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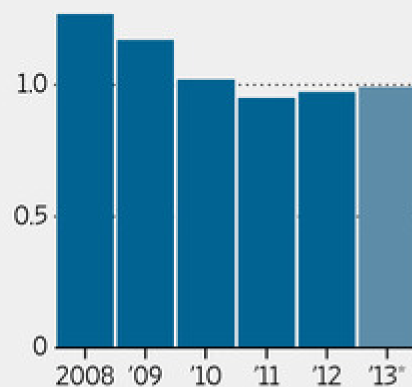
LEASING & FINANCE UPDATE

NOVEMBER 2013

COMMERCIAL-PROPERTY LENDING RAMPS UP



Many U.S. banks are starting to see new growth from the old business of commercial real-estate loans. From office buildings to shopping centers to warehouses to apartments, lending to developers and owners of such properties is on the rebound because of rising real-estate values and improved credit quality. As of June 30, U.S. banks had $991.2 billion in total commercial real-estate loans, up 3.3% from a year earlier, according to research firm SNL Financial. According to J.P. Morgan CFO Marianne Lake, loans have increased "every month for the last 13 months."

The growth and optimism are a turnaround from the slump caused when banks were hammered during the financial crisis as construction loans made during the real-estate boom began to sour. Total commercial real-estate loans outstanding by U.S. banks declined to $950 billion in 2011, a 25% plunge from 2008, according to SNL.

Last year's 2.4% rise in total commercial real-estate loans to $972.7 billion was the first growth in four years, according to SNL. Analysts said the lending rebound, still in its early stages, is being fueled largely by one area: apartment projects. The boom could start to peter out as the single-family housing market recovers, but for now banks are eager to keep lending.

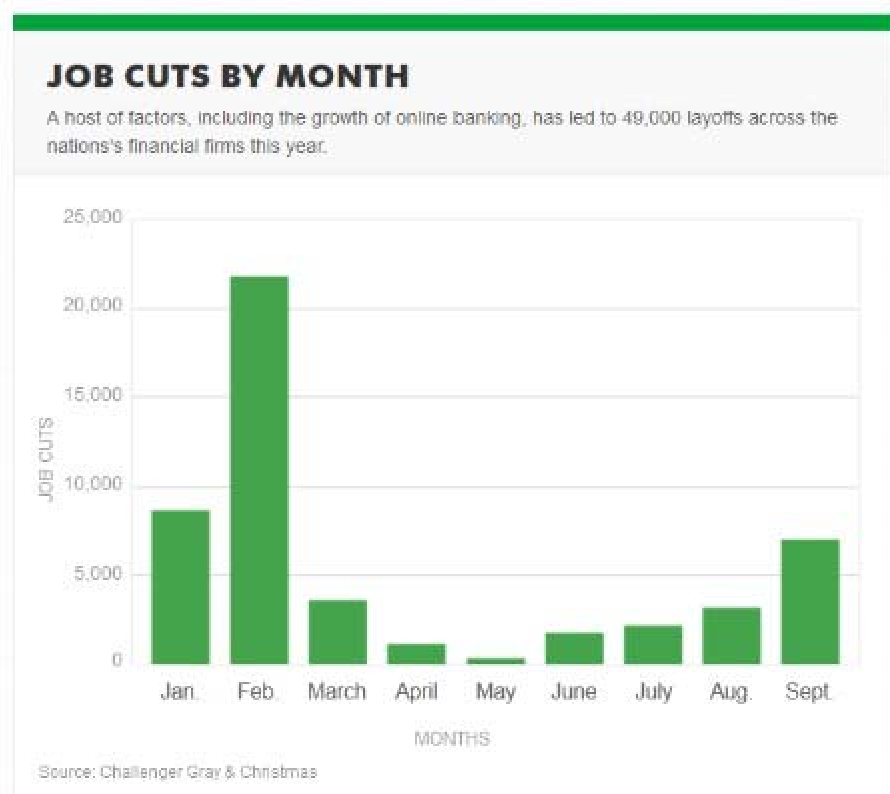
Commercial real estate is "definitely becoming a significant driver of loan growth," said Kevin Barker, an analyst with Compass Point Research & Trading. Lending to

developers and owners of commercial real estate properties fell out of favor when the economy went south but has become a focus again for many banks as conditions have improved. While the market has gotten more heated as banks ramp up commercial real-estate lending, analysts warn that financial institutions are more cautious about the type of loans they make to property developers and owners.

The rebound in the commercial-property market has helped bolster lending activity. After bottoming out in 2009, commercial-property values rose 44% through August and were down just 14% from the peak reached in 2007, according to the Moody's/RCA Commercial Property Price Indices. Apartment property prices, specifically, had increased 13% over the past year as of August, but growth has slowed in recent months. Construction activity also has picked up, with new commercial-construction starts estimated to increase 15% this year, after having risen 12% last year. According to a National Association of Home Builders index, production of new multifamily properties increased in the second quarter and reached the highest level reached since the index was established in 2003.

