Issue 50

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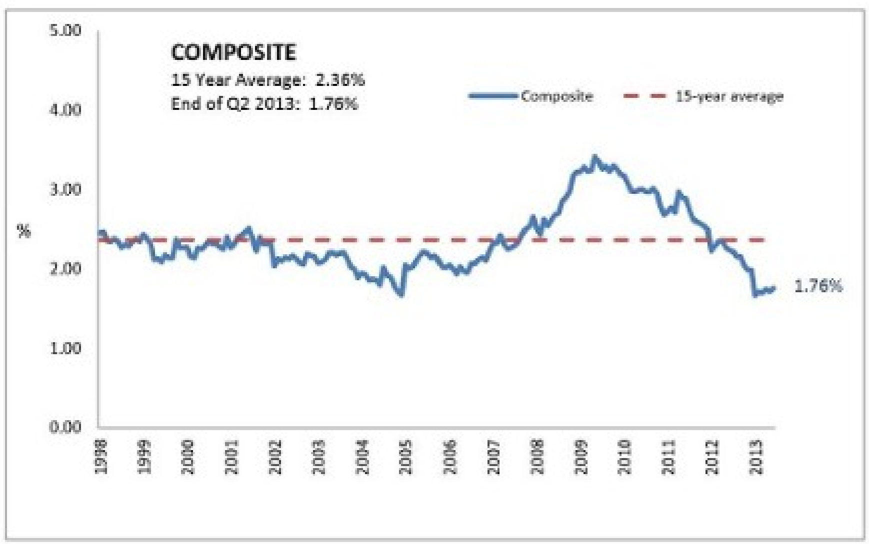
LEASING & FINANCE UPDATE

OCTOBER 2013

DELINQUENCIES RISE BUT STILL NEAR RECORD LOWS

HISTORICAL GRAPHIC
(based on number of accounts, seasonally adjusted)

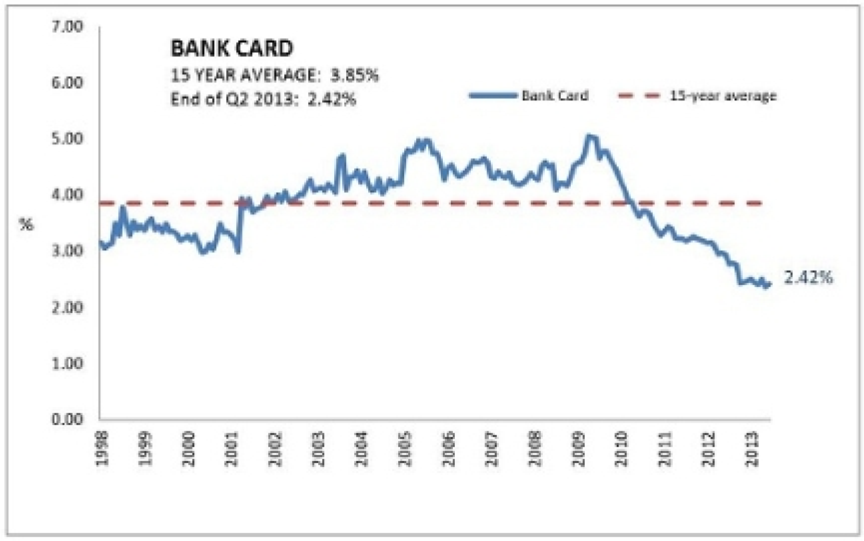


Consumer delinquencies rose slightly across most loan categories in the second quarter of 2013, but remain significantly below their 15-year average, according to results from the American Bankers Association's Consumer Credit Delinquency Bulletin.

The composite ratio, which tracks delinquencies in eight closed-end installment loan categories, rose 6 basis points to 1.76% of all accounts in the second quarter. Despite this increase, the ratio is still 25% below the 15-year average of 2.36%. A delinquency is defined as a payment that is 30 days or more overdue. Bank card delinquencies remained virtually unchanged, rising 1 basis point to 2.42% of all accounts in the second quarter – 37% below their 15-year average of 3.85%.

James Chessen, ABA's chief economist, attributed the slight uptick in delinquencies to a sluggish economy and a limit to how much consumers can improve their financial positions. “A leveling off in delinquency rates was inevitable after a four-year downward trend that saw consumers reduce debt and dramatically improve their personal balance sheets,” Chessen said.

He believes that consumers may not be able to reduce leverage much beyond what they’ve already achieved. “Consumers may find it difficult to further improve their financial positions after years of working to pay down debt,” Chessen said. “Stagnant incomes and a weak job market aren’t going to help change that trend.” He also noted that delinquencies could face an uphill climb as the economy struggles to reach its full potential. “It’s possible that delinquency rates will remain stuck in neutral for the foreseeable future,” Chessen said.



