The Indirect Equipment Finance & Leasing Markets:

Relationships between Larger Intermediaries and Their Purchasing Partners

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The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

The Foundation research is independent, predictive and peer-reviewed by industry experts. The Foundation is funded solely through contributions. Contributions to the Foundation are tax deductible.

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Preface

Purpose of the Study: The indirect markets within the equipment leasing and finance industry have changed since the Recession of 2008-2009. Relationships between larger intermediaries (independent lessors and other origination firms) and their purchasing partners (banks, larger lessors and finance companies) have been altered, causing parties on both sides of these markets to change numerous aspects of the way they do business with each other. The Equipment Leasing & Finance Foundation engaged Wheeler Business Consulting to conduct a comprehensive study of the indirect markets to learn more about these changes and their impact on participants in the direct markets and the larger equipment leasing and finance market overall.

Specifically, the study explores motivations causing larger intermediaries and their purchasing partners to participate in the indirect markets. The study also examines the ways in which closer relationships between these two groups are influencing outcomes for all parties.

The study peruses current relationships in the indirect markets and lessons learned from the recent recession. It also identifies key elements that determine success in today's economic environment. The study further examines current challenges and future opportunities developing as a result of changing and cyclical relationships within the indirect channels of the equipment leasing and finance industry.

Process and Participation: The study takes a two-pronged approach, surveying larger intermediaries and purchasing partners separately to gain their individual perspectives; then interviewing these parties to gain a collective overview of how each reacts to the surveyed information about others. The study then analyzes the information separately and collectively to reach conclusions and identify key factors that contribute to successful indirect-market relationships.

The process of gathering data included:

- Mining various public resources (industry articles, association data, and government resource data) for statistics on the equipment leasing and finance industry as a whole and the indirect markets specifically
- Electronic surveying of 89 companies, nearly evenly split between buyers and sellers of transactions. Respondents were diverse, based on transaction size, equipment types and geographic activity
- Participation in industry conferences, presentations and roundtables to gain insight into current trends, concerns, and potential within the industry
- Meeting with industry service providers regarding recent trends in efficiency and automation.

The study is made possible by the generous support of professionals in the commercial equipment leasing and finance industry. Executives from every segment were willing to participate and were generally sincere and open with their comments, suggestions and concerns related to the indirect markets. There is genuine interest from professionals at all levels to contribute to advancement of the industry. Through their participation in this study and others, it is evident that industry leaders are committed to their craft and to providing the best products and services to businesses nationwide.

As a 30-year industry veteran and current industry consultant, I relied on my personal and professional experience, as well as the vast information gathered through surveys and interviews, to undertake and complete this study.

Scott A. Wheeler
Wheeler Business Consulting LLC

Executive Summary

Indirect markets within the equipment leasing and finance industry weathered the recession of 2008-2009 and spent the next several years realigning. As a result, most firms now participating in these markets are positioned for growth and opportunity. But relationships between larger intermediaries, or originators of transactions, and their purchasing partners, or buyers of transactions, have changed, in many cases becoming closer. Yet the indirect markets remain volatile, continuing to feel the influence of broader trends at work in the U.S. economy.

This study focuses on larger intermediaries that:

- sell at least 50% of their business to purchasing partners
- generate at least $20M in annual new-business development, and
- maintain internal operations staffs.

The study examines relationships that exist between these organizations and the banks, larger leasing companies and other finance firms, or purchasing partners, that acquire the assets of larger intermediaries on a regular basis.

Many lessons were taken from the 2008-2009 recession; mainly, that asset quality matters, and that long-term asset performance is essential to sustaining relationships between firms on both sides of the indirect markets. Lease receivables and commercial and industrial (C&I) assets are currently performing exceptionally well, compared to other financing assets in the market. Subsequently, firms with large amounts of capital are seeking high-quality commercial equipment assets. Strong relationships between larger intermediaries and their purchasing partners are now being driven by a necessity to align properly so as to produce the best outcomes. But the process of establishing new relationships has become more difficult as all parties conduct rigorous, up-front due diligence before agreeing to join forces. Such scrutiny tends to ensure that larger intermediaries and their purchasing partners are better informed of each other's capabilities than may have been true in the past. But the study found that these relationships are still being tested for loyalty and consistency—a circumstance that contributes a certain fragility to the entire equipment leasing and finance market.

Specifically, indirect market participants are requiring their partners to perform at the highest levels of professionalism and capability. Larger intermediaries are requiring purchasing partners to provide consistent products and services so that intermediaries can gain credibility and viability with vendors and end-users. Conversely, purchasing partners are requiring intermediaries to be well-versed in all aspects of the financial process, to be financially strong, to possess operational depth, and to assume more administrative responsibility in the relationship than in years past.

One of the greatest challenges to the equipment leasing and finance industry is the ability to attract and retain high quality marketing professionals able to generate sufficient new business in a very competitive environment. Larger intermediaries have not been immune to this challenge, as both direct and indirect channels compete to attract the best talent. Organizations and professionals have had to adjust their marketing skills to accommodate a changing market. To be attractive to the best purchasing partners, intermediaries are investing in automation and marketing resources that leverage the efforts of their staffs. And as the domestic economy continues to improve, with private investment in equipment and software exceeding 2007 levels as of the end of 2012, larger intermediaries are gaining value as viable origination sources for all types of equipment leasing and financing transactions. As a result, many different attributes must now be present in larger intermediaries and their purchasing partners to solidify the best relationships. But the study identified four key elements that consistently came to light throughout the research. They are as follows:

Quality: That quality matters on every level was the primary lesson learned during the recession of 2008-2009. Financial outcomes of indirect relationships depend on each party's ability to focus on generating, processing and funding the highest quality assets, especially as they relate to credit strength, asset performance and structural elements. Equally important in maximizing indirect relationships are each partner's skill sets, financial strength and servicing capabilities.

Efficiencies: Efficiencies of all types are essential in today's competitive environment. As margins face additional pressures, both larger intermediaries and their purchasing partners are being forced to transact business only with those firms able to produce the best results with the most efficient use of resources.

Strategic Alignment: Relationships are always strongest when buyers and sellers of commercial paper are well-aligned. Thus, larger intermediaries and their purchasing partners are spending considerable time choosing relationships for the long-term and moving beyond single transactions to understand joint goals and objectives that can be used to attract and fund a consistent flow of new business.

Volume Generation Capabilities: Along with quality, results also matter as industry participants vie for market position and strive to rebuild and expand their portfolios. Today both larger intermediaries and their purchasing partners are measured by their ability to generate and fund sufficient new business to become respected players in the indirect markets.

Indirect markets remain a vital segment of the commercial equipment leasing and finance industry. Relationships between larger intermediaries and their purchasing partners often cycle with the broader economy. Research indicated widespread optimism that the recession of 2008-2009 improved the indirect markets and strengthened its best participants. In fact, study participants were overwhelmingly optimistic (83%) about their current relationships and the future of the indirect markets. Indeed, the cycle of opportunity and profitability continues as indirect-market participants internalize lessons learned, adjust their capabilities and offerings, and build stronger relationships with their business partners.

Definitions

Indirect Markets: Indirect markets comprise the buying, selling and/or pledging of commercial equipment leasing and financing assets. Indirect markets within the commercial equipment leasing and finance industry co-exist with direct markets. Assets that move through the indirect markets can be sold as single, one-off transactions or in bulk through portfolio sales. They may be transferred immediately upon origination or at a time in the future. Firms' ability to buy and sell these assets establishes and builds value in the market. An active indirect market assists in confirming the strength and viability of industry assets.

Participants in the indirect markets include firms of all sizes, from single brokers to global finance services companies; from banks to major manufacturers. Banks, larger independents and other financial firms that buy transactions also routinely participate in selling such assets to other industry participants. Thus, the indirect markets involve, but are not limited to:

- the selling of single transactions
- the offering of debt secured by equipment leases and loans
- the selling of equipment portfolios and
- the securitizing of pools of transactions.

The intention of the study was not to overlook the vastness of the total indirect market, but to focus on a segment of the market that the Foundation's Research Committee determined to be of critical importance.

This segment consists of two types of entities:

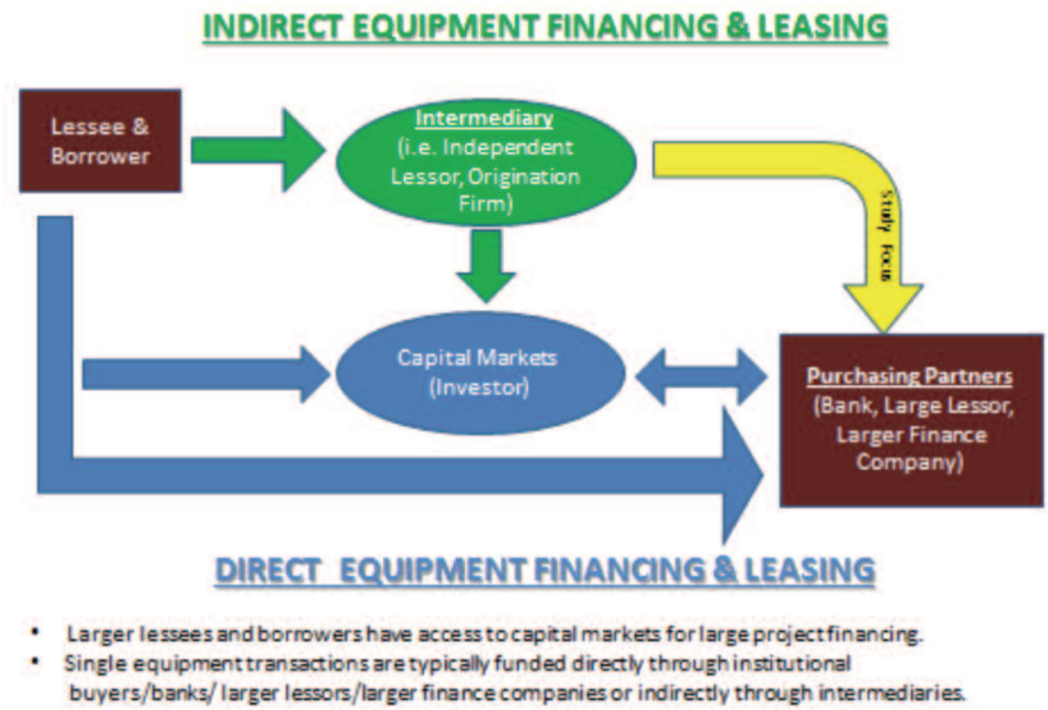
- originators and sellers of transactions that are independent lessors and other originating firms, hereafter referred to in the study as larger intermediaries, and
- buyers of transactions that are banks, larger independent lessors or large finance companies, hereafter referred to in the study as purchasing partners.

Larger intermediaries rely on their purchasing partners as primary sources of funding—not as secondary funding aimed at portfolio management. Relationships between larger intermediaries and their purchasing partners are indicated by the yellow arrow in the diagram below.

Larger Intermediaries: Larger intermediaries are defined in this study as independent lessors and origination firms that are not affiliated with banks or publically traded entities. These closely held organizations typically meet three of the following four criteria:

- Generation of more than $20M in transactions annually
- Possession of the capacity to fund a portion of their transactions with lines of credit or internal equity
- Sale or assignment of at least 50% of originated transactions (or payment streams) immediately or within one year of origination
- Maintenance of internal capabilities to review, package and process equipment leasing and financing transactions.

Purchasing Partners: Purchasing partners are defined in this study as organizations that routinely purchase commercial equipment financing and leasing assets from larger intermediaries. Purchasing partners are generally larger banks, larger leasing companies or large finance companies. In reality, however, this purchasing group also includes community and regional banks, and closely held lessors and finance companies seeking assets secured by commercial equipment. Most institutional purchasing partners also actively sell assets. For this reason, the study recognizes the joint activity of many purchasing partners' syndication desks in buying and selling transactions to manage portfolios, concentrations and profitability. The study further acknowledges the ability of many purchasing partners to temporarily or permanently enter, expand, contract or terminate their involvement in the indirect markets.



The Equipment Finance and Leasing Industry: The equipment finance and leasing industry is a $700 billion-plus industry that encompasses organizations of all sizes, from single brokers to global financial firms. The industry provides a diverse offering of financial services to businesses of all sizes that acquire all types of capital equipment. Commonly segmented by transaction size (small-ticket, middle-market and large-ticket), with transactions ranging from a few thousand dollars to millions of dollars, the industry funds a broad range of equipment types including, but not limited to small office equipment, construction machinery, transportation equipment and vehicles of all types, medical equipment, technology equipment and manufacturing equipment. The indirect market includes a wide swath of segments within the industry as it relates to transaction size, equipment types and industry sectors.

