify)______________________

15. Has there been a significant change in the amount of time necessary to manage funding sources and/or financial instruments? (CHECK ONE)
    ☐ No Change
    ☐ Increase (describe in "Other" comment box below)
    ☐ Decrease (describe in "Other" comment box below)
    ☐ Other (please specify)________________________

16. Do you utilize e-signatures to execute lease/loan documents? (CHECK ONE)
    ☐ Not at all
    ☐ Yes -on all transactions
    ☐ Partially. (If only on some transactions, describe in "Other" box below)
    ☐ Other (please specify)________________________

17. Are you utilizing e-chattel paper to document & store lease/loan documents?
    ☐ No
    ☐ Yes

18. Are you utilizing electronic titles?
    ☐ No
    ☐ Yes
    ☐ Not Appliable (we do not finance titled vehicles)

19. Have you partnered or do you have plans to partner with a fintech for deal sourcing or servicing?
    ☐ No
    ☐ Yes. Deal Sourcing
    ☐ Yes. Deal Servicing
    ☐ Other (please specify)________________________

20. What is the predominant ticket size of the markets you serve? (SELECT ONE)
    ☐ Small ticket, $Under-$250k
    ☐ Mid-ticket $250k-$5MM
    ☐ Large Ticket >$5MM

21. What is your total ON BOOK PORTFOLIO / NET EARNING ASSETS?
    ☐ Under $20 million
    ☐ $20 to $50 million
    ☐ $50 to $100 million
    ☐ $100 to $250 million
    ☐ $250 to $500 million
    ☐ $500 million to $ 1 billion
    ☐ Over $1 billion

22. What is your total ANNUAL NEW BUSINESS VOLUME ORIGINATED?
    ☐ Under $20 million
    ☐ $20 to $50 million
    ☐ $50 to $100 million
    ☐ $100 to $250 million
    ☐ $250 to $500 million
    ☐ $500 million to $ 1 billion
    ☐ Over $1 billion

23. What is your average transaction term for your business originated and booked?
    ☐ 2 Years (24 Months) or shorter
    ☐ 3 Years (36 Months
    ☐ 4 Years (48 Months)
    ☐ 5 Years (60 Months)
    ☐ 7 Years (84 Months
    ☐ 10 Years (120 Months)
    ☐ 12 Years (144 Months) or longer

24. What industries / asset types comprise the top 3 you finance?
    - ☐ Agriculture
    - ☐ Amusements
    - ☐ Construction
    - ☐ Energy – Renewables (i.e., Solar, Wind)
    - ☐ Energy – Utilities & Controls
    - ☐ Fitness / Recreation
    - ☐ Fixtures – Restaurant & Retail
    - ☐ Furniture – Office
    - ☐ Industrial/Manufacturing – Machine Tools & Plastic Extrusion
    - ☐ Industrial/Manufacturing – Other including Production & Process Lines
    - ☐ IT – Hardware; including Networks, Servers, Storage and Mobile Devices
    - ☐ IT – Software
    - ☐ Materials Handling
    - ☐ Medical / Healthcare including Imaging, Diagnostic, Surgical & other Medical Devices
    - ☐ Mining – including Oil & Gas Extraction
    - ☐ Office Machines – including Copiers
    - ☐ Printing
    - ☐ Telecommunications
    - ☐ Transportation – Aircraft (Commercial)
    - ☐ Transportation – Aircraft (Corporate)
    - ☐ Transportation – Autos (Commercial / Fleets)
    - ☐ Transportation – Bus & Motor Coach
    - ☐ Transportation – Containers / Intermodal
    - ☐ Transportation – Marine (Fresh & Saltwater)
    - ☐ Transportation – Rail
    - ☐ Transportation – Trucks & Trailers
    - ☐ Other (please specify)___________________

25. What data, statistics, measurements, and/or other information not readily available today would be most helpful in your efforts to optimize funding?

    ____

    ____

    ____

    ____

    ____

26. Please provide any additional input not covered in this survey that you believe is a significant risk or opportunity as it relates to funding in the in the equipment finance market.

    ____

    ____

    ____

    ____

    ____

Capital Markets / Syndication Survey of Practices in Equipment Finance

A companion – but distinctly separate – survey questionnaire was conducted targeting the syndication community of EF transaction buyers and sellers that went through the same advance steering committee peer review. Consisting of twenty-two multiple choice and two open-ended questions with inbound submissions through the Survey Monkey™ web-based questionnaire tabulation medium, forty-six companies participated. A copy of the Capital Markets Syndication survey questionnaire is contained in the Appendix section of this report.

