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COVID-19 Impact Survey Retrospective – How Has Our Industry Changed?

The Foundation's COVID Survey Steering Committee has been surveying leasing and finance executives since April. As the data demonstrates, in a bad situation, our industry usually finds ways to adapt and mitigate, and make the situation better than initially expected.

By Tom Ware

In May of this year the Foundation launched a new survey of industry executives to shed light on how the pandemic was affecting our industry, with the hope that knowing how one's peers were being affected—and reacting—might lead to better decisionmaking. With five monthly surveys now completed, including a few enhancements made along the way by the COVID Survey Steering Committee, we are in a good position to look back on the data and how it has changed over time. The findings are cause for some cautious optimism.

PAYMENT DEFERRALS

As Table 1 shows, the portion of lenders' portfolios under deferral peaked in June and has declined by 60% since then—a very healthy development. On average, it is larger transactions that are being deferred, as the dollar basis deferral percentage is higher than the count basis deferral percentage.

Table 1.

% of Portfolio Under Deferral

	April	May	June	July	Aug	Sep
Dollar basis	6.8%	10.0%	15.3%	14.0%	8.9%	6.1%
Count basis	not asked	not asked	11.8%	11.4%	6.4%	4.6%

Source: All tables and figures were provided by the author.

Table of Contents
Foundation Home

Captives started deferring later than other lenders, and never reached the 15+% levels that other lenders did.

Large and middle ticket deferrals peaked in June, while small ticket, where deferrals are more common, took a little longer, until July (Table 2). Large ticket transaction deferral rates are now down 42% from their peak, while middle ticket rates are down 70%.

Table 2.

By Ticket Size, % of Portfolio Under Deferral, Dollar Basis

Ticket size	April	May	June	July	Aug	Sep
Large	5.0%	6.7%	10.0%	6.1%	4.9%	5.8%
Middle	4.7%	7.1%	14.0%	12.7%	7.4%	4.1%
Small	10.4%	15.8%	19.0%	20.1%	14.0%	9.2%

The very largest lenders were slower to begin deferrals and never reached the same magnitude; however, today deferral rates are similar across institution sizes (Table 3).

Table 3.

By Lender Volume, % of Portfolio Under Deferral, Dollar Basis

	April	May	June	July	Aug	Sep
Over $1 billion	3.3%	7.8%	12.2%	9.0%	6.1%	6.5%
$250 million–$1 billion	9.7%	13.7%	16.3%	12.4%	12.2%	4.9%
$50–$250 million	7.2%	9.6%	15.5%	20.0%	10.9%	6.4%
Under $50 million	8.1%	10.9%	17.7%	16.2%	6.9%	7.9%

Captives started deferring later than other lenders, and never reached the 15+% levels that other lenders did (Table 4). Currently, however banks and captives have the most deferrals outstanding, while independents have far fewer.

Table 4.

By Institution Type, % of Portfolio Under Deferral, Dollar Basis

	April	May	June	July	Aug	Sep
Bank	8.1%	10.6%	14.5%	15.9%	10.3%	8.2%
Captive	3.2%	11.3%	10.6%	11.3%	9.3%	8.4%
Independent	8.5%	11.1%	17.8%	13.1%	8.8%	3.5%

Table of Contents

Foundation Home

Beginning in August, the survey also included questions about what was occurring after the initial deferral.

While zero deferrals for communications equipment, and 3% to 5% for medical, office, and software seem reasonable, the 2% statistic for aircraft is surprising (Table 5). Though to the extent that these are not aircraft for general commercial carriers but rather corporate planes, it is conceivable that demand for them could have increased. These particular statistics, however, are highly derived and limited.[1]

Table 5.

Approximate Deferral % by Equipment Type

Equipment Type	Deferral %
Communication	0%
Aircraft	2%
Medical	3%
Office equipment	4%
Software	5%
Railroad	5%
Alternative energy	6%
Agriculture	6%
Computers	7%
Ships and boats	9%
Materials handling	11%
Automobiles	12%
Construction	12%
Other industrial	13%
Trucks	14%
Mining & oilfield	not avail.
Retail	not avail.