A Brief History

The buying and selling of equipment leasing and financing assets has always been vital to the industry. Indirect markets ebb and flow with economic cycles and industry trends and through them, new buying entities can build indirect portfolios, purchasers can supplement their core, direct-marketing platforms, and some purchasers, such as small regional banks, can build marketing platforms. Accordingly, indirect markets provide many entities with access to capital.

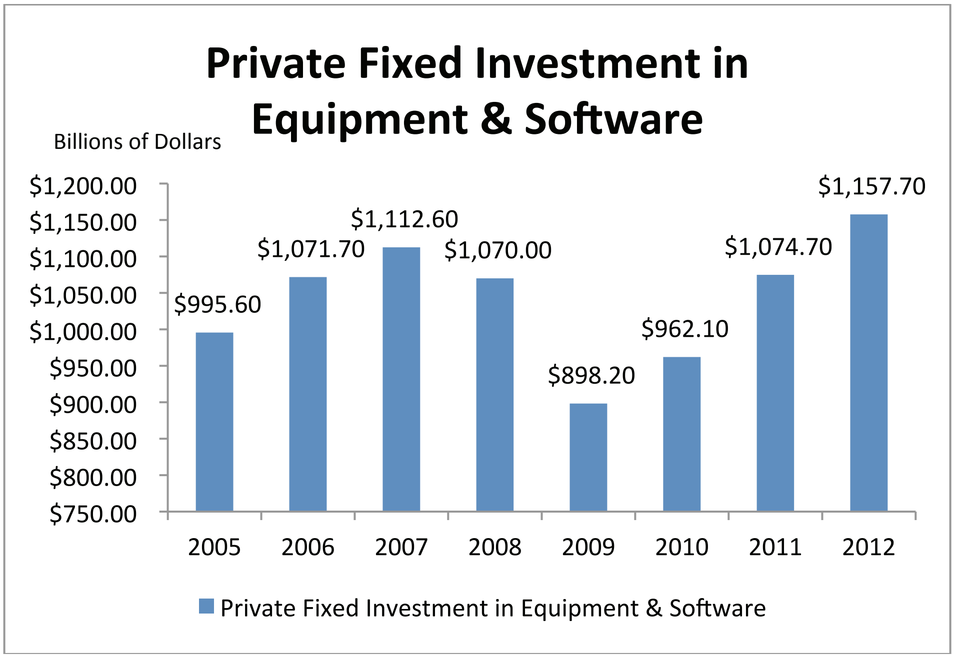
Transactions obtained indirectly were once widely considered less desirable than those originated through direct channels, due to the belief that indirect transactions were higher-risk. But indirect markets matured alongside direct markets as purchasers altered their credit and funding processes to adjust for the risk of being once-removed from the actual transactions. As a result, purchasing partners have realized significant success in building well-performing indirect portfolios. ***The study revealed that 68% of surveyed purchasing partners' indirect portfolios performed as well as direct portfolios during the 2008-2010 recessionary period.*** Most firms involved in equipment leasing and finance today participate in the indirect markets to a degree, either through syndication, strategic relationships with third-party originators, and/or the financing of lessors' portfolios.

Prior to 2008, both the indirect and direct markets were robust with purchasers who competed for all types of transactions, from investment-grade to subprime. Larger intermediaries had many options available for most transactions, and the free flow of funds allowed portfolios to grow quickly. However, the market was so aggressive that many portfolios became filled with assets below historically accepted credit criteria, below pricing expectations and consummated with lenient funding processes.

The recession bared all of these weaknesses. Many long-time industry participants were forced to lessen their presence in or withdraw from the entire market. Capital markets dried up as management teams diverted resources away from new-business development and toward the management of ailing portfolios and asset recovery. Funding capabilities that remained were directed toward purchasers' core, internal businesses, thereby limiting access to capital for larger intermediaries and other financial markets, if it was available at all.

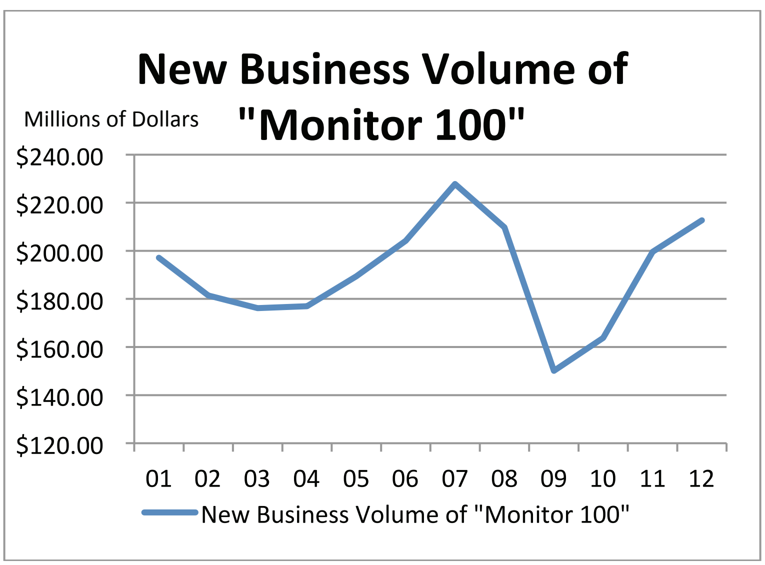
Larger intermediaries were faced with dwindling access to funds due to the poor performance of transactions they had sold in the past, and by the poor performance of transactions their purchasing partners had bought from other indirect sources. As a result, purchasers of all sizes within all sectors took a step back to evaluate their entire portfolios and assess the damages within their indirect platforms. Many indirect channels were terminated for all partners, due to the weaker performance of a few.

Most market participants that survived the recession of 2008-2009 vowed never to forget the lessons learned. Along with a decrease in the supply of monies, demand for capital equipment plummeted and private fixed investment in equipment and software fell significantly, with a 20% decrease in 2009 to $898.2B, from a high of $1.1T in 2007. Today, the U.S. private investment in equipment and software has recovered from the depths of 2009, and stood at $1.16T in 2012.



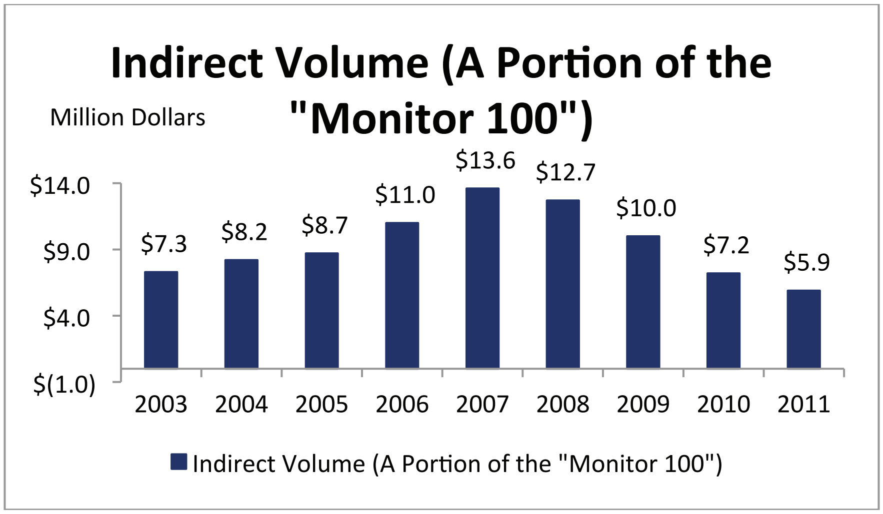
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, Table 5.3.5 Revised 2/28/2013

The recession's impact on the commercial equipment leasing and finance industry was more significant than decreases in overall private fixed investment, with sales volume of companies listed in the "Monitor 100" falling by 33% in 2009 from its high in 2007. Some larger intermediaries experienced volume reductions as great as 50% or more during this period.



Source: Annual publications of "Monitor 100" by industry periodical "Monitor"

The “Monitor 100” issues also highlighted a small group of purchasing parters and the mix of their new-business development. Information found in these highlights suggests that the indirect markets continued to be depressed through 2011.



Source: Annual publications of “Monitor 100” by industry periodical “Monitor”

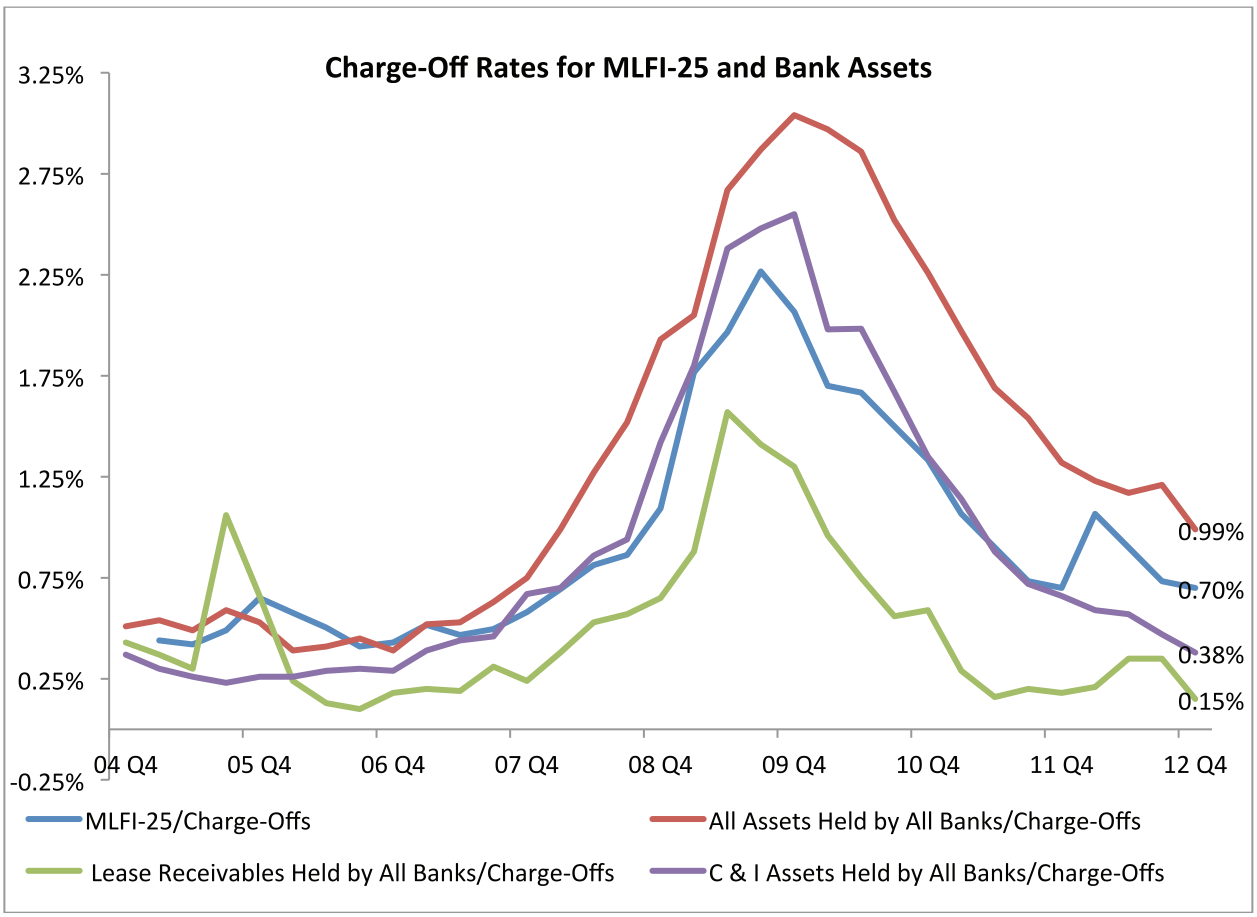
From 2008 through mid-2011, large intermediaries scrambled to generate strong, acceptable transactions and access the limited funds available in the shrinking market. Many long-term relationships between these firms and their purchasing partners became strained and were terminated. Larger intermediaries with the most expertise and financial strength were forced to rebuild their businesses, establish new relationships with purchasing partners and face challenges within their own portfolios.

