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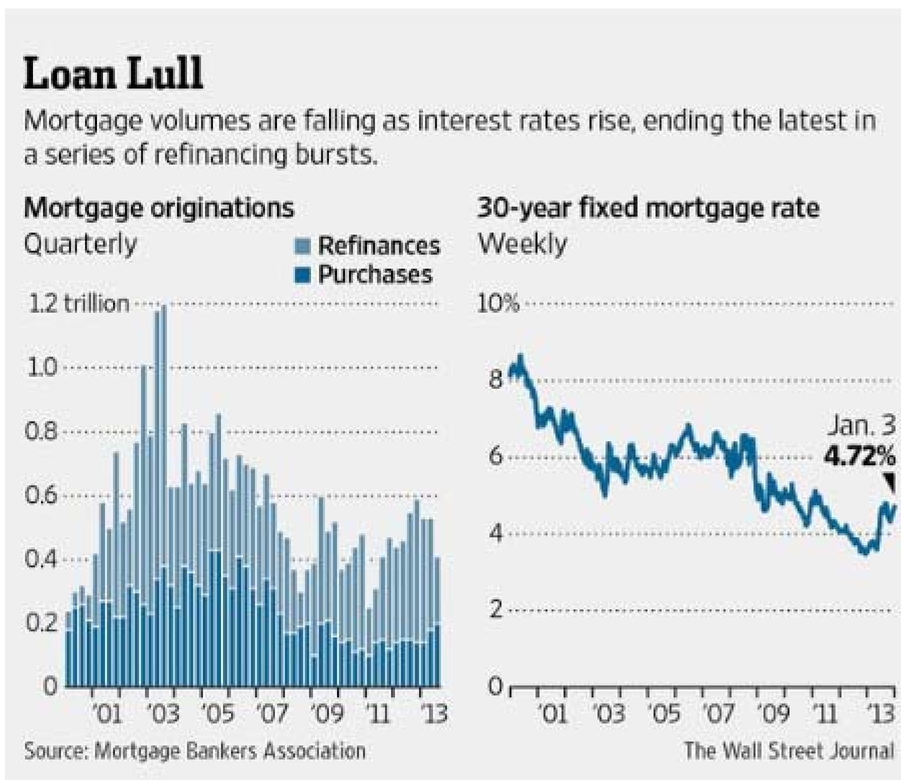
LEASING & FINANCE UPDATE

JANUARY 2014

BANKS SCALE BACK AS MORTGAGE BOOM FIZZLES



A sharp slowdown in mortgage refinancing is forcing banks to cut jobs, fight harder for a smaller pool of home-purchase loans and employ new tactics to drum up business. The end of a three-decade period of falling mortgage rates has slammed the brakes on a huge wave of refinancing by U.S. households. The drop-off has deprived lenders of a key source of income at a time when the growth in loans for home purchases remains weak.

The Mortgage Bankers Association (MBA) plans to cut its 2014 forecast for loan originations, which include loans for home purchases and refinancing. The current forecast of $1.2 trillion would represent the lowest level in 14 years. The trade group reported that mortgage applications in the two weeks ending Jan. 3 touched a 13-year low.

Analysts expect results across the sector to show that the number of loan originations for home purchases and refinances fell by 20% to 30% in the fourth quarter from the previous quarter. In the third quarter, mortgage-banking income, which includes fees from making new loans and processing payments on existing loans, tumbled by 45% at 10 big banks tracked by *Inside Mortgage Finance*. Already, banks across the U.S. have cut thousands of jobs in their "back office" mortgage operations to make up for the decline in refinancing activity.

The decline comes after a three-decade period in which interest rates generally fell, home owners refinanced often, and banks bulked up to meet the rising demand. From 2000 to 2003 alone, mortgage rates fell from a peak of 8% to a low of 5%, and refinance volumes soared to $2.5 trillion in 2003, from $230 billion in 2000. After the housing bubble burst, lending for home purchases slowed sharply. But because mortgage rates turned downward in 2009 and again in 2011, refinancing perked up, leading to a banner year in 2012.

