Issue 54

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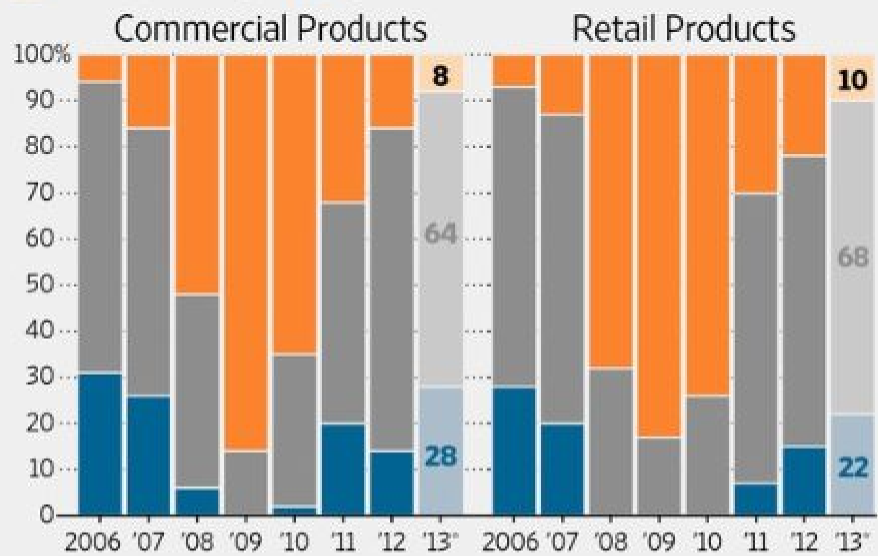
LEASING & FINANCE UPDATE

FEBRUARY 2014

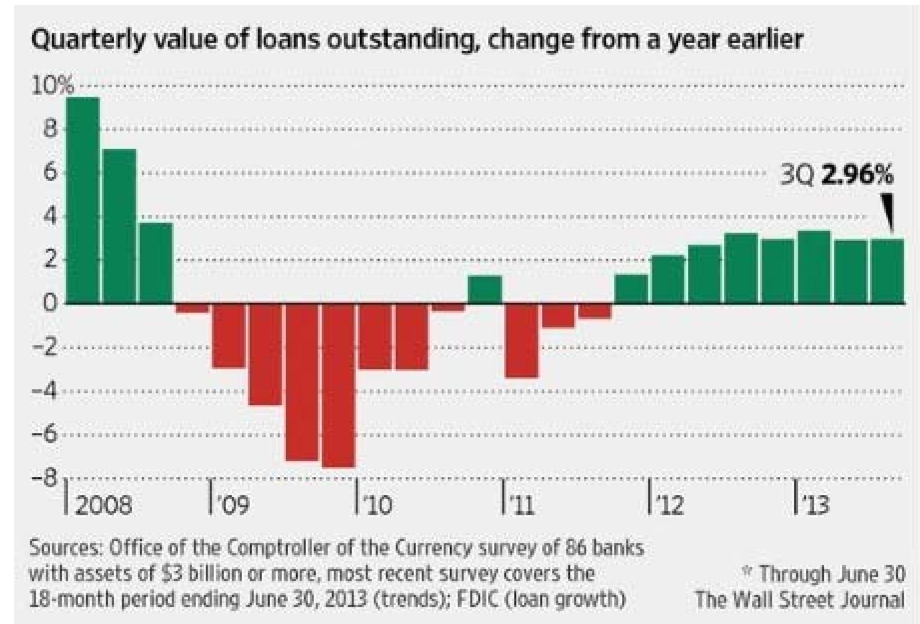
CREDIT THAW: BANKS EASE LIMITS ON LENDING



Big banks are beginning to loosen their tight grip on lending, creating a new opening for consumer and business borrowing that could underpin a brightening economic outlook. According to a new report, banks are slowly starting to increase their appetite for risk. The U.S. Office of the Comptroller of the Currency said banks relaxed the criteria for businesses and consumers to obtain credit during the 18 months leading up to June 30, 2013. Fueling the loosening is a rosier economic picture, competition for a limited pool of loans and a sustained low-interest-rate environment that has banks reaching for returns.