Among these forty-six participants, their firms collectively sell over $6 billion in EF transactions and purchase over $ 8 billion. Survey participant demographics were as follows:

Company Type	Census	%
Banks	17	38%
Captives	3	7%
Independents	25	56%
Total	45	100%

Ticket Size Served	Census	%
Small (<$250,000)	10	22%
Middle ($250,000-$5,000,000)	20	44%
Large (>$5,000,000)	16	35%
Total	45	100%

Annual Volume	Census	%
Under $100 million	14	31%
$100-$250 million	9	20%
$250-500 million	6	13%
$500 million-$1 billion	2	4%
Over $1 billion	14	41%
Total	45	100%

The actual standardized online survey questionnaire follows:

The Equipment Leasing & Finance Foundation has commissioned a study of current funding, securitization, and syndication best practices in equipment finance. One key facet of this research is to capture current insights from industry executives with respect to syndication through this survey. It has been sent to a wide array of those in the buyer and seller community. In some instances, it has been presented to more than one individual per company. The attached link launches this intuitive, top-of-mind on-line survey. Do it now. You be able to easily complete in 5 to 10 minutes. <u>Deadline for completion is this close of business Friday September 24th</u>.Thank you in advance for your participation.

27. What best describes your company type?
    ☐ Bank
    ☐ Captive
    ☐ Independent
    ☐ Broker
    ☐ Other (please specify)________________________

28. Indicate your function within your organization.
    ☐ Capital Markets / Syndication Professional – focused on the "Sell" Side
    ☐ Capital Markets / Syndication Professional – focused on the "Buy" Side
    ☐ Capital Markets / Syndication Professional – involved in both the "Buy" & "Sell" Sides
    ☐ Capital Markets / Syndication Group Head
    ☐ Other (please specify)________________________

29. What is the predominant ticket size of the markets your firm serves? (SELECT ONE)
☐ Small ticket ($Under-$250K) ☐ Large Ticket (>$5MM)
☐ Mid-ticket ($250k-$5MM)

30. If active on the SELL SIDE of Syndication, what are ***ALL OF*** the reasons your company syndicates deals? (CHECK ALL THAT APPLY)
☐ Permanent Funding via Discounting of Rents
☐ Fee Income / Gain on Sale
☐ On Book Exposure Management
☐ Overline or Larger Transactions Beyond Ability to Retain
☐ Underlying Credits Outside of our Risk Profile
☐ Thin Spread Transactions Below our Pricing Threshold
☐ Demonstrates / Validates Market Acceptance for Credit or Structure
☐ Not Applicable (I am on the Buy Side only)
☐ Other (please specify)________________________

31. If active on the SELL SIDE of Syndication, what is the ***PRIMARY*** reason your company syndicates deals?
☐ Permanent Funding via Discounting of Rents
☐ Fee Income / Gain on Sale
☐ On book Exposure Management
☐ Overline or Larger Transactions Beyond Ability to Retain
☐ Underlying Credits Outside of our Risk Profile
☐ Thin spread Transactions Below our Pricing Threshold
☐ Demonstrates / Validates Market Acceptance for Company or Structure
☐ Not Applicable (I am on the Buy Side only)
☐ Other (please specify)________________________

32. If active on the BUY SIDE of Syndication, what are ***ALL OF*** the reasons your company purchases transactions? (CHECK ALL THAT APPLY)
☐ Primary Source of Origination
☐ Provides Incremental Volume
☐ Enables us to Diversify Geography
☐ Enables us to Diversify Equipment Types and/or End-User industries Financed
☐ Efficient / low cost means of origination
☐ Compliments our sell side, creating a 2-way street with sellers who also buy
☐ Not Applicable (I am on the Sell Side only)
☐ Other (please specify)________________________

33. If active on the BUY SIDE of Syndication, what is the ***PRIMARY*** reason your company purchases transactions?
☐ Primary Source of Origination
☐ Provides Incremental Volume
☐ Enables us to Diversify Geography
☐ Enables us to Diversify Equipment Types and/or End-User industries Financed
☐ Efficient / low cost means of origination
☐ Compliments our sell side, creating a 2-way street with sellers who also buy
☐ Not Applicable (I am on the Sell Side only)
☐ Other (please specify)________________________