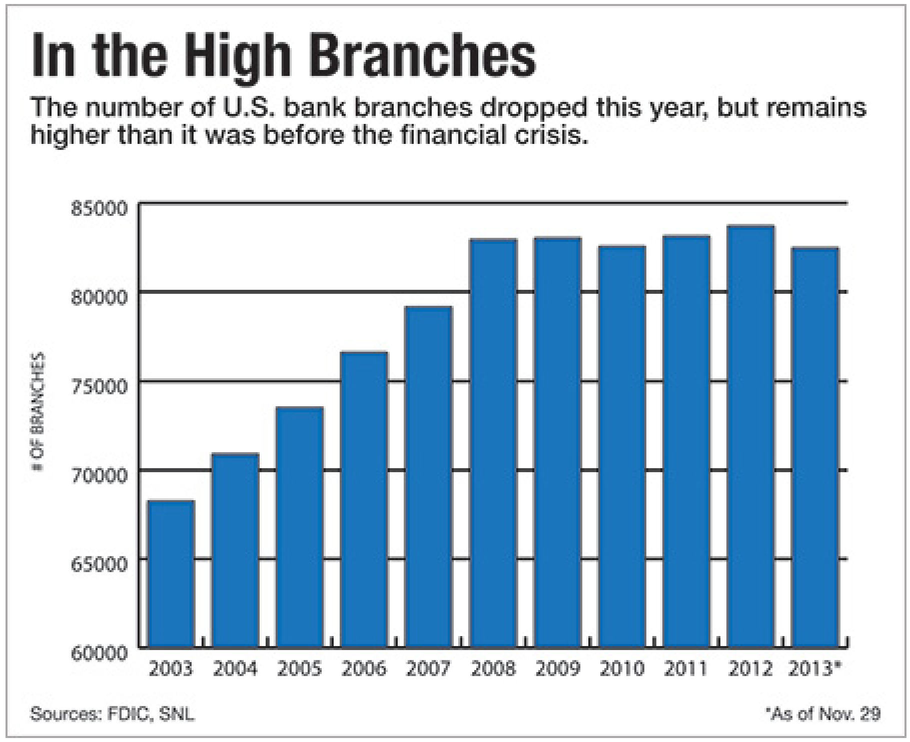
Now, refinancing is evaporating, said David Stevens, CEO of the MBA, and "the business is completely shifting" toward home-purchase lending as rates rise. The rate on a 30-year fixed-rate mortgage averaged 4.72% last week, up from 3.6% last May.

Interest rates could drop again, which could stoke demand for refinancings. But because many borrowers already have refinanced, the pool of potential borrowers who could benefit from refinancing is dwindling.

The mortgage industry's last bout with surprising rate spikes came in 2003 and 2004, when a similar move threatened to derail a lending boom. Back then, banks responded by relaxing credit standards and shifting to adjustable-rate, interest-only and other types of loans that offered lower initial monthly payments. Those loans ended up backfiring on banks, borrowers and investors when home prices began falling in 2006 and helped spark the financial crisis. Lenders have shied away from such loans since.

Source: Wall Street Journal

IS THIS THE END OF BANK BRANCHES?



For years, bankers have bemoaned the looming death of the traditional bank branch. Now it looks like it's actually starting to happen. Last week, a slew of banks announced branch closures, including JPMorgan Chase, Regions Financial and TCF Financial. While these cuts are notable, they are more cosmetic than transformative – more of the careful pruning around the edges we've seen since the financial crisis. But those handfuls of closures were overshadowed by a far more intriguing – and potentially game-changing – plan from PNC Financial.

After years of bank executives acknowledging that they will eventually have to do something about their outdated and expensive branch networks, PNC Chief Executive William Demchak appears to be taking the plunge. Besides closing some branches, he announced plans to overhaul most of his company's remaining physical locations in the next 5 years, retraining the staff, and rethinking the layouts to incorporate more of the technology that most bank customers now use. While 90% of PNC's 2,700 offices are in the traditional mold, Demchak wants to dramatically shrink that proportion by the end of 2018, turning two-thirds of PNC's network into smaller, more automated locations.

This sort of dramatic, ambitious plan is long past due. Bankers have spent a lot of time discussing what to do about branches, without making any big decisions. More and more customers are doing most of their banking online or on mobile phones, turning most banks' sprawling locations into city-corner showrooms or special-occasion destinations, reserved for the handful of visits to take out a small business loan or a mortgage.