Institutional purchasing partners re-entered the equipment leasing and finance markets through direct channels first and competed with one another for the strongest transactions throughout the downturn. Thus, access to capital was never limited for the strongest transactions. But transactions below investment grade were less attractive initially as purchasing-partner executives and portfolio managers gravitated toward credit quality over new-business development from 2008 through the middle of 2011.

By 2011 institutional purchasing partners began transitioning from portfolio management to portfolio growth. Competition remained incredibly stiff for investment-grade transactions, and returns and margins continued to be squeezed. As a result, purchasing partners began to explore more traditional transactions to grow asset levels, and to seek improved returns. The process was slow but necessary for most firms to regain a foothold in the market. Because initial stages of recovery were not as robust as most institutional purchasing partners had hoped, many re-entered or rejuvenated their indirect channels to supplement their ability to grow assets organically.

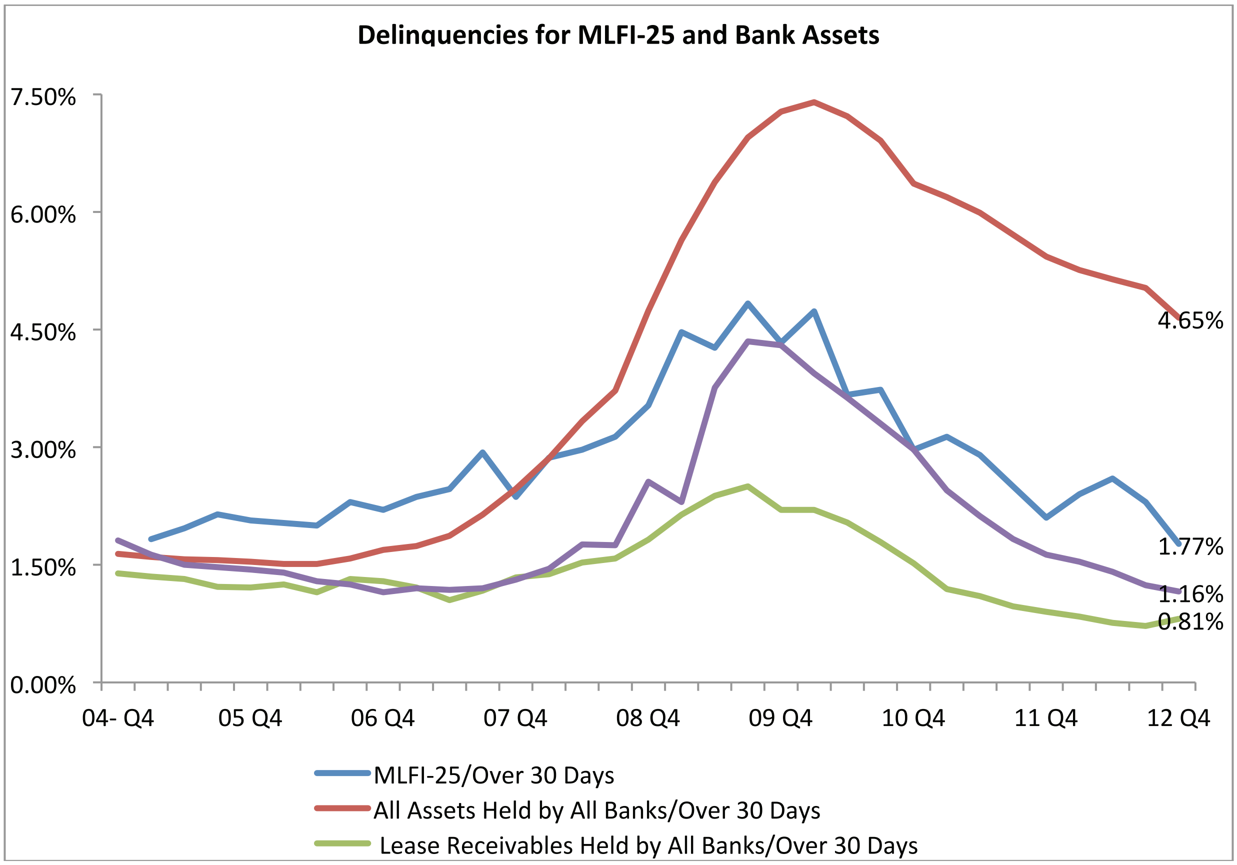
The indirect market, along with the entire commercial equipment leasing and finance industry, continued to expand in 2012. Properly positioned larger intermediaries had plenty of access to capital for investment-grade transactions and lesser-rated, but still historically strong, transactions. The Equipment Leasing and Finance Association’s Monthly Leasing and Finance Index (MLFI-25) reflected this trend with a 25% cumulative increase in new-business volume in 2011, and a cumulative increase of 14% in 2012. At the same time, results of this survey indicated that 89.3% of larger intermediaries had at least three primary purchasing partners; 64.3% had three to seven primary partners; and 25% had in excess of seven such partners. Universally, larger intermediaries indicated during study interviews that access to capital was no longer a challenge. What is now a challenge, they revealed, is the ability to generate sufficient new-business volume to satisfy all purchasers soliciting their business.

Institutional purchasing partners, especially banks, are attempting to grow current portfolios in light of the extremely strong performance of lease receivables and commercial and industrial (C&I) assets. This is understandable: the MLFI-25 ended 2012 with a fourth quarter charge-off rate of 0.7%, compared to 2.27% in the depths of the recession (the third quarter of 2009). In fact, lease receivables and C&I assets are outperforming all other assets held by banks throughout the country. The Federal Reserve Board reported the charge-off rate for all banks on leased assets as 0.15% for the fourth quarter of 2012, and for C&I assets, 0.38%. Thus both leased assets and C&I assets performed considerably stronger for the period than the overall charge-off rate for all banking assets, as reported by the Federal Reserve Board to be 0.99% for the fourth quarter of 2012.



Source: MLFI-25 and Federal Reserve Board 2012

The MLFI-25 also ended 2012 with a fourth quarter delinquency rate over 30 days of 1.77%. This compares to a delinquency rate in the fourth quarter of 2009 of 4.30%. According to the Federal Reserve Board, the delinquency rate for all banks on lease assets was 0.81% as of the fourth quarter of 2012. The delinquency rate for C&I assets for all banks, according to the Federal Reserve Board, was 1.16% as of the fourth quarter of 2012.



Source: MLFI-25 and Federal Reserve Board 2012

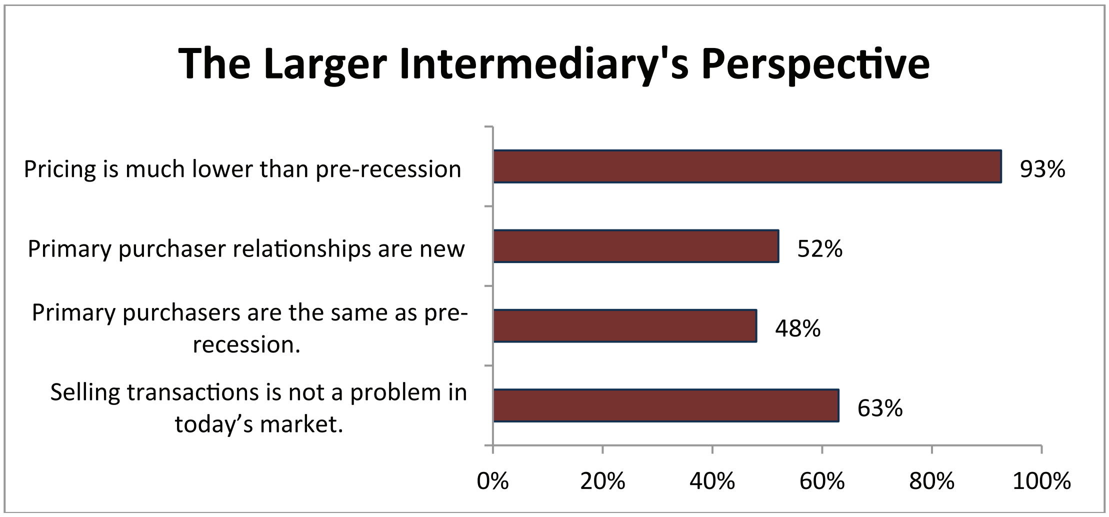
Clearly, direct and indirect channels continued to improve in 2012 at a steady pace. Many firms are now building commercial leasing and finance asset portfolios well beyond pre-recession levels. Experienced participants are improving their positions in both the direct and indirect markets and preparing for U.S. businesses' release of pent-up demand for capital equipment.

The Larger Intermediary's Perspective:

Indirect markets are a lifeline. Without the constant, consistent flow of capital generated by these markets, larger intermediaries would lose credibility, capability and viability with their customers and business partners. Experienced, larger intermediaries have always been cognizant of their dependency on relationships with purchasing partners that are well-aligned with intermediaries' core strategies and product offerings. But the recession tested long-term, deeply rooted relationships and left many intermediaries questioning the integrity of their relationships with purchasing partners. ***"Just part of the ongoing cycle which continues to repeat itself every few years," said one executive at a larger intermediary, describing the situation from 2008 to***

2012. "This time around, the depths were deeper than usual and the recovery a bit harder, especially for the smaller participants."

Along with the rest of the financial markets, larger intermediaries have had to adjust their business models to facilitate their access to capital. The most viable and longest tenured intermediaries spent much of 2009-2011 re-establishing relationships with core purchasing partners and seeking new partners to fill gaps in their product offerings. The survey indicated that while 48% of existing relationships between intermediaries and purchasing partners are the same ones as maintained prior to the recession, 52% are new relationships.

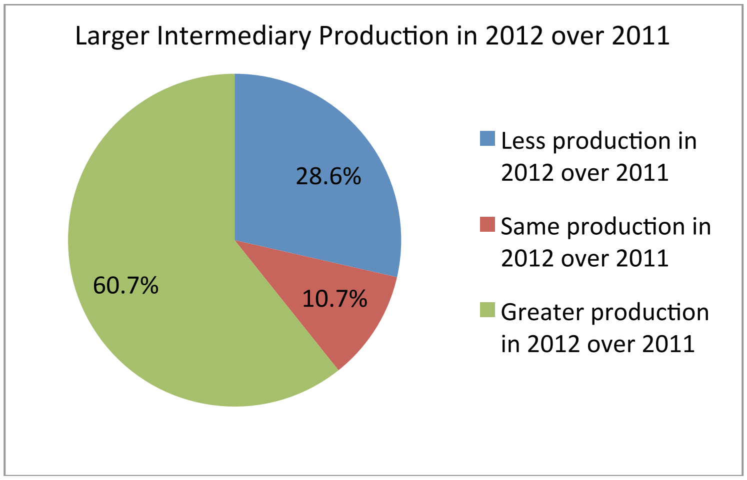


Source: Study survey, conducted December 2012

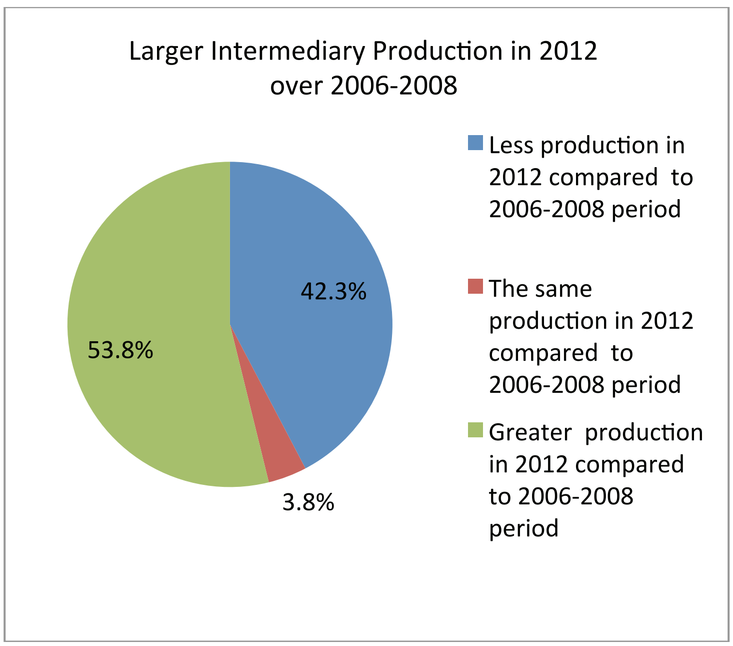
The study found that larger intermediaries are more confident today, both about their access to capital and their ability to sell transactions. Fully 63% of larger intermediaries surveyed indicated that it is no longer a problem to find capital to fund transactions. The survey and personal interviews suggested that credit requirements have eased significantly–but not to pre-recession levels. Pricing, however, is far lower: 92% of respondents reported a much-reduced pricing environment.