Source: Wall Street Journal

FINANCIAL FIRMS CUTTING THOUSANDS OF JOBS



Financial firms are cutting tens of thousands of jobs because of a slowdown in the mortgage business, the sluggish economy, the growth of online banking and new regulations. The sector announced 49,000 layoffs the first nine months of 2013, most among all industries, according to outplacement firm Challenger Gray & Christmas. Challenger expects to report the sector was the top job-cutter in October.

The Bureau of Labor Statistics data also show a downsizing industry. In September, financial companies lost 7,200 jobs after shedding 5,900 the previous month. The cutbacks represent a reversal from 2011 and 2012 when financial firms had begun

contributing to overall U.S. job growth after recovering more slowly than other sectors from the 2008 financial crisis.

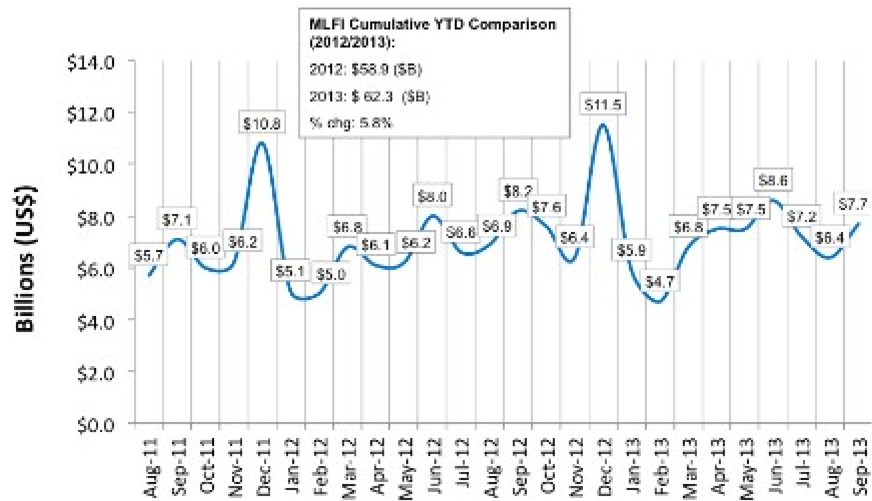
Many of the recent job losses stem from the rise in interest rates and resulting decline in mortgage refinancing activity. Rates for 30-year fixed mortgages have risen to 4.13% from 3.35% in May. The Mortgage Bankers Association estimates mortgage refinancing volume will drop to $989 billion this year and $388 billion in 2014, from $1.2 trillion in 2012. Also, five years after the housing crash, fewer mortgages are delinquent, allowing banks to reduce staffing needed to process the bad loans. With refinancing falling, "It's not being made up by (mortgages for) people buying homes," says Citigroup spokesman Mark Rodgers.

The refinancing downturn is not the only reason banks are retrenching. With businesses uncertain about the economy, interest rates and policies in Washington, trading and mergers have slowed, says Jeff Harte, an analyst at Sandler O'Neill. Business loans also have leveled off. And banks are closing branches and building smaller outlets as consumers bank more online.

Source: USA Today

SEPTEMBER NEW BUSINESS UP 20% FROM AUGUST

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



MLFI-25 New Business Volume - September 2013

The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index (MLFI-25), which reports economic activity from of the $725 billion equipment finance sector, showed their overall new business volume for September was $7.7 billion, down 6% compared to volume in September 2012. Month-over-month, new business volume was up 20% from August. Year to date, cumulative new business volume increased 6% compared to 2012.

Receivables over 30 days were at 1.5% in September, down slightly from 1.6% in August. Delinquencies declined from 1.8% in the same period in 2012. Charge-offs were unchanged from August at 0.4%, and only slightly higher than the previous five months' all-time low of 0.3%. Credit approvals totaled 77.3% in September, down from 79.1% the previous month with 56% of participating organizations reported

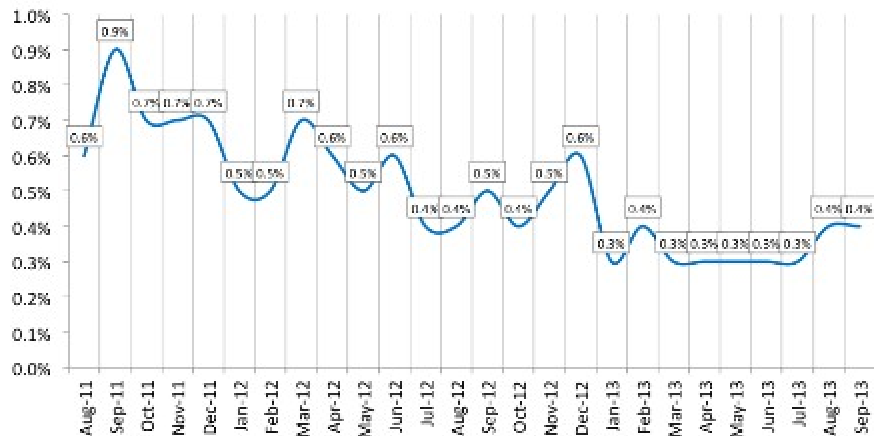
submitting more transactions for approval during September, unchanged from the previous month. Total headcount for equipment finance companies was up 1.2% year over year.