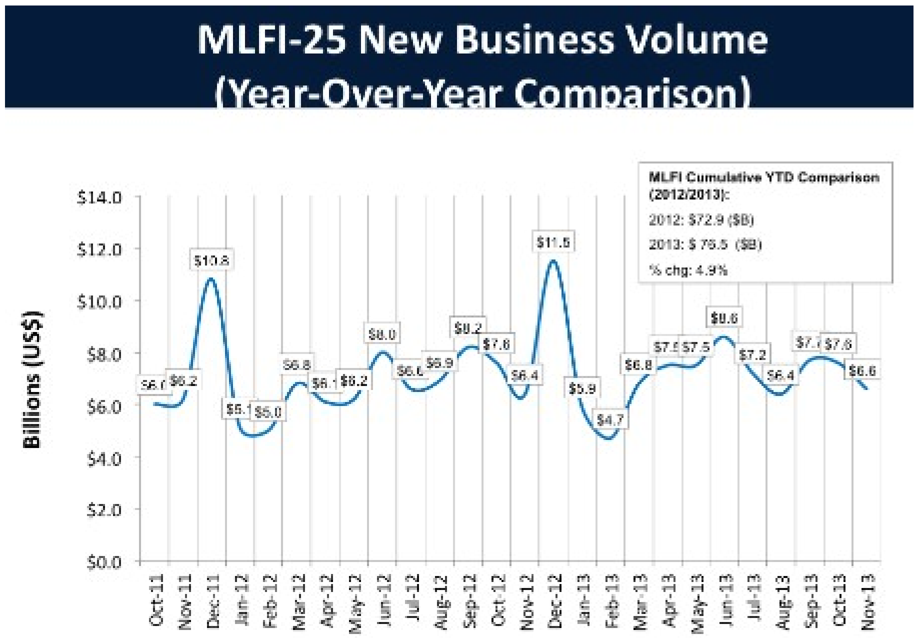
The financial crisis, while dramatically shrinking the number of banks, actually saw the survivors expand their physical presence. The overall number of U.S. banks has dropped by 19% since the end of 2007, when the FDIC reported 8,533 insured institutions. But the number of branches has gone up by 4% in the same time period. There were 82,467 branches in the United States at the end of November – the lowest number in 5 years, but still above the 79,153 there were at the end of 2007, according to SNL Financial and the FDIC.

Many industry members expect the number of branches to drop more in coming years. Bankers recognize that the days of spending an average of $3 million to open a 5,000-square-foot showroom are quickly coming to an end. Banks including Wells Fargo, HSBC and Citigroup have played around with the size and features of their branches, building smaller locations or ones with fewer human tellers and more video screens.

All of the current branch shrinkage has been incremental and fairly conservative, which is to some extent understandable. Closing branches haphazardly, without a firm and well-researched strategy to make sure banks will not lose customers, is obviously a bad idea. But so is ignoring the irrevocable changes in what most customers expect from their banks. Now that PNC has taken the leap to redirect the future of its branches, it will be interesting to see if more banks will move past their baby steps.

Source: American Banker

NOVEMBER NEW BUSINESS UP 3% YEAR-TO-DATE



MLFI-25 New Business Volume - November 2013

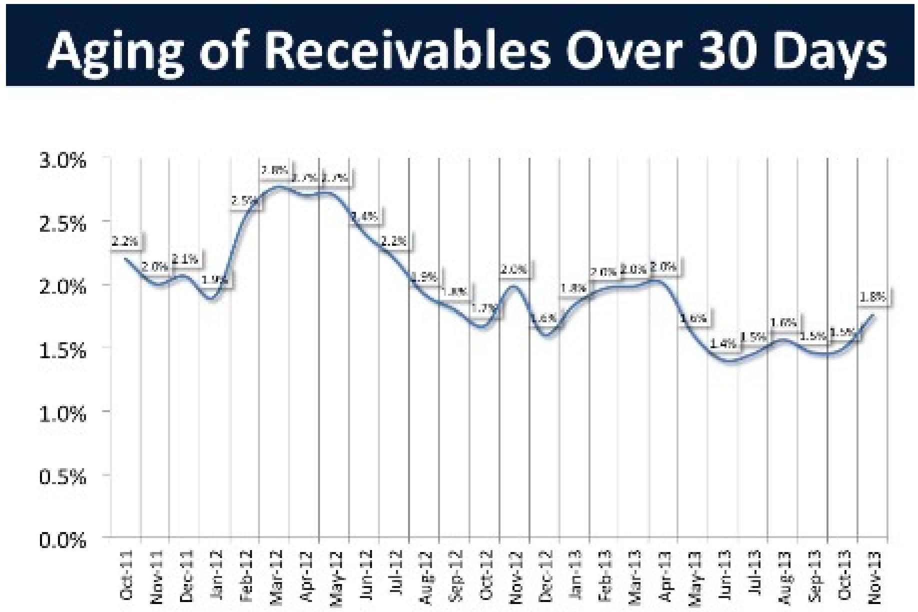
The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index (MLFI-25) showed their overall new business volume for November was $6.6 billion, up 3% from new business volume in November 2012. Month-over-month, new business volume was down 13% from October. Year to date, cumulative new business volume increased 5% compared to 2012.

Receivables over 30 days were at 1.8% in November, up slightly from 1.5% in October. Delinquencies declined from 2% in the same period in 2012. Charge-offs declined to once again match the all-time low of 0.3% from 0.4% the previous month. Credit approvals totaled 76.5% in November, a slight decrease from 77.6% the previous month, while 47% of organizations reported submitting more transactions for approval during October, more in line with previous months' activity after a spike to 82% last month. Total headcount for equipment finance companies was up 1.4% year over year.