34. If active on the SELL SIDE of syndication, in your experience over the last 18 months, how would you assess the availability of transactions to sell?
☐ Stayed about the same ☐ Decreased
☐ Increased ☐ Not Applicable (I am a Buyer only)

35. If active on the BUY SIDE-side of syndication, in your experience over the last 18 months, how would you assess the availability of transactions to purchase?
☐ Stayed about the same ☐ Decreased
☐ Increased ☐ Not Applicable (I am a seller)

36. With respect to Syndication "Buy" and/or "Sell" activities, in your experience over the last 18 months, spreads / deal pricing has:
☐ Stayed about the same ☐ Decreased
☐ Increased

37. What do you foresee in the next 6 months with respect to deal pricing?
☐ Stay about the same ☐ A DECREASE
☐ An INCREASE

38. Have you experienced any shifts in end user demand for financing? (CHECK ALL THAT APPLY)
☐ No
☐ Yes. Decreased demand for financing – end-users reducing level of equipment purchases
☐ Yes. Decreased demand for financing – prospective customers using cash or bank lines
☐ Yes. Increase in demand for financing vs. cash purchases
☐ Yes. Request for longer transaction terms / duration
☐ Yes. Request for shorter transaction terms duration
☐ Yes. Request for alternative products or structures (Describe here):________________________

39. Which response best describes the trend in credit quality over the past 18 months?
☐ Credit quality is about the same ☐ Credit quality has deteriorated
☐ Credit quality has improved

40. Has there been a significant change in the amount of time, terms and/or conditions necessary to price and/ or structure transactions?
☐ No Change ☐ Decrease (Describe below)
☐ Increase (Describe below) ☐ Describe: ________________________

41. Are you utilizing any of the following tools?
☐ None ☐ Electronic Titles
☐ E-Documents ☐ Other (Describe)

42. Do you use syndication tools as a part of your process? (check all that apply)
☐ No – None
☐ Syndication CRM (Describe below)
☐ Syndication Web Portal (Describe below)
☐ Syndication Functionality within our Lease Operating system's software (Describe below)

☐ Something Else (Describe below)
☐ Describe:_______________________

43. What syndication process / protocol changes have you experienced in the past 5 years? (check all that apply)
☐ None – No Changes
☐ Now required to solicit interest from a wider array of prospective buyers
☐ Buyers are requiring an exclusive before any underwriting can proceed
☐ More KYC (Know Your Customer) Protocol
☐ Buyers allowing Sellers to Retain Billing/Collection Servicing
☐ Buyers requiring Sellers to Release Billing/Collection Servicing to the Buyer
☐ Annual/Periodic Soft Audits of Sellers
☐ Other (please specify)_______________________

44. What is your average transaction term for your business purchased and/or sold?
☐ 2 Years (24 Months) or shorter
☐ 3 Years (36 Months)
☐ 4 Years (48 Months)
☐ 5 Years (60 Months)
☐ 7 Years (84 Months)
☐ 10 Years (120 Months)
☐ 12 Years (144 Months) or longer

45. What is your company's total ANNUAL NEW BUSINESS VOLUME ORIGINATED?
☐ Under $20 million
☐ $20 to $50 million
☐ $50 to $100 million
☐ $100 to $250 million
☐ $250 to $500 million
☐ $500 million to $ 1 billion
☐ Over $1 billion

46. What is your company's total Annual New Business Volume PURCHASED FROM OTHERS?
☐ Under $20 million
☐ $20 to $50 million
☐ $50 to $100 million
☐ $100 to $250 million
☐ $250 to $500 million
☐ $500 million to $ 1 billion
☐ Over $1 billion

47. What is your company's total Annual New Business Volume SOLD TO OTHERS?
☐ Under $20 million
☐ $20 to $50 million
☐ $50 to $100 million
☐ $100 to $250 million
☐ $250 to $500 million
☐ $500 million to $ 1 billion
☐ Over $1 billion

48. How does your firm primarily originate transactions? (% to total "100")
☐ Direct Origination – soliciting End Users
☐ Vendor Program Origination – through Manufacturers, Dealers and Vendors
☐ Individual Transactions – purchased from Third Parties (Brokers and Other Originators)
☐ Portfolios or Pools of Transactions – purchased from Third Parties
☐ Referrals - from calling officers (only if a Commercial Bank)
☐ Other (please specify)_______________________

49. What data, statistics, measurements, and/or other information not readily available today would be most helpful in your efforts to optimize syndication activity?