Overall, larger intermediaries indicated that they are optimistic about indirect markets and experienced a strong overall increase in business in 2012, compared to 2011 and to the pre-recessionary period of 2006-2007. But 40% indicated that profit margins had decreased since the pre-recessionary period. Research indicated that purchasing partners now have a stronger inclination to make concessions to obtain volume.

The type of capital available through indirect markets at any given time is key to a larger intermediary's ability to operate and grow. Indirect markets allow larger intermediaries to leverage their internal lines of credit and equity. Intermediaries manage their own portfolios and product offerings, due to the willingness of purchasing partners to buy transactions that are outside of their internal capabilities. Conventional wisdom holds that transactions are sold mainly as a function of credit. But the best managed larger intermediaries were found to have multiple criteria that dictate whether a transaction or pool of transactions is sold or kept as internal portfolio. These criteria can include risk exposure, pricing, industry concentration, territorial restrictions, deal structure and portfolio-management considerations.



Source: Study survey conducted December 2012



Source: Study survey conducted December 2012

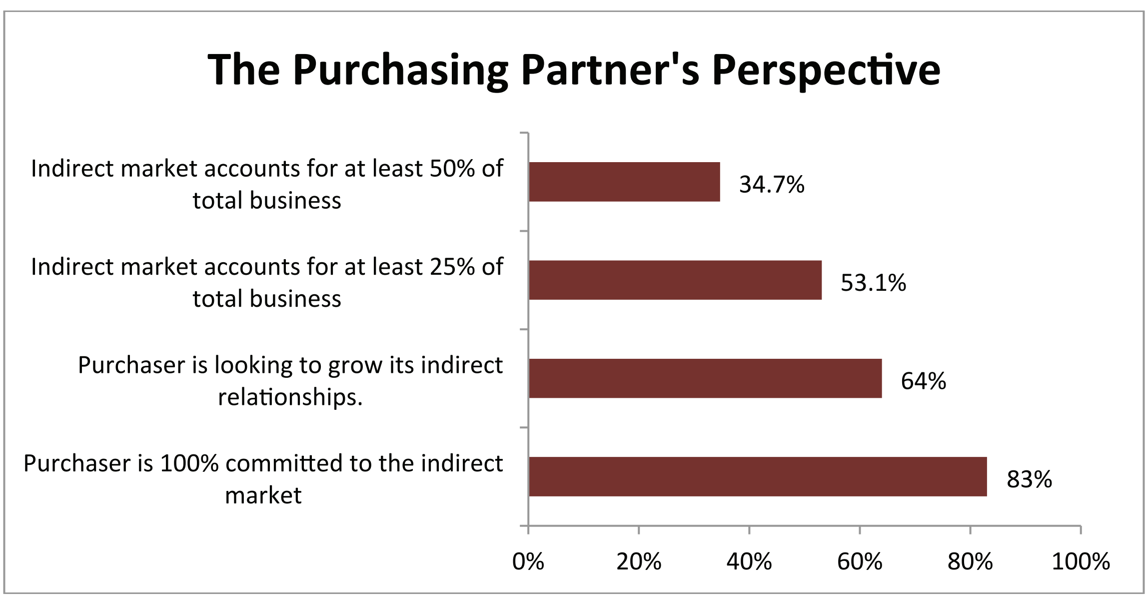
The study found that larger intermediaries with niche attributes and specific expertise are now better received in the market by both customers and purchasing partners. Larger intermediaries consistently indicated in interviews that their ability to demonstrate niche expertise allowed them to better weather the recession and to attract new purchasing partners. Larger intermediaries with one or more niche penetrations further indicated that they were better able to generate sufficient new business to capture highly competitive indirect pricing, programs and structures that were necessary to serve their vendors and end-users. Strong niches and specific programs additionally allowed larger intermediaries the financial freedom to explore complementary markets that, in turn, further developed their relationships with purchasing partners.

In an acknowledgement of the competition for top-notch purchasers, larger intermediaries indicated they are now taking more responsibility in the marketing, credit, funding and servicing areas. Larger intermediaries are being required to operate more efficiently to remain profitable. Technology capabilities must be aligned to track efficiencies in relationships. Said an executive at one larger intermediary, **"Origination firms which are not investing in technology will lose credibility with clients and capital partners. Technology advancements are becoming a requirement of success."** Larger intermediaries understand very well the benefits of a strong balance sheet, equity in the game, and the ability to consistently hold their own paper and manage commercial equipment assets.

The Purchasing Partner's Perspective

Indirect markets are an important new-business development channel for larger lessors, banks and institutional participants that are purchasing partners. Degrees of participation range from 100% dependency on indirect channels for new-business development to minimal and/or temporary involvement. The study included purchasing partners in all sectors of the industry (small ticket, middle market and large ticket) and in most equipment sectors (industrial, medical, construction, office automation, transportation, agricultural, technology).

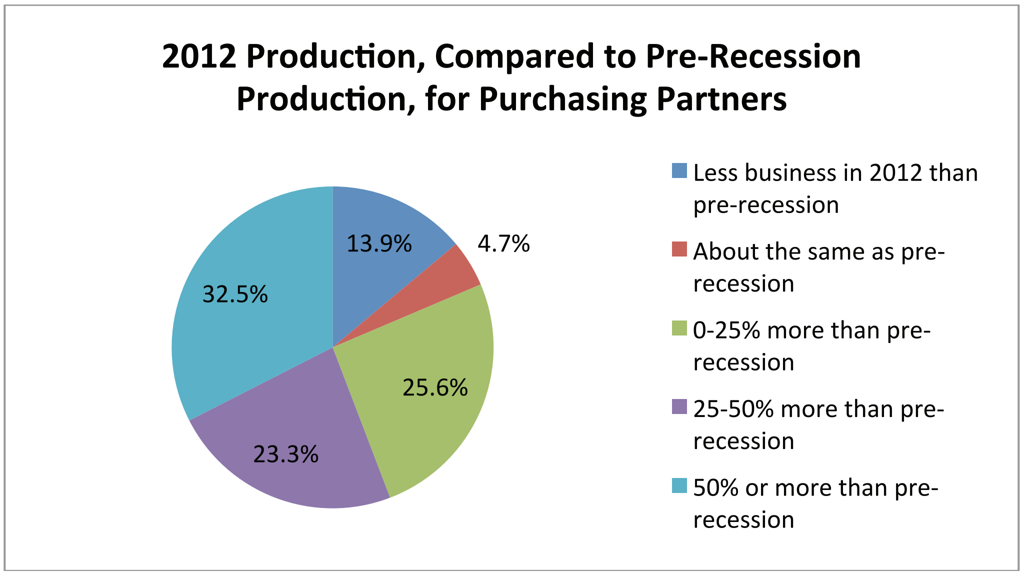
The message consistently conveyed: indirect markets are now very active, extremely competitive and an essential component in building equipment portfolios. Equipment finance and leasing departments/divisions/subsidiaries of major institutional participants consider indirect markets as necessary supplements to their core, internal, direct channels and say this is especially true in a down market. One reason given is that indirect channels can be ramped up or down as conditions change. Of purchasing partners studied, 34.7% said they depended on indirect channels for 50% or more of their total production in 2012. Just over 53% indicated dependence on indirect markets for at least 25% of their total production last year, and 64% of purchasing partners indicated that they are looking to grow their indirect channels in the future. Of those surveyed, 83% indicated that they are fully committed to the indirect markets. Clearly, indirect markets are essential channels for banks and other purchasing partners, and are likely to expand further.



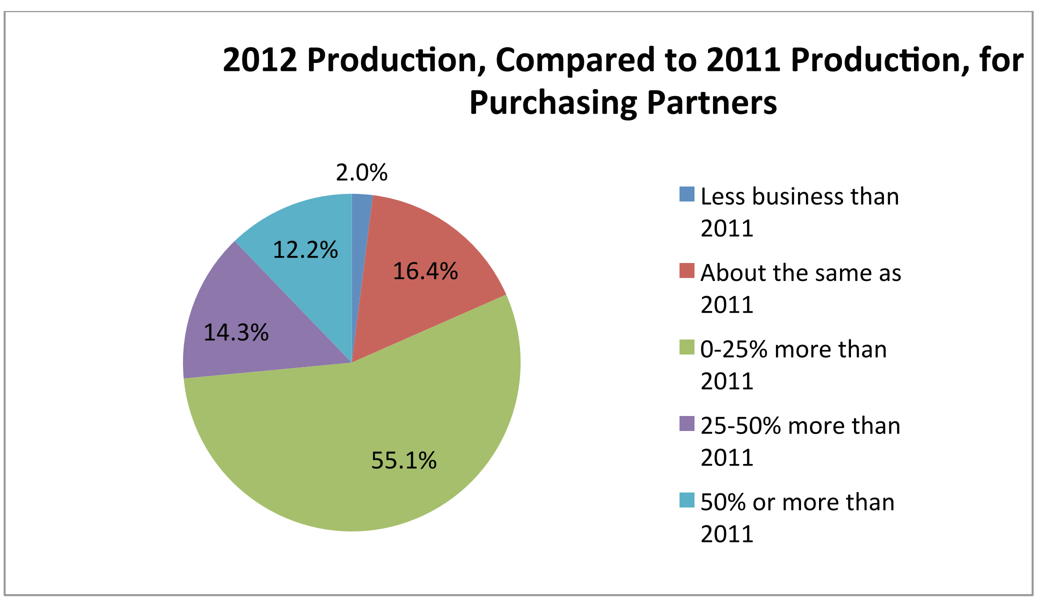
Source: Study survey conducted December 2012

Study interviews confirmed the existence of aggression in the market, with executives at several purchasing partners stating that competition is increasing not only for the strongest transactions, but for lesser credits as well, because all purchasing partners are seeking growth. Those interviewed reported attempting to maintain their credit standards and pricing requirements. But they also said that the market is forcing even the largest purchasing partners to lower pricing requirements (discounted yields) and tweak credit criteria in an effort to maintain volume requirements.

Executives interviewed at purchasing partners were quick to point to competitors or groups of competitors said to be undercutting the market or reverting to practices proven dangerous during the recession. These inter-



Source: Study survey conducted December 2012



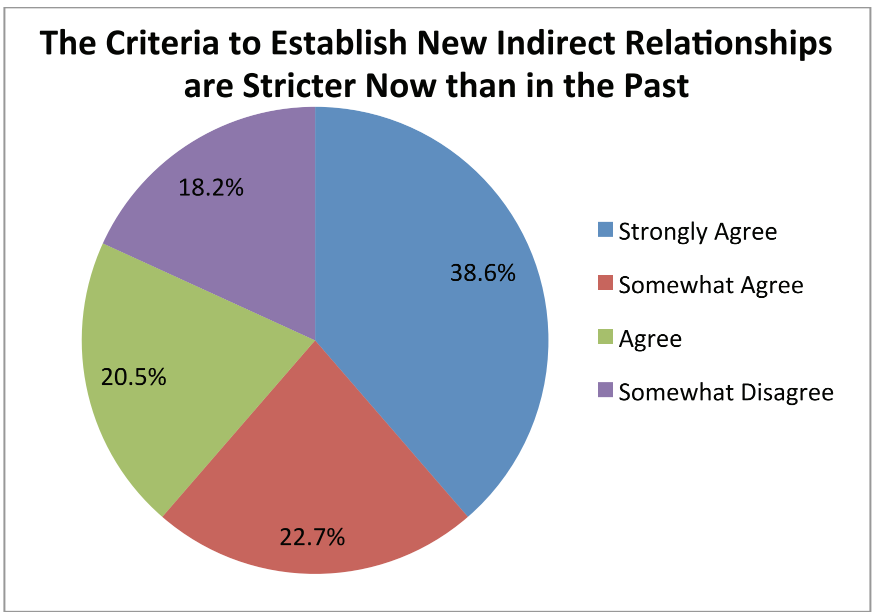
Source: Study survey conducted December 2012

viewees also indicated that their own firms were striving to maintain prudent and steadfast positions in pricing and quality rather than succumbing to volume ambitions. Purchasing partners attributed current aggression in the indirect markets to three conditions:

- Exceptionally high performance of equipment portfolios
- A desire to build equipment portfolios, and
- The inability of some purchasing partners to expand their direct business channels quickly enough to satisfy internal volume expectations.