Separately, the Equipment Leasing & Finance Foundation's Monthly Confidence Index (MCI-EFI) for December is 55.8, a decrease from the November index of 56.9, reflecting industry concerns over uncertainty regarding capital expenditures (capex) and competitive market pressures in 2014, among other issues.

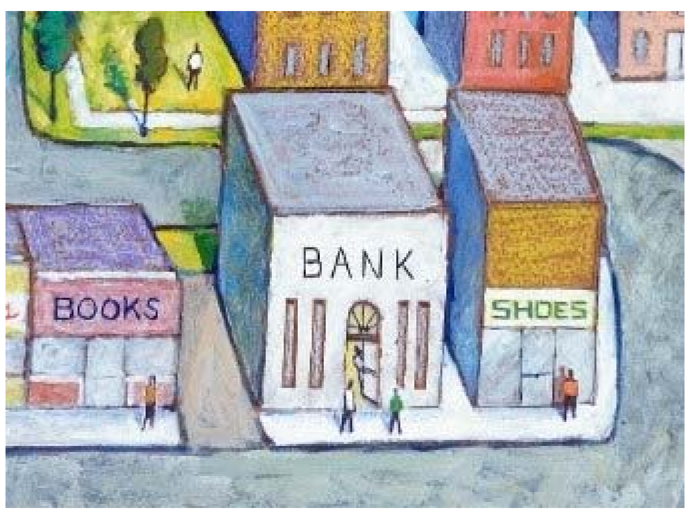
"Overall new business activity in the equipment finance sector continues to trend positively, despite some softness in November compared to late-summer and early-fall performance," said ELFA President/CEO William G. Sutton, CAE. "Year-to-date volume also is encouraging as we head into the final month of the year, which is typically a strong period for the sector."

Source: ELFA



ELFA MLFI-25 Aging Receivables - November 2013

2012 WAS STRONGER YEAR FOR COMMUNITY BANKS



America's community banks recovered from the recession smartly in 2012 and are making continued progress in their recovery, according to a report by the Federal Deposit Insurance Corp. Those 6,141 community banks had a combined profit of $16.4 billion during the year, and their average profit margin exceeded 1% for the first time since 2007.

"By many measures, 2012 was the best year for community banks since the beginning of the financial crisis," the FDIC said. "The number and rate of community bank failures declined, even as voluntary community bank closures increased. Although there were no new institutions chartered in 2012, recent signs point to renewed interest in new bank charters. Community banks continued to strengthen their balance sheets in 2012 by reducing problem assets and increasing capital levels."

Despite the improvement, there are still some problems for community banks, which the FDIC defines as those with less than $1 billion in assets. “The improvement in community bank profitability was driven by higher non-interest income and lower loss provisions, which more than offset the decline in net interest income,” the FDIC added. “Those factors that drove increased profitability in 2012 may prove to be short-lived, however, and future earnings growth will eventually need to be based on increases in net interest income.”

Ninety-two percent of all U.S. banks are classified as community banks by the FDIC. In 2012 those banks held 14% of all of the nation’s banking assets. But they held 46% of the industry’s small loans to farms and businesses.

Source: BizJournals.com

SMALL BIZ OWNERS WANT MOBILE BANKING

Mobile banking services hold serious sway over small business owners, according to a new study. According to an annual study by research/consulting firm ath Power, **66%** of small business owners said that they would switch banks for better mobile services. But financial institutions may not be attuned to the growing demand for smartphone-friendly offerings. In 839 in-person branch visits by prospective small-business customers in the second half of 2013, **37%** of bankers neglected to mention mobile banking options.

"Mobile represents opportunities and challenges for banks to attract and retain small business clientele," said ath Power Chief Executive Frank Aloi. "Banks with mobile offerings tailored specifically for small business will achieve success by delivering differentiated features and functionality not available in standard mobile banking services."

The small business owners included in the study also rated 38 banks on customer experience. Bank of the West, Associated Banc Corp and JPMorgan Chase emerged at the top, receiving respective scores of 80, 79 and 79 out of a possible 100 points. Respondents gave those banks kudos for their ability to listen closely to clients' needs, build a rapport and provide clear reasons why they were a better fit than the competition.

Overall, banks received an average score of 71, a decline from last year’s average of 74. The study also showed a falloff in bankers’ efforts to follow up with prospective customers. Roughly 70% of bankers asked for customers’ name and contact information, compared to 78% in 2012, while 66% asked for permission to follow up, down from 71% in in 2012.

Bankers who fail to be proactive with small business customers are likely to lose out on business, according to the survey. Ninety percent of small business owners who were asked for permission to follow up said they would become customers, while just 62% of those who were not asked were willing to make a commitment.

Source: American Banker

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