After the Initial Deferral

Beginning in August, the survey also included questions about what was occurring after the initial deferral (Table 6). Were borrowers paying as agreed, becoming delinquent or defaulting, or getting a second deferral?

Table 6.

Status of Accounts After Initial Deferral

	Aug	Sep
Paying as agreed	85.1%	87.3%
Delinquent/ defaulted	5.1%	2.9%
2nd deferral	9.8%	9.8%
Total	100.0%	100.0%

Surprisingly, second deferrals did not increase from August to September, but the portion of delinquent/ defaulted decreased from 5.1% to 2.9% —a very encouraging development.

The data also show that lenders with 90+% of their previously deferred portfolio paying as agreed after the end of their original deferral period (without a second deferral) increased from 57% to 64% of lenders. Lenders giving a second deferral to more than 10% of their portfolio that had been deferred decreased from 36% of lenders to 32%. However, the percentage of lenders giving no second deferrals at all decreased from 32% to 28%.

Table of Contents

Foundation Home

The results show that lenders were by far the most pessimistic in May, had a much improved outlook in June, and have become slightly more optimistic in more recent months.

DEFAULTS

A significant minority of lenders do not think that the pandemic, and its impact on unemployment and GDP, will materially affect default rates (Table 7). A small minority think default rates will be lower this year than last, though that may be a function of the responding institution having unusually high defaults in 2019.

Table 7.

Expected Default Rate in 2020 vs. 2019

Greater	Same	Lower
73%	20%	7%

Note: Based on most recent survey results.

Respondents were also asked what their 2019 default rate was and what they expected their 2020 default rate to be. Lenders were grouped into default rate categories, very low to high, based on their reported 2019 default rate (to minimize the effects on the results of variations in each month's responding population). Table 8 shows the 2019 average default rate and average expected 2020 default rate, as of each survey month, for each of the lender risk level categories.[1]

Table 8.

Default Rates – 2019 vs. 2020 Expected

2019 Default rate	2019 Avg.	Expected 2020 as of: May	June	July	Aug	Sep
Very low (<0.5%)	0.15%	1.92%	0.77%	0.77%	0.77%	0.76%
Low (0.5%–1.5%)	0.95%	2.90%	2.35%	1.98%	1.78%	1.97%
Medium (1.5%–5%)	2.69%	5.09%	4.69%	4.40%	4.24%	4.10%
High (5%–10%)	7.11%	22.86%	10.44%	8.36%	7.30%	n.a.

The results show that lenders were by far the most pessimistic in May, had a much improved outlook in June, and have become slightly more optimistic in more recent months. The changes are small for lower-risk lenders, and become more substantial the higher the lender's general risk level.

Between August and September, lenders expecting zero defaults in 2020 increased from 26% to 31% of lenders, and lenders expecting defaults of 1% of more in 2020 decreased from 47% to 35% of lenders.

Table of Contents

Foundation Home

Regarding collateral values, it is also interesting that the most affected equipment types tend to be larger ticket equipment types, with the understandable exception of retail.

COLLATERAL VALUES

In August and September lenders were asked how they thought collateral values had changed since the beginning of the year for equipment types in their portfolio, and Table 9 data are calculated from those responses. In general, the results seem very intuitive. It is also interesting that the most affected equipment types tend to be larger ticket equipment types (with the understandable exception of retail).

Table 9.

Change in Collateral Values Since Jan. 1, 2020

Equipment type	Change
Mining & oilfield	-26%
Retail	-21%
Railroad	-12%
Aircraft	-11%
Trucks	-8%
Ships and boats	-7%
Automobiles	-5%
Office equipment	-5%
Medical	-4%
Construction	-3%
Materials handling	-3%
Other industrial	-2%
Agriculture	-2%
Alternative energy	-1%
Communication	0%
Computers	0%
Software	1%

Lenders' collateral value responses in September were also tallied based on their reported average ticket sizes (Table 10), with results not inconsistent with the specific equipment type findings, though showing more overall impact on middle ticket.