Purchasing partners participating in the study indicated that their firms' total production (direct and indirect) sales volumes were significantly increased in 2012, compared to both 2011 and prior to the 2008-2009 recession.

Criteria required for approval as an indirect partner—either large intermediary or purchasing partner—have become more rigid since the 2008-2009 recession. Most purchasing partners of commercial equipment paper now have relationships with fewer intermediaries—but these larger intermediaries also sell more assets that are aligned with their purchasing partners' objectives. Of the purchasing partners studied, 82.2% had 30 or fewer primary intermediaries, and 89.9% had fewer than 50. These numbers are significantly below the quantity of indirect relationships reported prior to the recession, especially for small-ticket purchasing partners.



Source: Study survey conducted December 2012

Purchasing partners indicated that they are more comfortable today with their larger intermediary partners than in the past. Larger intermediaries are more aware of purchasing partners' goals and objectives, executives said, making relationships more efficient.

Yet during interviews, several executives concurred with an observation made by one purchasing partner executive who said, "I am comfortable with my current handful of indirect partners, but I am still most comfortable and much more confident with transactions generated internally. My indirect relationships continue to be based on a policy of 'trust, but verify.'" ***Of purchasers surveyed, 60% indicated that their companies con-***

duct additional underwriting on transactions generated through indirect channels, compared to transactions generated internally.

Even so, institutional purchasing partners in particular view indirect markets as a strong secondary channel with variable costs directly tied to new-business development. Assets obtained through these markets are considered highly commoditized product offerings. By participating, institutional purchasing partners can gain marketing intelligence with minimal investment. They can also view transactions currently being funded in specific markets and assess their own desire to enter or more fully participate in those markets.

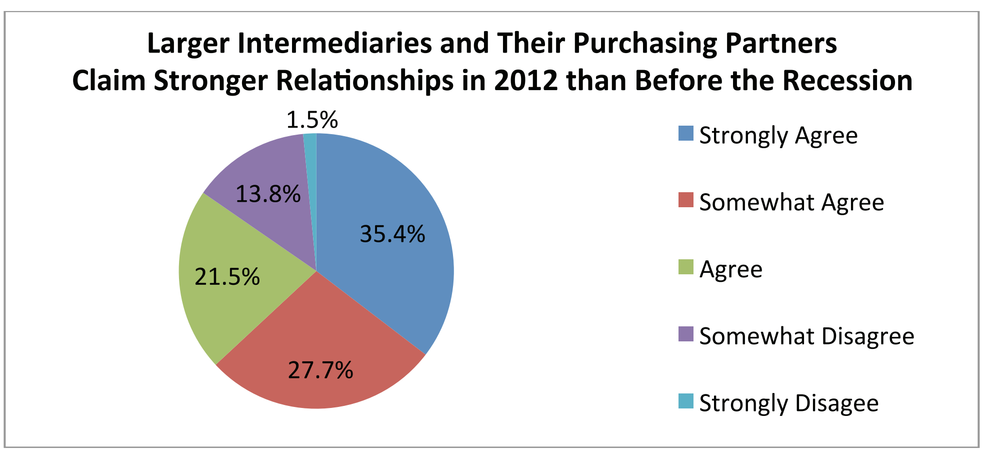
In fact, it is not unusual for large purchasing partners to explore new territories, equipment types, industries and markets through indirect channels before committing their direct sales forces. Often, indirect channels allow purchasing partners to leverage their back-office staffs with incremental business at low or no additional cost.

Nonetheless, purchasing partners, especially banks, indicated that the indirect business model precludes them from building their own brand recognition. In other words, organizations have difficulties to cross-sell other institutional products to their indirect portfolios. Thus, purchasing partners perceive assets bought through the indirect markets to be strong, income-producing assets that are less likely to be leveraged or further penetrated in the future. Several purchasing partners said that once their direct channels improve, their companies may significantly reduce their level of indirect funding.

Relationships

The study found relationships between well-positioned, larger intermediaries and their purchasing partners to be strong but volatile. Alliances cycle through peaks and valleys due to changes in activity levels, changes in participants on both sides of the equation, and most importantly, continuous changes in investment dollars willing to support the indirect markets. Study interviews often started or ended with participant comments about the last few years as “just another cycle, nothing new for the veteran participant.” But interviewees also expressed hope that the industry will learn from past successes and failures to “become better” in the future.

These comments notwithstanding, the study found indirect-market relationships to be stronger than ever. Fully 90% of purchasing partners and 75% of larger intermediaries said relationships were stronger to some degree in 2012 than in the past, and 35.4% of all participants readily agreed that relationships were stronger in 2012 than prior to 2008.



Source: Study survey conducted December 2012

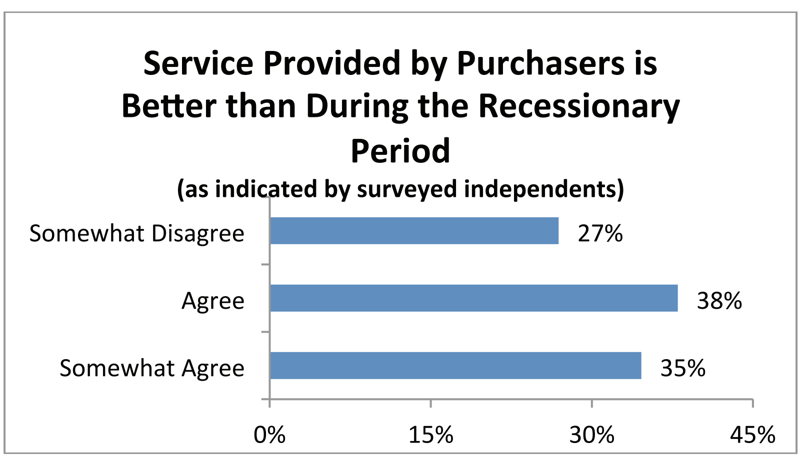
Intermediaries recognize the challenges of their purchasing partners to service the needs of their internal direct marketing staffs and indirect channels. Many institutional purchasing partners significantly reduced their credit and operational staffs during the recession, and although new-business development has since increased, these purchasers have not yet returned headcount to former levels. As a result, most larger intermediaries acknowledged a need to assume greater administrative responsibilities to ensure the satisfaction and requirements of their purchasing partners.

The same need resonated among other purchasing partners, particularly those specializing in the small-ticket and lower middle-market arenas. Stated one purchasing partner executive, "The parent company has placed restrictions on any significant staff expansions but continues to require increases in annual production and portfolio growth. Therefore, [we] seek indirect origination partners with proven operational capabilities, because internal resources cannot be stretched by indirect partners requiring constant assistance."

Not only have additional responsibilities required larger intermediaries to work more closely with their purchasing partners; they have helped create built-in incentives to deliver better results once both parties are fully acquainted with each other and accepting of all expectations.

In essence, larger intermediaries seek relationships with purchasing partners that are consistent, competitive and somewhat flexible, allowing intermediaries to market their products with confidence. But ambiguities still exist relating to services provided by purchasing partners. Larger intermediaries generally indicated that service from purchasing partners is improving, but still inconsistent and of concern as market activity increases and vendors and end-users demand prompt, dependable decision-making processes.

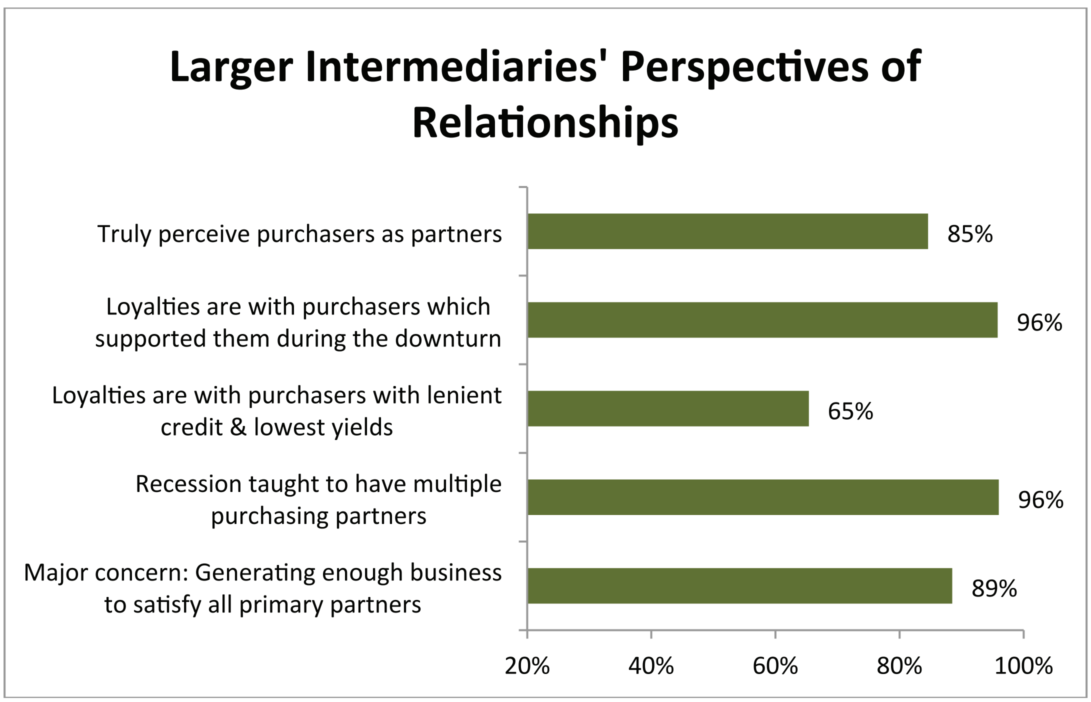
To that end, several purchasing partner executives acknowledged a lack of consistent services within their indirect departments and said they were aware of lost transactions or diminished relationships, due to competitors offering better service in credit, documentation and funding procedures.



Source: Study survey conducted December 2012

The past few years have again emphasized the importance of quality submittals and ongoing portfolio performance as the primary and overriding criteria for long-term, sustainable relationships between larger intermediaries and their purchasing partners. A large-ticket purchaser buying single transactions of $5M and over from a few larger intermediaries stated, "[Our] company has 100% faith in the capabilities of its indirect alliances and their ability to sell quality paper with proper processes in place to ensure the validity of each transaction. However, the company only establishes relationships with organizations with verifiable, adequate financial strength to back the representations and warrants within their assignment agreements." Clearly, the overall quality of larger intermediaries matters greatly to purchasing partners.

As noted previously, larger intermediaries have a deeper understanding today of purchasing partners' criteria, goals and objectives than in years past. But increased understanding does not assure increased loyalty. When ranking loyalties, 92% of larger intermediaries indicated that they consider the support given by their purchasing partners during the 2008-2009 recession. But 65% of larger intermediaries also indicated that they additionally consider current lenient credit requirements and lower yields. Of larger intermediaries surveyed, 85% indicated that they view their purchasing partners as true, long-term relationships. But in the same sample, ***96% of intermediaries indicated that the recession taught them to have a greater quantity of financial partners than before to protect themselves from future market uncertainties.***



Source: Study survey conducted December 2012

For owners, executives and managers of larger intermediaries, the study found the greatest concern to be choosing purchasing partners for the long term. The best positioned intermediaries indicated that they enjoy a constant flow of new solicitations from purchasers looking to buy high-quality commercial paper. But the vast majority (88.5%) of larger intermediaries indicated that they don't believe they can generate enough new business to satisfy even their current purchasing partners. A major national firm that purchases small-ticket and middle-market transactions indicated that an internal review of its larger intermediaries revealed similar findings. The firm interprets these concerns as an opportunity for the strongest and most committed purchasing partners to convince larger intermediaries with which they have existing or prospective relationships that strong partnerships are critical for the long-term security of all parties. This purchasing partner, along with others that supported larger intermediaries throughout the recession, is attempting to leverage its long-term consistencies to secure its market position over newcomers or organizations that are now re-entering the indirect market after a hiatus.