Separately, the Equipment Leasing & Finance Foundation's Monthly Confidence Index (MCI-EFI) for October is 54.0, a decline from the September index of 61.3, demonstrating the negative impact of the federal government's budget response on an otherwise steady industry outlook.

"September's year-over-year drop in new business volume seems to reflect a pull-back in corporate confidence in the U.S. economy spawned by the fiscal crisis in Washington, said ELFA President/CEO William G. Sutton, CAE. “The equipment finance industry and our members look forward to getting past this crisis and on with the business of supporting sound growth policies that stimulate capital formation, stabilize the capital markets, and, ultimately, strengthen our economy."

Source: ELFA

Average Losses (Charge-offs) as a % of Net Receivables

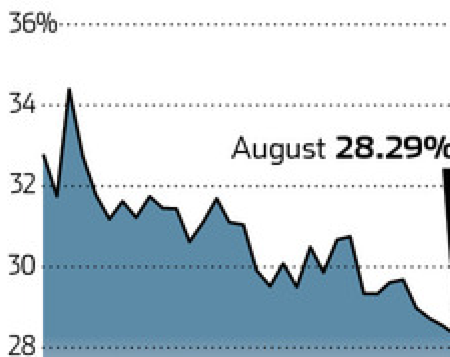


ELFA MLFI-25 Charge-Offs - September 2013

JUMBO LOANS: DOWN WITH DOWN PAYMENTS

Downward Movement

Average down payments among home buyers receiving nonagency jumbo mortgages



Wealthy borrowers no longer need large down payments to get a mortgage. More lenders are approving borrowers who put less than 20% down for million-dollar home purchases, suggesting banks are feeling sanguine about the luxury market. In recent months, some national and a few regional banks have lowered their minimum down-payment requirements on jumbo loans to 15%, down from 20%. Other banks may soon follow suit.

Since the housing downturn, most lenders have required at least 20% down for private jumbo mortgages. A large down payment made it less likely that

Note: These are aggregate average down payments. Figures based off of original loan to values for first mortgage only.

Source: Lender Processing Services
The Wall Street Journal

borrowers would walk away from their home if prices plummeted and left them underwater on their mortgage. Mortgage applicants who wanted to make a down payment of less than 20% of the purchase price were often denied a loan. In some cases, their only option for approval was to pay mortgage insurance for at least the first few years of the loan.

Now lenders are lowering the bar, mostly for jumbo-mortgage approval. Credit unions have also joined the trend. Most lenders, for their part, say they are loosening this requirement because a significant risk has subsided: Rising home values suggest that fewer borrowers will foreclose or walk away from their homes since they are appreciating assets. Lenders foreclosed on roughly 3,000 homes valued at $1 million and over during the first eight months of the year, down 21.1% from the same period a year prior, according to Lender Processing Services, a mortgage-data tracking firm.

Competition among lenders is also more intense as higher interest rates make it harder to attract mortgage applicants. Since May, applications for refinancing have dropped roughly 58%, according to the Mortgage Bankers Association, and lenders have sought to lure in more home buyers by requiring less cash down.

Source: Wall Street Journal

DEBT: AFFLUENT VS. MIDDLE CLASS

Call it a tale of two demographics, with two studies showing the middle class still saddled with debt and the "mass affluent" ready to de-prioritize debt and pick up the pace on their retirement savings.

A recent Wells Fargo study reports that **59%** of middle-class Americans said that paying down debt is their chief financial priority, compared with **52%** who said the same thing last year. Meanwhile, saving for retirement is a "distant priority," with only **13%** in the middle class calling it their No. 1 financial obligation - and **42%** of middle-class adults saying that saving for retirement *and* paying down debt is impossible.

About half of all middle-class Americans see the stock market, which historically has been the main driver of retirement income for millions, as a class issue. Specifically, **45%** of those surveyed by Wells Fargo say the stock market "doesn't benefit people like me." Another **52%** fear losing their savings in the ebbs and flows of the stock market.

As for the affluent, well, they don't have that problem. Merrill Lynch's latest *Edge Report* reports that "mass affluent" Americans say saving for retirement has supplanted paying off debt as the No. 1 item on their financial "to-do" list.

The mass affluent, defined by Merrill as Americans with between $50,000 and

$250,000 in investable assets, say they want to save more than $700,000 for retirement, but only have $160,000 saved, on average, so far.

The mass affluent are realistic, as **61%** say they will delay their retirement until they're better equipped to retire securely and a plurality say they will rely on the stock market to "catch up" on their retirement savings.

Source: TheStreet.com

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