Table 10.

Change in Collateral Values Since Jan. 1, 2020

Large ticket	Middle ticket	Small ticket
-5%	-6%	-3%

LAYOFFS AND REDUCTION IN HOURS

The survey also asked lenders if that institution had had furloughs or layoffs, and if so, what percent of the staff was impacted (Table 11).

Table of Contents

Foundation Home

Banks have had fewer layoffs, and what layoffs they did have took some time to occur, while independents have, except for September, had the most and were the quickest to begin layoffs.

Table 11.

% of Institutions With Layoffs

	May	June	July	Aug	Sep
Have had layoffs	12%	19%	17%	19%	22%
% of staff laid off	11%	13%	10%	10%	11%

Table 12 shows that a majority of lenders with layoffs had done so by May, though more layoffs occurred in June and, to a lesser extent, in September.

Table 12.

Layoffs – % by Institution Type

Have had layoffs	May	June	July	Aug	Sep
Bank	3%	8%	8%	13%	12%
Captive	17%	8%	15%	17%	43%
Independent	25%	32%	32%	27%	25%

Looking at the data by institution type, we see that banks have had fewer layoffs, and what layoffs they did have took some time to occur, while independents have in all reporting months except September, had the most and were the quickest to begin layoffs. Captives were generally in between, except in September, when a smaller but not insignificant number of captive respondents reported that three of their seven institutions had had layoffs.

Layoffs by institution size (as measured by annual origination volume) shows similar results (Table 13). However, the high correlation between institution size and type makes it unclear which is the actually the primary driver of the difference in layoffs—though it is likely that both size and type are drivers.

Table 13.

Have Had Layoffs by Institution Size

Over $1 billion	10%
$50 million – $1 billion	18%
Under $50 million	21%

Table of Contents

Foundation Home

While the situation is bad, the data here and respondents' outlooks imply the impact may not be as bad as people originally thought it might be.

The survey also asked respondents whether their institution had reduced staff hours (Table 14). Very few banks did, while a significant number of captives did. This is probably the result of the captives' manufacturing culture, where workers are generally more likely to have their hours reduced or expanded regularly to match manufacturing demand.

Table 14.

Reduced Staff Hours – % by Institution Type

Bank	2%
Captive	19%
Independent	4%
Overall	5%

CONCLUSION

The Foundation's COVID-19 Impact Survey sheds significant light on the commercial equipment leasing industry at a time unprecedented in our lifetimes. Overall, the results are somewhat positive. While the situation is bad, the data here and respondents' outlooks imply the impact may not be as bad as people originally thought it might be.

This parallels the stock market as well as the forecasts of the Fed, which just revised its June forecast for year-end unemployment from 9.3% to 7.6% and for GDP from a decrease of 6.5% to a decrease of 3.7%. The actual outcome, of course, remains to be seen: 2007/2008 simply seemed like a housing-sector problem at first.

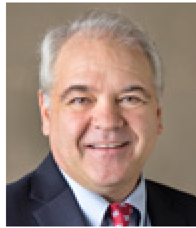
This survey data underscores, however, that institutional positioning and strategy make a real difference, that most lenders are getting borrowers to resume paying, that not many borrowers need a second deferral, and that equipment type and borrower industry matter. ■

Endnote

1. To further reduce respondent bias from month-to-month, the 2020 expected default rates were calculated by taking each month's expected change from the responding lender's 2019 default rate to its 2020 default rate, averaging those, and then adding that to the average 2019 default rate calculated based on all monthly surveys. While there were a few respondents with 2019 default rates over 10%, there were not enough to produce meaningful statistics for them.

Table of Contents

Foundation Home



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