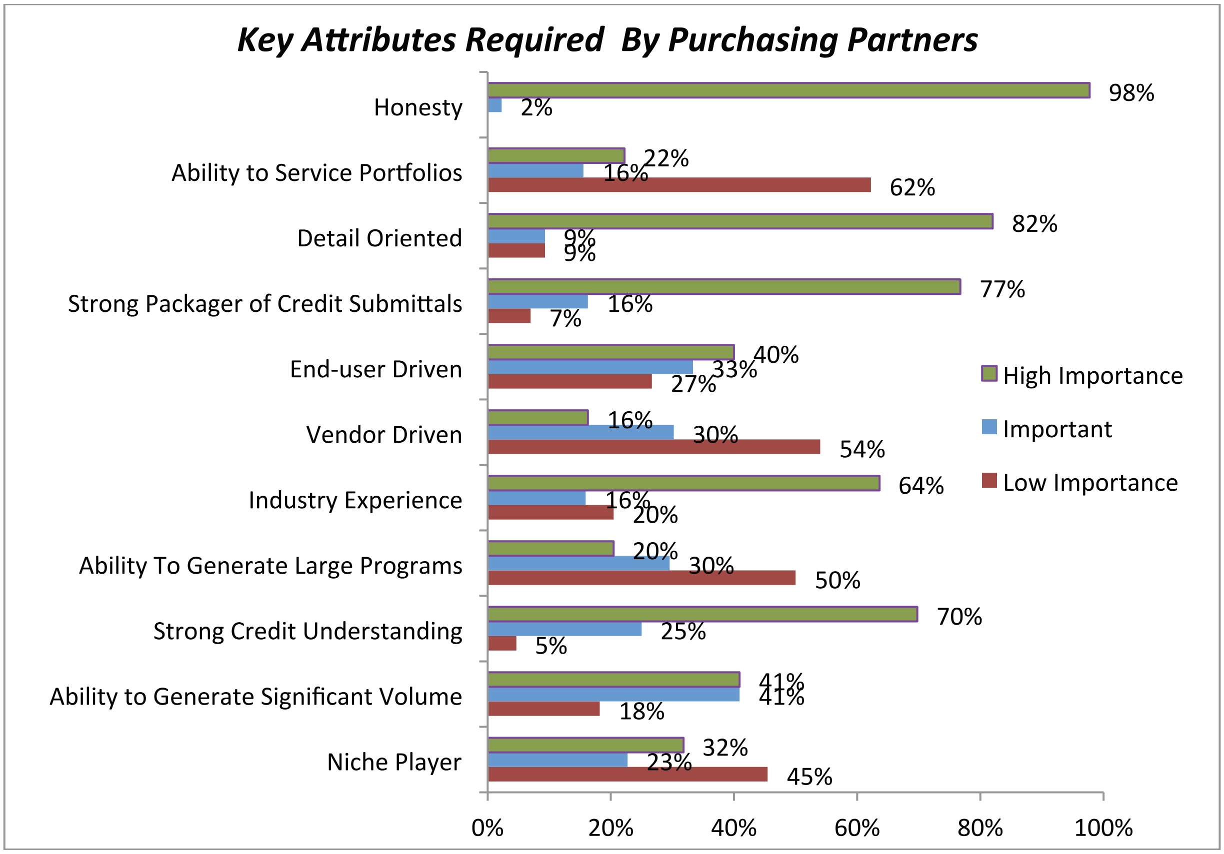
Key Attributes Required by Purchasing Partners

Five attributes emerged in the study as most important to purchasing partners when selecting and working with larger intermediaries:

- Honesty
- Attention to detail
- Strong credit-packaging capabilities
- Strong credit understanding, and
- Industry experience.

Niche markets, large programs and the ability to service portfolios were rated as relatively low in importance. Yet many purchasing partners indicated in interviews that these three characteristics were also present in the larger intermediaries with which they did the most business.

Most national purchasing partners have diverse portfolios, and most successful larger intermediaries have flourished over the past few years due to their expertise in select niche markets, their ability to penetrate those markets, and to successfully hold and service internal portfolios within specific niches.



Source: Study survey conducted December 2012

Key Attributes Required by Both Parties

Both larger intermediaries and purchasing partners of commercial equipment leasing and financing assets listed factors they believe must be present to establish and retain profitable, sustainable relationships within the indirect markets. Of these, the study identified four key attributes, consistently present during all market cycles, which helped to sustain relationships from 2008 to 2011. These attributes remain desirable qualities that companies on both sides of the indirect markets continue to pursue. The attributes are shown below in proportion to their importance.

Quality: The best indirect relationships are defined by the quality of assets that are originated and sold. ***When assets continuously perform and produce profits for both larger intermediaries and their purchasing partners, even the most difficult relationships are celebrated by both parties. When assets perform below expectations, challenges materialize and the strength of relationships is tested.*** Thus it is critical to assess the quality of transactions, of corporate partners and individuals who have the ability to anticipate and avoid future problems by making recommendations upfront. Ultimately, quality is measured by risk-and-reward matrices that include portfolio returns, delinquency ratios and charge-off rates. During the 2008-2009 recession, these matrices came under stress. However, the quality of portfolios has significantly improved and, in many cases, portfolios are at a historically strong position.

The recession exposed shortcomings on both sides of the transaction aisle. When asset performance deteriorated, many larger intermediaries and their purchasing partners walked away from their relationships. But larger intermediaries generating the highest-quality transactions continued to work with purchasing partners, and their mutual support continued through the recession. The best relationships strengthened further as both sides worked to minimize losses, even when new-business development capabilities were diminished or terminated. Larger intermediaries and purchasing partners that worked so closely during the recession are now reaping major rewards as the economy revives.

High performing, quality assets are created by professionals who understand the synergies of risk and reward, sales and credit decisions, internal and external goals, and objectives. At larger intermediaries where these assets are produced, quality is evident at every stage of the process. Excellent marketing practices produce the highest-caliber transactions. Well-trained, competent credit personnel assemble the best transaction packages to be considered. Top-notch professionals throughout the commercial equipment leasing and finance industry work to eliminate fraud and strengthen procedures. Larger intermediaries want to align themselves with quality purchasing partners that appreciate and understand the intricacies of winning a transaction and marketing it in a tough economy. Conversely, purchasers want to partner with successful intermediaries that demonstrate a thorough understanding of long-term portfolio maintenance and the importance of details, portfolio diversity and actions that minimize risk.

Purchasing partners in study interviews emphasized their desire to maintain relationships with fewer, but higher quality, larger intermediaries. Purchasing-partner executives acknowledged that the highest quality intermediaries in the market are well-known and that competition for their business has increased as indirect markets heat-up and additional suppliers of capital enter. Larger intermediaries, on the other hand, value relationships with purchasing partners that have high-quality products and services. Both parties indicated that they leverage these relationships to gain improved positions in the markets.

Efficiencies: Efficiencies drive results for businesses of every size. In the commercial equipment leasing and finance industry, efficiencies are measured by various means including, but not limited to, bank efficiency ratios (a ratio of expense to revenues: how much expense is required to produce every dollar of income); approval ratios (the percentage of applications approved as a percentage of total submittals); funding ratios (the percentage of approved applications that are ultimately funded); and marketing cost ratios (the measurement of specific marketing campaign costs as a percentage of sales outcomes).

As margins are squeezed in a low-yielding economic environment, efficiencies in the indirect markets become more important than ever. Purchasing partners in each market sector expressed awareness of efficiencies in their relationships with larger intermediaries, especially in the small-ticket arena. Purchasers indicated that they have been able to reduce their number of relationships with larger intermediaries and increase their bottom line results by conducting business only with those intermediaries demonstrating the greatest efficiencies. These purchasing partners indicated that having a few efficient, high-production relationships was far superior to possessing many relationships that are disjointed, inefficient and require a great deal of maintenance.

The study found that larger intermediaries with efficient relationships between themselves and vendors and end-users are best prepared to share relationships and transactions with purchasing partners. Internal efficiencies in marketing and packaging transactions, for example, convey industry expertise and long-term commitment on the part of intermediaries. Several executives of larger intermediaries indicated that their firms experienced positive results by investing in automation to better connect with clients and purchasing partners. These firms are now tracking the value-added services they provide as part of efficiency measurements they maintain for all of their relationships.

Continuity and uniformity in the transfer of information is essential to gaining efficiencies. Information entered at the inception of a transaction can be easily updated, corrected and reformatted to accommodate different internal departments, external partners and clients in minimal time. The study found that larger intermediaries are pushing certain automated procedures they have implemented to their purchasing partners, and pulling other automated procedures they don't yet possess from these partners. Subsequently, technology providers are experiencing an uptick in business as industry participants on both sides of the indirect markets seek to improve internal and external efficiencies rapidly.

Automation is an excellent tool for increasing efficiencies. But the core drivers of efficiencies in commercial equipment leasing and finance are experience and industry-specific expertise. Firms that are highly efficient have the ability to quickly assess transactions, opportunities, and situations to determine how resources should best be allocated. One example of this type of efficiency in the indirect markets is intermediaries' ability to package credit submittals properly and communicate concisely the strengths and weaknesses of each transaction. These processes must be completed quickly, correctly and thoroughly to ensure favorable outcomes.

Strategic Alignment: "All of our indirect relationships are with either correspondent or strategic partners," said an executive of an institutional purchaser of middle- and large-ticket transactions. Observed an executive with another purchasing partner, a national buyer of small-ticket transactions, "Indirect partners' goals and objectives must align with those of our parent company in order for a seller of indirect transactions to be approved."

To evaluate strategic alignment, then, both larger intermediaries and purchasing partners must conduct a thorough due diligence of their relationships. The process is often time-consuming, imperfect and frustrating. Survey results indicated that 80% of purchasers' criteria for establishing new, indirect relationships are greater today than in the past. Most larger intermediaries (88.5%), by contrast, indicated uncertainty regarding purchasers with which to align for the long-term. Yet all parties acknowledged that deeper, better understood relationships are necessary to maximize results and value in the market. Whether the current trend toward deeper strategic alignment is a temporary result of the past economic cycle or a positive, long-term evolution in the indirect markets is not yet a matter of consensus among industry veterans. Nonetheless, the trend is widely viewed as a powerful attribute for building more trusting and productive relationships.

Strategic alignment need not mean 100% equivalence of offerings. Intermediaries and their purchasing partners play different roles in the market. Larger intermediaries generally possess a wider array of products, more marketing flexibility, and a broader database of potential clients than purchasing partners. Yet, the study found purchasing partners taking the time to understand the total businesses of their larger intermediaries. During the process of sharing information and strengthening relationships, intermediaries are being encouraged to increase their marketing efforts in areas where their purchasing partners can provide the most assistance. Strategic alignments now include joint-marketing efforts, shared responsibilities with vendor or manufacturing programs, and long-term strategic outcomes that produce win-win situations for both sides. Typically, strategic alignments move relationships away from sole dependency on commodity factors, such as low pricing and lenient credit requirements, and toward value-added solutions. Strategic relationships enable both larger intermediaries and their purchasing partners to work together to craft solutions, minimize risk and maximize results for all participants.

Volume Generation Capabilities: Results matter. The most successful indirect relationships produce sufficient sales volumes for both larger intermediaries and their purchasing partners to realize beneficial financial results. As purchasing partners reduce the number of larger intermediaries with which they do business, it becomes important for intermediaries to have the capacity and capability to generate enough strong business to satisfy their purchasing partners, as well as any internal portfolio needs.

In light of reduced margins and fee incomes, the study confirmed that many intermediaries have significantly increased sales volumes in an effort to sustain or grow their profitability. Larger intermediaries indicated that a consistent flow of new business is key to developing stronger relationships with their partners. Several executives indicated during interviews that relationships quickly deteriorate when sales volume decreases. Thus syndication managers are constantly aware of the need to keep their primary purchasing partners flush with high-quality, new opportunities. In addition, larger intermediaries said, their partners, especially in the small-ticket arena, are willing to offer more flexible products or, to lesser degree, credit and procedures concessions when the potential for high-volume programs is being considered. In summary, the need for increased sales volume is prevalent throughout the entire industry.

Larger intermediaries indicated that they are working diligently to expand their marketing and sales capabilities to better penetrate targeted markets, produce enough new business to grow their own portfolios, and attract or retain relationships with top-tier purchasing partners. This focused effort toward greater growth and specific market penetration is creating new opportunities for larger intermediaries to leverage their existing relationships with purchasing partners and develop stronger product offerings for end users and vendor clients.