CLOSED-END LOANS

- Personal loan delinquencies rose from 1.82% to 1.94%
- Direct auto loan delinquencies fell from 0.91% to 0.88%.
- Indirect auto loan delinquencies rose from 1.66% to 1.72%.
- Mobile home delinquencies rose from 3.92% to 3.96%.
- RV loan delinquencies held steady at 1.20%.
- Marine loan delinquencies rose from 1.50% to 1.55%.
- Property improvement loan delinquencies rose from 0.74% to 0.80%.
- Home equity loan delinquencies rose from 3.72% to 3.83%.

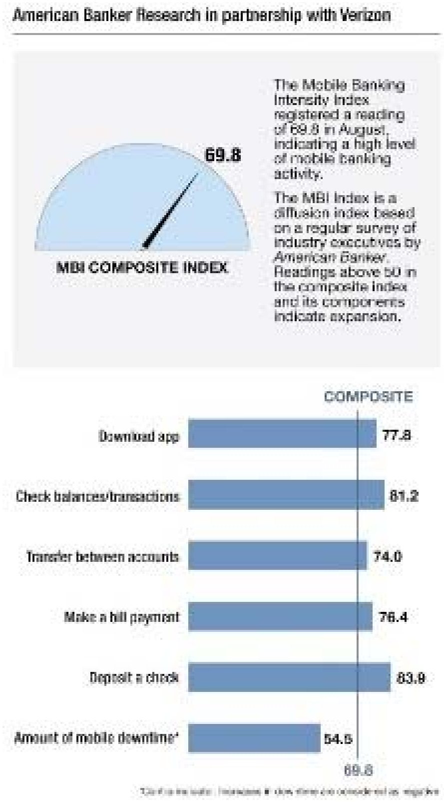
OPEN-END LOANS

- Bank card delinquencies rose from 2.41% to 2.42%.
- Home equity lines of credit delinquencies fell from 1.91% to 1.90%.
- Non-card revolving loan delinquencies rose from 1.19 %to 1.58%.

Source: Inside ARM/ABA

SPIKE IN MOBILE CHECK DEPOSITS, PAYMENTS

Consumers stayed glued to their smartphones and tablets in August, taking care of financial chores on their devices at a steadily increasing rate. The overall value reading of *American Banker’s* Mobile Banking Intensity Index for the month was high: **69.8**.



For context, readings above 50 indicate expansion and readings below 50 point to contraction. The further from 50 a reading is, the stronger the indicated change. A reading of 50 suggests that activity was unchanged month to month. All the data in the index is compiled from a survey of 299 bank executives, all from institutions that offer mobile banking.

Why does mobile banking continue its upward trajectory? Several survey respondents noted that consumers are getting more used to it. “Adoption rate is increasing as people become more familiar and trust the technology,” wrote one. “Customers are watching their balances more closely and using the apps with more confidence,” said another. “It is the fastest growing channel we have,” stated a third.

One banker speculated that cell phone network availability is driving customers to their smartphones: “Our mobile usage is increasing each month. We are seeing a migration into our mobile apps away from the mobile web access. We suspect that this limited wired coverage and increasing wireless coverage is why we are seeing an increase in mobile usage.”

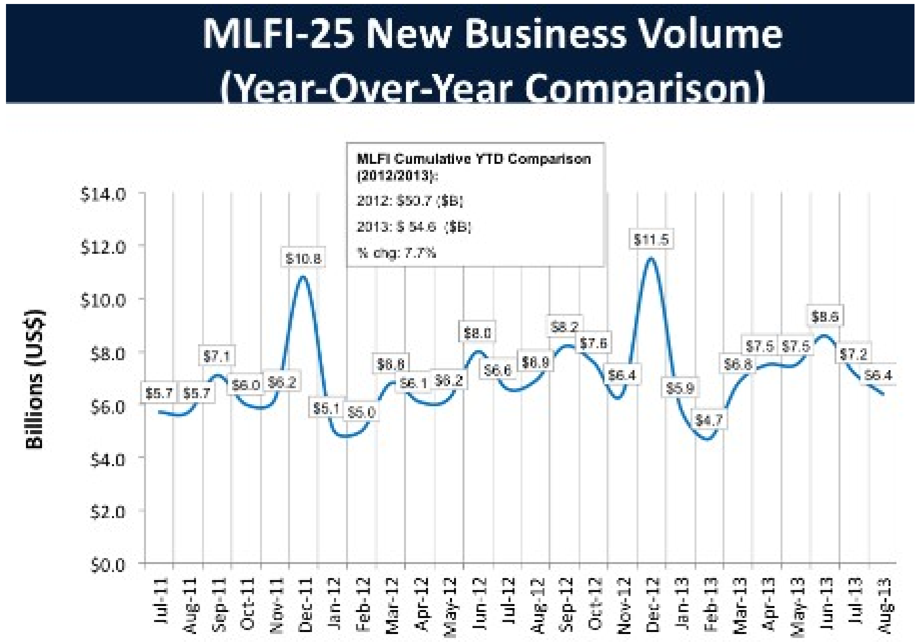
A few offered specific explanations for higher August activity: “August increase is due to increased adoption along with the seasonality of purchases (e.g. back to school),” one wrote. “August is high vacation month – more mobility,” stated another. “Volume tends to pick up as students head back to college,” another offered.