The thaw, while at its earliest stages, could buttress the increasingly optimistic 2014 global growth projections. The World Bank predicts global growth of 3.2%, bolstered by stronger recoveries in the U.S. and the euro zone. The Federal Reserve predicts U.S. growth between 2.8% and 3.2%, while the euro zone is expected to grow by 1.1% after two years of contracting.

At the same time, the easing carries risks, including a return to the type of lax underwriting standards that sowed the seeds of the crisis. The comptroller's report said it would still classify most banks' standards as "good or satisfactory" but did strike a cautionary tone. "The more [banks] loan … there is going to be more risk," said Bob Piepergerdes, the OCC's director for retail credit risk.



An upturn in bank lending, if taken too far, could also lead to inflation. The Fed has flooded banks with trillions of dollars in cash in its efforts to boost the economy. In theory, the printing of that money would cause consumer price inflation to take off, but it hasn't, largely because banks haven't aggressively lent out the money. Consumer inflation in 2013 was a percentage point below the Fed's 2% target.

U.S. loan growth ground largely to a halt during the financial crisis of 2008 and has remained weak as banks reversed the easy-lending policies that helped inflate the credit bubble. Pushed by regulators to hold more capital and decrease risk, banks began tightening standards for everything from credit cards to auto to real-estate loans.

The comptroller's survey found more banks loosening standards than tightening. The regulator said that in the 18 months leading up to June 30, 2013, its examiners saw more banks offering more attractive loans. The trend extended to credit-card, auto and large corporate loans but not to residential mortgages and home-equity loans.

Source: Wall Street Journal

MORTGAGE TROUBLES NEAR PRE-RECESSION LEVELS

Five years after the end of the U.S. recession, the number of Americans who are behind on their mortgages and the backlog of homes in the foreclosure process are narrowing to prerecession levels. The U.S. mortgage delinquency rate fell to 6.39% of loans in the fourth quarter of 2013, down from 7.09% a year ago and the lowest rate since the early months of recession in the first quarter of 2008, according to the Mortgage Bankers Association (MBA). The backlog of foreclosure inventory also fell to its lowest level since 2008, while the number of loans on which lenders initiated foreclosure was the lowest since 2006, which was when the housing bubble was starting to burst.

The report on foreclosures and delinquencies comes as news in the housing-sales market points to a cooling after a sharp run-up in sales and prices during 2013. In the fourth quarter, a combination of rising prices and higher interest rates eroded housing affordability and pushed many buyers to the sidelines. But the decline in troubled loans means that even if the cooling trend continues or intensifies, there is less danger of the market getting clobbered by a massive foreclosure wave. Another encouraging sign: 75% of the nation's troubled loans were made in 2007 or earlier, and delinquency rates for loans made after that point are around historical norms, according to the MBBS.

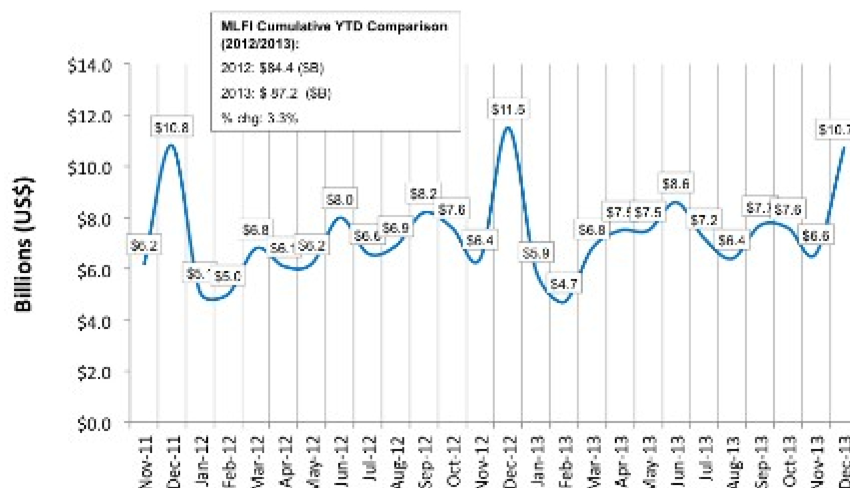
Foreclosures are down partly because the economy and unemployment rate have improved. Also, banks have reined in many of the looser lending practices that allowed many borrowers to get in over their head. The boost in home prices, which began about two years ago, has also helped. Overall prices in December were 8.4% higher than one year earlier, according to Black Knight Financial Services, formerly LPS. This rise has rescued many of the "underwater" borrowers whose home values fell so far during the recession. In October, 11.4% of loans were "underwater," down from about 19% at the start of last year.