Challenges

Uncertainties in the U.S. economy continue to challenge the entire commercial equipment leasing and finance industry. Volatilities have stifled capital expenditures at small- and mid-size businesses and lengthened the sale cycle for many transactions, resulting in the use of additional resources to originate, process and fund transactions. Slow economic growth (at approximately 2%, since the beginning of the recovery) has forced industry participants to sharpen their marketing, credit and operational skills to retain or grow their market presence. Competition is fierce in both the indirect and direct markets, especially for the highest quality clients and transactions.

The sales staffs of larger intermediaries, along with the direct sales teams of purchasing partners are the engines that create new opportunities in the industry. Yet, challenges created by the 2008-2009 recession and the still-plodding economy have caused marketing professionals to refine their skills and become more efficient at new-business development. Therefore, one of the greatest challenges for all participants, but especially for intermediaries, is the ability to hire, support and retain the best marketing talent.

To attract the best funding options, larger intermediaries must exhibit a clear ability to create world-class marketing teams at a time when many banks and other purchasing partners are having difficulty developing their own marketing staffs. In an acknowledgement of the situation, many larger intermediaries indicated that they are working to expand their marketing capabilities by re-tooling their existing marketing teams: they are recruiting, training and supporting new professionals. But still more new talent is needed as intermediaries search for those willing and capable of generating significant new-business volume under current conditions.

A related issue: The prospect of building a national sales team is daunting in today's environment and for many firms, cost-prohibitive. One executive at a recruiting firm specializing in the industry concurred with executives on both sides of the indirect markets, stating that **the equipment leasing and finance industry sorely needs institutional training programs to recruit and train the next generation of leasing professionals. In the interim, the burden rests on individual firms to develop motivated, highly skilled sales staffs.** Whether participating in the direct or indirect markets, firms developing the best marketing teams will likely gain the most market presence and do the most to maximize their outcomes.

Historically, the commercial equipment leasing and finance industry has effectively based price on risk. But in study interviews, both larger intermediaries and purchasing partners commented on the lack of disparity of yields being offered for transactions that are clearly of differing quality. Several executives commented on the challenge in both the direct and indirect markets of returning to more proficient "risk-based" pricing matrices. Their concern is that the industry is not being properly rewarded for the future risks being assumed. Study participants indicated that they have noticed more competition on transactions below investment-grade quality as purchasing partners look down-market to obtain additional volume and offer pricing typically reserved for best-credit transactions.

The study found current portfolios to be performing exceptionally well, with delinquency and charge-off rates at historically low levels. In the opinion of many study participants, however, current rates are not sustainable. Participants indicated that one reason delinquency rates are now so low is the diminishment of many direct and indirect channels during 2008-2011. Portfolios contracted as holders of commercial paper reconciled problem accounts. As a result, current portfolios are skewed toward accounts originated in the last 18 months. Thus, many portfolios are less mature than in years past, and as they age, performance will normalize toward higher levels that firms hope will still be acceptable. But larger intermediaries will be challenged by any upward movement in delinquency rates and the inevitable knee-jerk reaction of institutional purchasing partners to tighten credit requirements and question their commitment to the indirect markets.

The cycle continues. It is the cycle of commitment in the market that challenges larger intermediaries to choose their purchasing partners carefully, to anticipate portfolio challenges, and to be part of the solution in resolving unfavorable situations.

Indirect markets will also continue to find challenges in the allocation of internal resources. As pent-up demand is released and business improves, purchasing partners will have to decide whether to increase staff or redirect staff resources and capital to their core direct channels.

Larger intermediaries are being asked by purchasing partners to invest in automation efficiencies, additional marketing efforts and higher compensation packages, all in a desire to attract more transactions. At the same time, all parties are being required to invest in long-term infrastructure commitments that are based on what may be short-lived trends occurring in uncertain times. It is important to the indirect relationships that expectations, goals and objectives are clearly defined by the larger intermediaries and their purchasing partners. Strategies must be well-aligned to ensure that investment decisions are based upon facts and not assumptions. According to executives at larger intermediaries, uncertainty of commitment from purchasing partners is what keeps larger intermediaries from investing further in their marketing infrastructure.

Opportunities

With challenge comes opportunity, and in the indirect markets, opportunity is visible as strong, well-positioned larger intermediaries enhance their market value by providing exceptional services to small and mid-size businesses nationwide. "Larger intermediaries have shined throughout the recovery," said an executive of a bank leasing company with a national presence. "They are doing well because [they] have more flexibility in the market. Often they get closer to the end-user, especially [if they are] niche players who are good. The market cherishes strong originators who have flexibility and innovation to service multiple needs and multiple credit requests. Institutional players are more rigid—and must deal with smaller boxes."

Larger intermediaries created targeted markets for themselves to survive the recession. Now economic recovery is enabling intermediaries to exploit their efforts and leverage their industry or niche expertise when marketing to clients or selling to a purchasing partner. By fully penetrating local territories and functioning as major players in small niches with great potential, intermediaries can sell a broader base of expertise or open themselves to a wider variety of transactions that they choose to service. Larger intermediaries have learned to maintain multiple funding capabilities, including internal portfolios and purchasing partners, that possess many options pertaining to pricing, deal structure and credit appetite.

Larger intermediaries with a solid, consistent flow of business also have the opportunity to create relationships with new purchasing partners or develop new avenues of funding through different types of partnerships. Intermediaries are already funding transactions through a variety of arrangements that include selling and discounting one-off transactions, discounting transactions temporarily held on warehouse lines of credit, and selling debt while maintaining equity positions. "For over 20 years, my indirect business was sold mainly to national banks and national finance companies," stated one larger-intermediary executive. "Following the recession, my transactions are now being sold to a group of smaller regional banks. They are attracted by the strong payment streams on transactions to which my company retains the servicing rights. The new relationships provide my firm with more flexibility and control over client relations."

Clearly, new opportunities exist for larger intermediaries to use innovation and flexibility to build deeper, more meaningful relationships with a broad spectrum of purchasing partners.

At the same time, purchasing partners are capitalizing on the expertise of their relationships with larger intermediaries to explore new industries and discover new opportunities in developing sectors, such as energy, medical equipment and information technology. Indirect relationships are an excellent means of testing the waters and/or gaining market intelligence. Indirect channels can enhance a purchasing partner's ability to serve a new sector by creating joint programs with formalized conduits through larger intermediaries. Example: A national bank lessor purchasing small-ticket and middle-market transactions now uses the indirect market to build better marketing partnerships with select intermediaries. The bank worked over the last few years to better understand its partners, visiting their firms and developing programs specifically for individual campaigns initiated by the larger intermediaries. When parties work together this closely, the potential soars for development of new products, satisfaction of market needs, minimization of commodity pricing, and growth of portfolios.

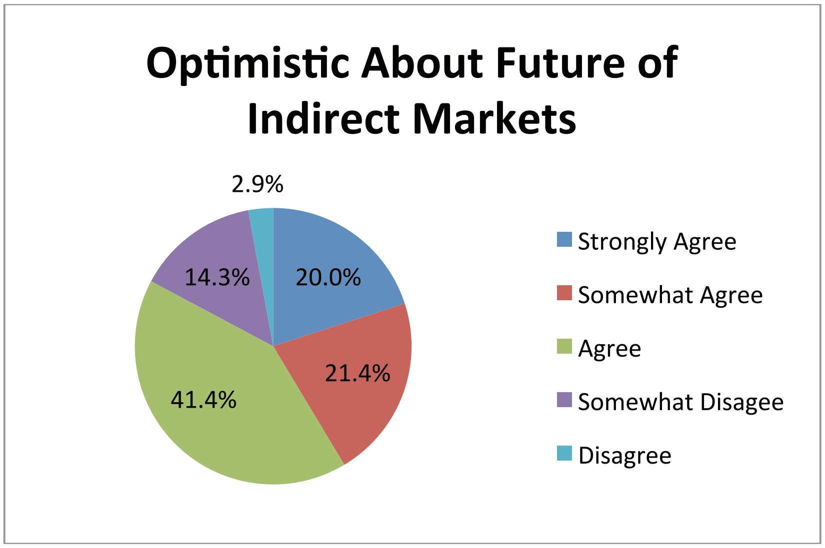
Marketing teams throughout the commercial equipment leasing and finance industry are being forced toward innovation in their selling techniques. The study found several examples of firms offering additional advisory services to enhance relationships with partners. By offering more expertise and industry knowledge, larger intermediaries are able to win more transactions, better understand their clients' needs and prepare better credit packages to be sold in the indirect markets. The greatest opportunities materialize for those firms and individuals who add value for their clients, transactions and business partners.

Outlook

The indirect commercial equipment leasing and finance markets weathered the 2008-2009 recession and emerged better-positioned for growth. Quality now dominates every level as participants develop stronger relationships built on understanding and expertise. The potential for growth and success is high, both for larger intermediaries and their purchasing partners. This growth is also expected to produce heightened value and consistency in the industry.

The study found overwhelming evidence that success in the indirect markets depends on relationships built on trust, knowledge and aligned value propositions. ***Indirect participants that survived the recession of 2008-2009 have been forced to specialize in niche markets, think and act longer-term, and align with business partners that share common goals and objectives.*** Therefore, larger intermediaries and their purchasing partners are choosing their relationships more carefully than ever. Casual partnerships are developing into deeper, more meaningful associations. The transformation has been beneficial for astute intermediaries with significant experience, industry expertise, financial strength and ability to generate consistent business. Simultaneously, the transformation has eliminated or greatly diminished the ability of smaller, weaker, less savvy intermediaries to thrive in the indirect markets. Prior to 2008, barriers to entry into the commercial equipment leasing and finance industry as an intermediary were low. Today, barriers are much higher. Even experienced larger intermediaries are being required to expand new-business development and processing capabilities, and offer more value to clients and purchasing partners.

At the same time, purchasing partners struggle with rebalancing their strategies between lessons learned during the recession and the need to build future portfolios and market share. Allocation of internal resources to core, direct channels or to expansion of their indirect channels is an ongoing consideration. Study results strongly indicated that many purchasing partners have not arrived at a desirable balance. The most successful firms continuously react to market conditions and alter their resource allocations between direct and indirect channels to maximize their position in the market and their profitability. During the current recovery period, purchasing partners indicated that they view indirect channels as significant supplements to their direct generation capabilities. Yet, many purchasing partners also said they expect diminished participation in the indirect markets once internal, core business accelerates (70% of surveyed purchasing partners indicated a preference for direct, internally generated business over indirect business). Therefore, the concern of larger intermediaries that indirect markets will continue to change with new entries and exits appears valid. But as long as indirect channels produce high-quality, profitable assets, the flow of capital from various sources is expected to continue, with multiple degrees of participation and varying levels of commitment. Despite these findings, 82% of study survey participants expressed optimism about their current relationships and the future of the indirect markets.



Source: Study survey conducted December 2012

From 2008 to 2012, larger intermediaries benefited from well-performing internal portfolios and/or strong balance sheets that leveled out inconsistencies in the indirect markets. Companies during the period that expanded their internal portfolios and increased internal funding capabilities through equity, warehouse lines and bank lines are now better positioned in the direct market and less dependent upon fluctuations in the indirect markets. The benefits of economies-of-scale and multiple avenues of funding transactions have enabled intermediaries to grow and flourish. In fact, many industry veterans anticipate consolidation of larger intermediaries in the next few years in a move to leverage internal and external funding capabilities and develop expanded origination capabilities. Larger intermediaries are already working to expand their penetration into specific economic sectors and are being recognized as major players in certain niches. ***Value in the market will continue to increase for intermediaries building strong balance sheets, building or maintaining strong presence in specific niches and generating a significant, consistent flow of new business.*** These well-positioned intermediaries will also command better service from their purchasing partners. They will likely attract institutional purchasing partners that wish to buy larger intermediaries with a proven ability to originate a steady flow of high-quality assets, and in this way, keep pace with broader economic growth.

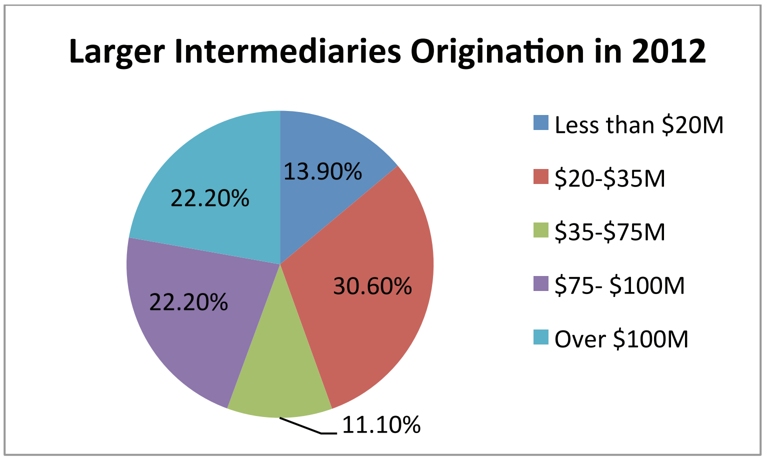
New purchasers continue to enter the indirect markets. Study findings show that these firms and others will continue to participate and expand their presence as long as the underlying assets continue to perform and provide adequate returns for investors. By the same token, sudden, negative alterations in performance or returns will again prompt less committed or weaker participants to exit, and capital resources to be redirected away from the indirect markets.