Some bankers gave their branch staff props for customers’ increased use of mobile banking. “Effort on customer education from the retail bankers, especially branch network,” said one. Another added that “Retail staff pushing the use of mobile banking has spurred activity.”

Two spikes were captured by the Intensity Index, one in the average value of bill payments made over mobile devices, the other in the volume of checks deposited using mobile devices. The average transaction value of retail bills paid on handheld devices rose by almost seven index points and the volume of mobile bill payment was also higher.

Source: American Banker

AUGUST NEW BUSINESS DOWN 11% FROM JULY



MLFI-25 New Business Volume - August 2013

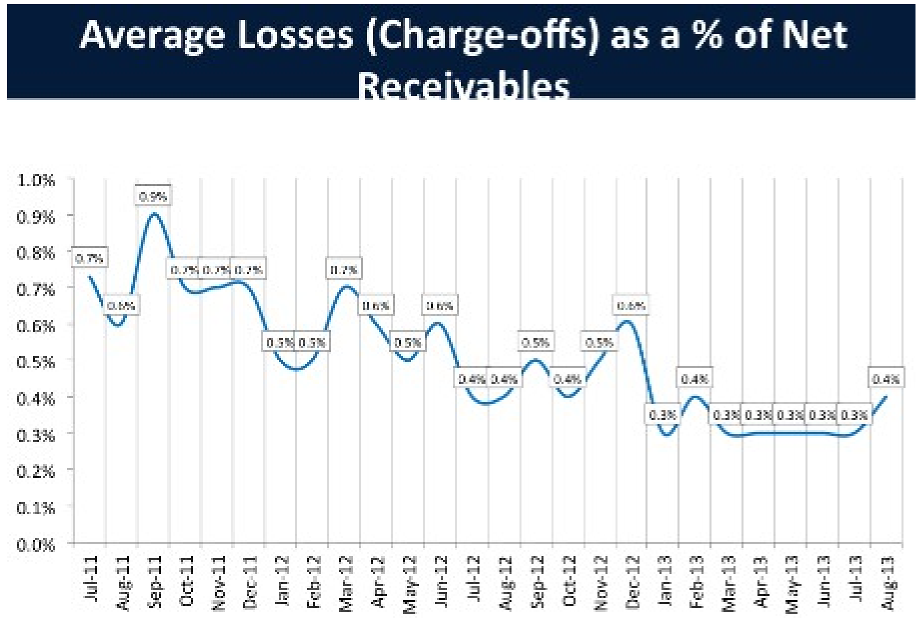
The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index (MLFI-25), which reports economic activity from 25 companies representing a cross section of the $725 billion equipment finance sector, showed their overall new business volume for August was $6.4 billion, down 7% compared to volume in August 2012. Month-over-month, new business volume was down 11% from July. Year to date, cumulative new business volume increased 8% compared to 2012.

Receivables over 30 days were at 1.6% in August, up slightly from 1.5% in July. Delinquencies declined from 1.9% in the same period in 2012. Charge-offs increased slightly to 0.4% after being unchanged for the previous five months at the all-time low of 0.3%. Credit approvals totaled 79.1% August, up from 78.6% the previous month while 56% of organizations reported submitting more transactions for approval during August, down from 58% the previous month. Total headcount for equipment finance companies was up 0.8% year over year.

Separately, the Equipment Leasing & Finance Foundation's Monthly Confidence Index (MCI-EFI) for September is 61.3, steady with the August index of 61.0.