The improvement in foreclosures has been uneven. The strength of regional economies, state-to-state foreclosure processes and varying responses to the housing bust have led to different rates of healing. Most of the nation's highest foreclosure inventory rates are in the "judicial states," where banks must get court approval to foreclose. Florida, a judicial state, had the nation's highest share of loans in foreclosure, 8.56% - but was down to a bit more than half of its peak rate. New Jersey and New York - also judicial states - were next on the list and were the only other states with foreclosure inventory rates above 6%. The MBA said that 15 of the 17 states where the foreclosure inventory was higher than the national average were judicial states.

Source: Wall Street Journal

DECEMBER NEW BUSINESS UP 62% OVER NOVEMBER

MLFI-25 New Business Volume (Year-Over-Year Comparison)



MLFI-25 New Business Volume - December 2013

The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index (MLFI-25) showed their overall new business volume for December was $10.7 billion, down 7% from new business volume in December 2012. In a typical end-of-year spike, their new business volume was up 62% from the previous month's volume of $6.6 billion. Cumulative new business volume for 2013 rose 3% over 2012. Receivables over 30 days were at 1.9% in December, up slightly from 1.8% in November. Delinquencies increased from 1.6% in the same period in 2012. Charge-offs were unchanged from the previous month at the all-time low of 0.3%. Credit approvals totaled 78.3% in December, an increase from 76.5% the previous month. Among the participating organizations, 57% reported submitting more transactions for approval during December, an increase from 47% November. Total headcount for equipment finance companies was up 2% year over year.

Separately, the Equipment Leasing & Finance Foundation's Monthly Confidence Index (MCI-EFI) for January is 64.9, the highest confidence level in two years, and an increase from the December index of 55.8. An improved general outlook for economic activity among industry leadership contributed to the increase.

"December's strong volume number is consistent with the typical growth pattern of a very busy end of year for many equipment finance organizations. Overall, 2013 was a very good year for many ELFA members: the cumulative growth data for the year bear this out," said ELFA President/CEO William G. Sutton, CAE. "Offsetting this strong performance in new business activity, however, were reports of margin compression in virtually all sectors. Aggressive competition, low interest rates, and declining yields put pressure on overall profitability."

Source: ELFA

Aging of Receivables Over 30 Days

ELFA MLFI-25 Aging Receivables - December 2013

CARD DELINQUENCY RATES NEAR HISTORIC LOWS

Q4 2013 Credit Card Statistics - Consumer-Level Delinquency Rates

Quarter over Quarter	**Q3 2013**	**Q4 2013**	**Pct. Change**
USA	1.36%	1.48%	8.8%
Year over year	**Q4 2012**	**Q4 2013**	**Pct. Change**
USA	1.61%	1.48%	(8.1%)
Credit Card Consumer Delinquency Rates for Select States			**Q4 2013**
California			1.42%
Florida			1.81%
Illinois			1.33%
New York			1.55%
Texas			1.65%
Largest Year-over-Year Declines	**Q4 2012**	**Q4 2013**	**Pct. Change**
Massachusetts	1.63%	1.34%	(17.8%)
Rhode Island	1.77%	1.55%	(12.4%)
Wisconsin	1.01%	0.89%	(11.9%)
Smallest Year-over-Year Declines	**Q4 2012**	**Q4 2013**	**Pct. Change**
North Dakota	0.82%	0.80%	(2.4%)
Alaska	1.19%	1.16%	(2.5%)
Arkansas	1.87%	1.82%	(2.7%)