    ____

    ____

    ____

    ____

    ____

50. Please provide any additional input not covered in this survey that you believe is a significant risk or opportunity as it relates to funding in the in the equipment finance market.

    ____

    ____

    ____

    ____

    ____

Banker / Advisor Interview Questions

Principals of The Alta Group conducted formal interviews with eight equipment leasing and finance companies. These interviews averaged 60-90 minutes in length and were performed on a common set of questions as detailed here:

1. What primary areas of commercial finance products / advisory does your bank offer?

2. Where do you focus on the equipment finance industry?
    a. Any specific industries or subsector / asset types

3. Do you advise on debt / equity raises?

4. Do you advise on the buy/sell side? IPO's

5. Do you structure / act as advisor for equipment ABL?

6. What is your view of the health of the equipment finance market?
    a. Do you see any specific headwinds or tailwinds?

7. How would you describe the general capital availability for the equipment finance industry?
    a. Have you sent new entrant with interest in the asset class? If so, what types of entities and why have they entered?
    b. Have you seen funders exit the asset class over the last 24 months? If so, Why?

8. Have you seen changes in the cost of capital for the industry?

9. Have you seen a change in leverage ratios across the industry?

10. Have you seen a change in the mix of tools equipment leasing companies use for funding – bank lines, whole loan sales / syndication, securitization? If so whereby sector / lessor size or industry/asset focus?

11. Have you observed, advised or seen funders request changes in covenants, advance rates or pricing for bank lines?

12. Have you seen a change in investor appetite for ABS transactions? If so in what way?

13. Have you observed or advised clients on changes in structures, pricing, pool composition or advance rates for ABS transactions?

14. How do you see policy regulatory shifts affecting funding in the equipment finance industry?

15. Do you see any technology shifting the funding, syndication or securitization process? Such as:
    a. Crypto / blockchain based funding?
    b. AI, smart contracts?
    c. Any specific tech players or new funding models stand out?

16. What implications has the focus on ESG had if any on funding availability, structures, pricing or participants for the equipment leasing industry?
    a. Do you think ESG will have greater impact on funding in the future? If so, why?

Equipment Finance CFO/Treasurer Interview Questions

Principals of The Alta Group conducted formal interviews with CFO/ Treasurers at leasing and finance companies. These interviews averaged 60-90 minutes in length and were performed on a common set of questions as detailed here:

1. What primary areas of commercial finance products / advisory does your bank offer?

2. Where do you focus on the equipment finance industry?
    a. Any specific industries or subsector / asset types

3. Do you advise on debt / equity raises?

4. Do you advise on the buy/sell side? IPO's?

5. Do you structure / act as advisor for equipment ABL?

6. What is your view of the health of the equipment finance market?
    a. Do you see any specific headwinds or tailwinds?

7. How would you describe the general capital availability for the equipment finance industry?
    a. Have you seen new entrant with interest in the asset class? If so, what types of entities and why have they entered?
    b. Have you seen funders exit the asset class over the last 24 months? If so, Why?

8. Have you seen changes in the cost of capital for the industry?

9. Have you seen a change in leverage ratios across the industry?

10. Have you seen a change in the mix of tools equipment leasing companies use for funding – bank lines, whole loan sales / syndication, securitization? If so whereby sector / lessor size or industry/asset focus?

11. Have you observed, advised or seen funders request changes in covenants, advance rates or pricing for bank lines?

12. Have you seen a change in investor appetite for ABS transactions? If so in what way?

13. Have you observed or advised clients on changes in structures, pricing, pool composition or advance rates for ABS transactions?

14. How do you see policy regulatory shifts affecting funding in the equipment finance industry?

15. Do you see any technology shifting the funding, syndication or securitization process? Such as:
    a. Crypto / blockchain based funding?
    b. AI, smart contracts?
    c. Any specific tech players or new funding models stand out?

16. What implications has the focus on ESG had if any on funding availability, structures, pricing or participants for the equipment leasing industry?
    a. Do you think ESG will have greater impact on funding in the future? If so, why?

17. Has your firm implemented an e-Vault or other technology allowing for e-Chattel?

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