The commercial equipment leasing and finance markets will continue to react to conditions of the larger free market. When the U.S. economy re-establishes stronger growth, those firms and individuals well-positioned via strong relationships with their stakeholders (vendors, end users, funders and purchasing partners) will experience the greatest benefits. Indirect markets will continue as a vital segment of the entire industry throughout economic cycles--and the strongest participants will thrive.

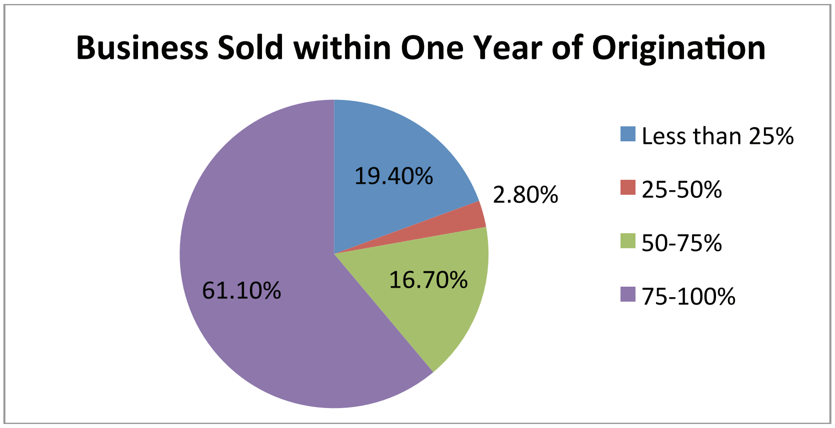
Supplemental Information

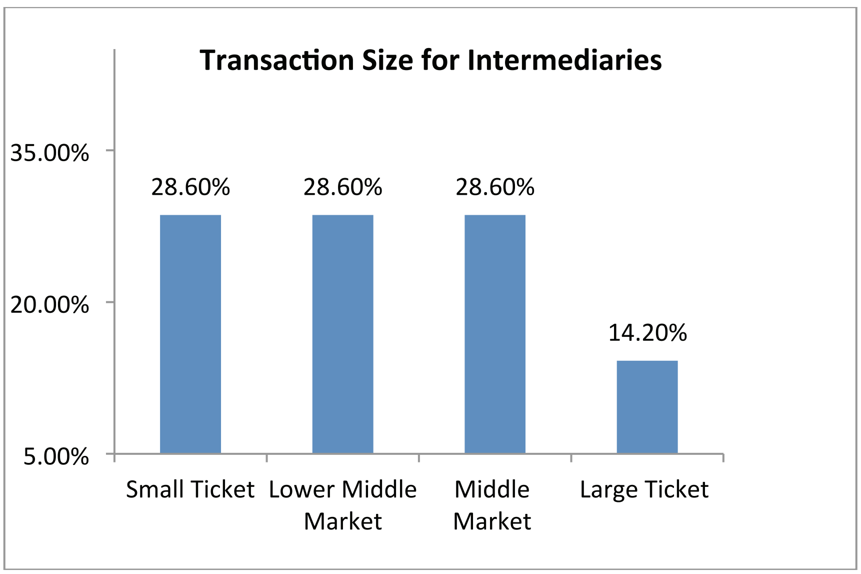
The study was fortunate to attract a broad section of industry participants. The following charts illustrate characteristics of the participants in the two separate surveys, one of which included larger intermediaries, the second of which included their purchasing partners.

Characteristics of Surveyed Larger Intermediaries:



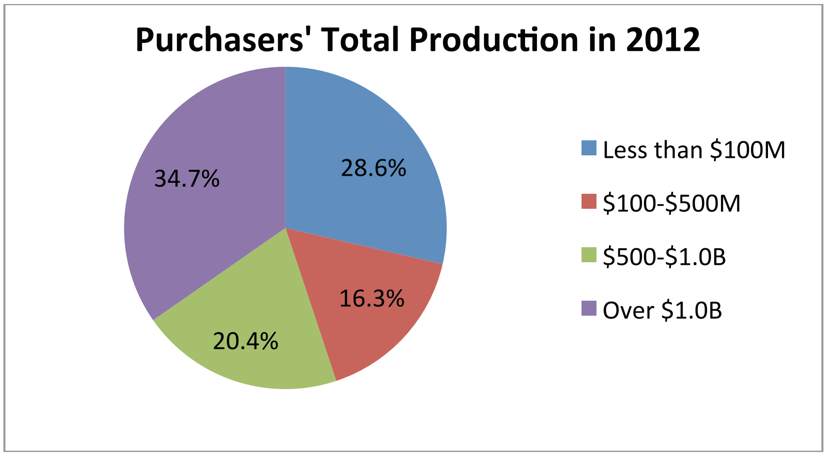
- 86.1% of larger intermediaries surveyed have the capacity to fund transactions with established lines of credit or internal equity
- 100% of larger intermediaries maintain an internal staff to review, package and process transactions
- 28.5% of larger intermediaries have fewer than 10 employees, 42.9% have 10-30 employees, and 28.6% have in excess of 30 employees



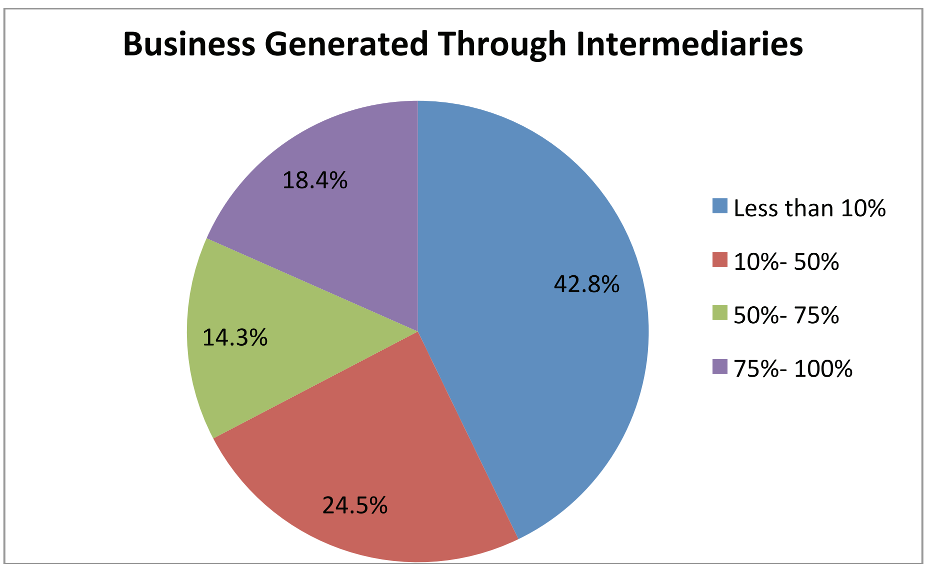


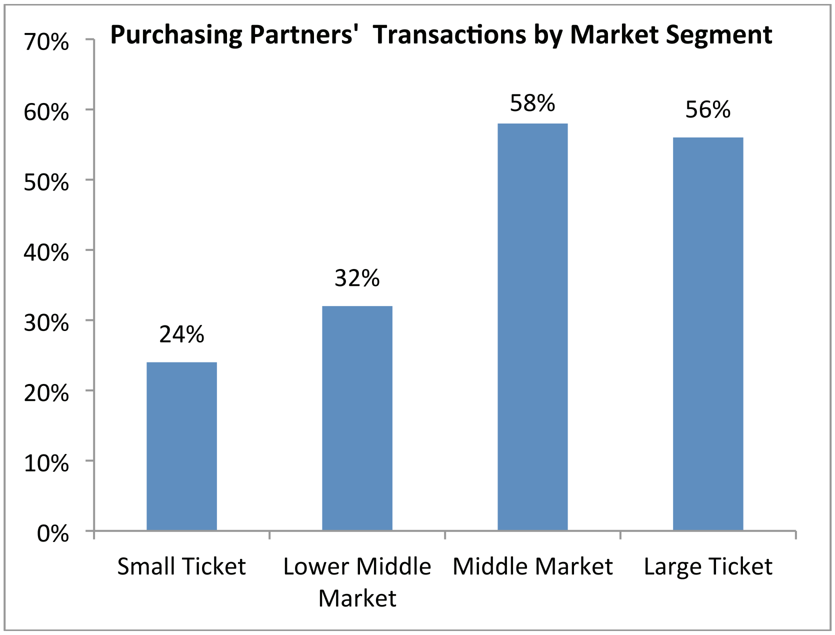
- Small Ticket defined as transactions under $150K
- Lower Middle Market defined as transactions $150K - $1M
- Middle Market defined as transactions $500k - $10.0M
- Large Ticket defined as $5.0M and above

Characteristics of Surveyed Purchasers:



- 82% of purchasing partners describe themselves as "Generalist"
- Purchasing partners held concentrations in the following industries: medical, industrial, construction, office equipment and agriculture





- Small Ticket defined as transactions under $150K
- Lower Middle Market defined as transactions $150k - $1.0M
- Middle Market defined as transactions $500k - $10.0M
- Large Ticket defined as $5.0M and above

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About Wheeler Business Consulting LLC

Wheeler Business Consulting LLC specializes in developing strong leaders in the commercial equipment leasing and finance industry. The company works with lessors, banks, investors and origination professionals nationwide.

Based in Fallston, Maryland, Wheeler Business Consulting LLC offers consultative services in the equipment leasing and finance industry, based on President Scott A. Wheeler's 30-plus years in the industry, leading executive teams, credit departments, sales departments, and industry task forces. For 18 years, Mr. Wheeler was employed in management and executive positions within bank-owned equipment leasing and finance divisions and subsidiaries. He has held board positions on the Eastern Association of Equipment Lessors, the National Equipment Finance Association, and the Certified Leasing Professional Foundation. A Certified Leasing Professional, he holds a B.S. in economics from McDaniel College in Westminster, Maryland, and an executive M.B.A. from Loyola University in Baltimore. He speaks frequently on topics related to commercial equipment leasing and financing.

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye On The Future

Future Focused Research for the Equipment Finance Industry

Presented by the Source for Independent, Unbiased and Reliable Study

The Equipment Leasing & Finance Foundation

The Equipment Leasing & Finance Foundation, established in 1989 by the Equipment Leasing Association, is dedicated to providing future-oriented, in-depth, independent research about and for the equipment finance industry. Information involving the markets, the future of the industry and the methods of successful organizations are researched to provide studies that include invaluable information for developing strategic direction within your organization.

Your Eye on the Future

The Foundation partners with corporate and individual donors, academic institutions and industry experts to develop comprehensive empirical research that brings the future into focus for industry members. The Foundation provides academic research, case studies and analyses for industry leaders, analysts and others interested in the equipment finance industry.

The Foundation's resources are available electronically at no cost to Foundation donors and for a fee to non-donors. For more information, please visit www.leasefoundation.org

An example of the resources available from the Foundation include:

- Market overview studies
- Emerging market reports
- Annual state of the industry reports
- Monthly Confidence Index(MCI) analysis
- Industry future council workbooks
- Reports on entering international markets
- Case studies, and much more

Journal of Equipment Lease Financing

Published three times per year and distributed electronically, the *Journal of Equipment Lease Financing* is the only peer-reviewed publication in the equipment finance industry. Since its debut in 1980, the Journal features detailed technical articles authored by academics and industry experts and includes Foundation-commissioned research and articles. Journal articles are available for download through the Foundation website. Subscriptions are available at www.leasefoundation.org

Web Based Seminars

Many of the Foundation studies are also presented as web seminars to allow for direct interaction, in-depth conversation and question and answer sessions with the researchers and industry experts involved in the studies. Please visit the Foundation website for details on upcoming webinars at www.leasefoundation.org

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