The credit card delinquency rate (90 days or more delinquent) dropped on a yearly basis from 1.61% in Q4 2012 to 1.48% in Q4 2013. In a sign that consumers continue to deleverage, average credit card debt per borrower also declined from $5,376 in Q4 2012 to $5,325 in Q4 2013. On a quarterly basis, both the credit card delinquency rate (up from 1.36% in Q3 2013) and credit card debt (up from $5,235 in Q3 2013) increased due to seasonality associated with holiday shopping.

The data provided are gathered from TransUnion's proprietary Industry Insights Report, a quarterly overview summarizing data, trends and perspectives on the U.S. consumer lending industry. The report is based on anonymized credit data from virtually every credit-active consumer in the United States.

"Credit card delinquencies continue to remain much lower than historical norms. We

also believe that there is a continuing reduced demand for new credit in the prime credit ranges," said Ezra Becker of TransUnion's financial services business unit.

Every state experienced a decline in their credit card delinquency rate between Q4 2012 and Q4 2013. The largest delinquency declines occurred in Massachusetts, Rhode Island, Wisconsin and Oregon. Credit card debt per borrower increased in only seven states on a yearly basis.

TransUnion reported 341.40 million credit card accounts as of Q4 2013, up from 329.48 million in Q4 2012. Viewed one quarter in arrears (to ensure all accounts are included in the data), new account originations increased to 11.96 million in Q3 2013, up from 10.75 million in Q3 2012.

TransUnion's latest credit card report also found that the non-prime population (consumers with a VantageScore® 2.0 credit score lower than 700) continues to represent a smaller portion of all credit card loans at 30.13% in Q3 2013, down from 30.23% in the same period last year. In Q3 2007, the non-prime population represented 44.03% of all credit card loans. "With relatively fewer subprime credit cards in the marketplace, delinquencies should remain low," said Becker. TransUnion is forecasting consumer delinquencies to rise to approximately 1.57% by the end of the first quarter, which remains a relatively low level.

Source: TransUnion

2013 HOLIDAYS MARK A RETURN FOR CREDIT CARDS

If the recent holiday shopping season is any indication, consumers may be setting aside their caution with credit card spending and are back to consuming through debt. Compared to the 2012 holiday season when more consumers used cash and savings accounts, this year the average consumer racked up more than $350 in credit card debt, says SaveUp, a company that uses rewards to encourage consumers to save money and pay down debt.

When SaveUp polled American consumers in early November as the 2013 holiday shopping season began, nearly 70% said they planned to use cash or saving accounts for holiday spending. "Despite their lofty goals, consumers actually funded the 2013 holiday with debt and entered the New Year with bigger bills," SaveUp states in the report. SaveUp views the trend as a break from positive habits that consumers had embraced in previous years.

During the 2012 holiday season, American consumers withdrew an average of nearly $700 from savings accounts to cover holiday spending. Those who had money market accounts also withdrew heavily over the same period, at an average of $1,000, the report states.

While the average consumer now faces more than $350 in debt this year, many consumers were paying down previous debt of nearly $1,000 on average during the holiday season last year, SaveUp says.

In addition more consumers opened a line of credit of nearly $1,200 during the 2013 holidays, compared to paying down those types of loans last year. "As the banking

industry continues to rebound from 2009 and debt becomes more accessible, Americans are falling back into old habits," said Priya Haji, CEO of SaveUp. "These habits will need to be broken in order to avoid the constant threat of financial ebb and flow."

Source: Credit Union Journal

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