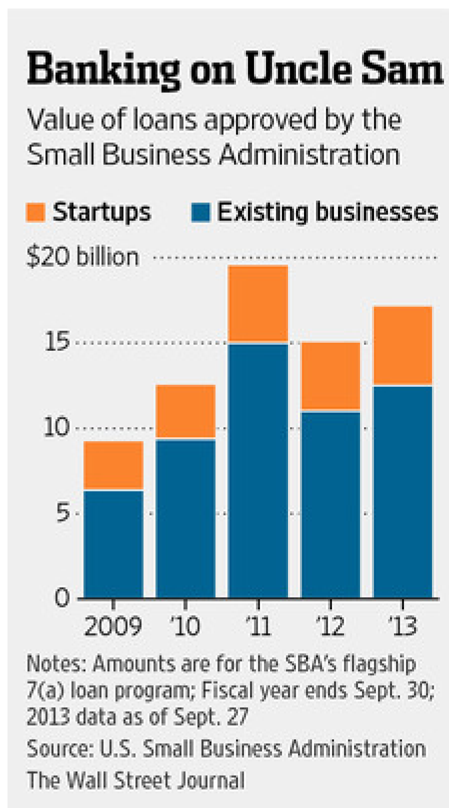
ELFA President and CEO William G. Sutton, CAE, said: "Business investment in equipment took a late-summer breather in August, as year-over-year new business volume retreated for the first time in six months. Credit quality remained strong, however, as both delinquencies and losses were very low, particularly compared to the year-earlier period. The potential federal government shutdown and a looming debt-ceiling fight between Congress and the Obama Administration may be responsible for some businesses pulling back on their equipment acquisition plans."

Source: ELFA



ELFA MLFI-25 Charge-Offs - August 2013

LOAN SPIGOT RUNS DRY FOR SMALL BUSINESSES



The government shutdown is throwing a wrench into efforts by some small businesses to get government-backed loans from the U.S. Small Business Administration. Lenders said they continue to process and submit loans to the SBA, but borrowers will have to wait for approvals. Other borrowers are facing shutdown-related paperwork snafus that are slowing loan fundings.

Rohit Arora of Biz2Credit, said he fears many business owners who rely on government-backed loans for working capital will turn to alternative lenders, such as merchant cash advances, which charge interest rates of up to 100% with short terms of just 6 to 8 months. According to Arora, interest rates for the agency's flagship loans can range from 5.5% to 6.5%, compared with up to 8% charged by traditional banks for nongovernment-backed loans, though for many borrowers, the value of the government guarantee is that banks are willing to deal with them at all.

When the government does gets back to work, the SBA will face a backlog that could delay some loan approvals by 6 weeks or longer, compared with a normal wait time of about 2 weeks, said Lynn Ozer, president of SBA/government lending at Susquehanna Bank.

SBA officials have indicated that banks may be able to refinance certain loans they made during the shutdown into loans with SBA guarantees after the government reopens, said Tony Wilkinson of the National Association of Government Guaranteed Lenders. But that process is "problematic and expensive," he said, noting that borrowers will have to go through two closings, and lenders aren't certain the SBA will guarantee the loans.

On a typical day, the SBA approves about 250 loans totaling roughly $93 million, said Mr. Wilkinson. Banks and other SBA lenders had scrambled to register approved loans ahead of the shutdown to insure the funds would receive federal backing before the agency closed its doors.

Source: Wall Street Journal

BANKS DISAPPEARING FROM SMALL TOWNS

Ever since the financial crisis, banks have been paring down, selling off businesses and closing up shop. Even though residents of isolated, rural areas are the customers that use banks in-person the most, it's often America's small towns that find branches boarded up and businesses struggling to regroup. For small towns, it brings rising challenges for the local businesses including daily deposits and making change.

There are nearly 10 times as many bank branches as Starbucks shops in the United States, but they are becoming less of a necessity. In 1980, 95% of households used a bank branch, according to consulting firm AlixPartners. That number is only 50%.

The culprit, said Debbie Bianucci, president of industry group BAI, is online and mobile banking. Consumers can do more transactions without a teller, so banks have been trimming the number of branches they have open. For three years, banks have been closing more branches than they've opened, shutting down more than 2,500 in 2012 alone. Data from SNL Financial shows small-town branches are sacrificed in favor of those in big cities. More foot traffic brings the potential for higher revenue.

Several towns, such as Alburgh, Vt., Six Mile, S.C., Donora, Pa., and Fountain City, Ind., have figured out how to fare without a local branch throughout the years -- and some have resorted to desperate measures to lure one back. Alburgh and Six Mile both lobbied local credit unions to set up shop in the bank's stead. Six Mile even offered to slash rent in the building to make the move more appealing. MainSource Bank, the last bank standing in Fountain City, closed this spring, citing the pressure of being a publicly traded company as well as the costs of regulation. Residents didn't go down without a fight. Some 600 - a majority of the town - petitioned to keep it, but in the end, only the ATM was left.

Basic tasks become more inconvenient, said Larry Stegall, Fountain City's town council president. "A bank is vital to a town just because it's kinda like the heartbeat of the town," Stegall said. "But … we're not gonna roll up the sidewalks cause there's no bank here."

Source: NBC News

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MONEY MATTERS

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