

Some Rays of Hope in a Financial Tsunami

By Susan Carol

Despite the global financial crisis in which assets fell by \$50 trillion since last year and the industry was facing its 15th month in recession, at the March 19 ELFA/INN investor conference in New York, there was some hope and optimism expressed.

Some industry executives were pinning hope on a program called TALF (term asset-backed securities loan facilities), saying it will increase liquidity and help them survive an extended recession which no one predicted would end soon.

Others seemed to have pinned their hopes on the creation of depository banks to increase access to funds. Some are leaving the industry, or their parent companies are shedding the financing arm, and the eighth annual event, had 100 fewer attendees than the year before.

There was considerable discussion about TALF and mid way through the conference; attendees were checking their Blackberry's to report that the asset backed securities program created by the Federal Reserve Bank of New York was expanding to include ABS transactions backed by equipment leases and loans, beyond the consumer asset categories first identified for this program which were auto and retail primarily.

There are limitations with TALF. For example, the non recourse debt loans to investors in asset backed securities must show that they have triple-A ratings, and have scores from two rating agencies. Joe Nachbin, a principal with The Alta Group, said the FICA score had to be 6.80 for auto loans, but he added, "we don't know yet what is required for equipment leases and loans. How challenging this requirement is depends on how they define 'Triple A.'" Some said the TALF won't be a panacea and others expressed pessimism about having the Feds as a partner since terms and conditions can be changed by them at any time.

Chapman and Cutler provided some TALF details. (**See chart.**) They reported that each loan had to be at least \$10 million in size and significant U.S. operations are required for eligibility. Also, at least 95 percent of the loans must be to U.S. domiciled obligors.

Where the Opportunities Are

Beyond TALF, Dan Kramer, a lender in middle market with ICON Capital Corp., said ICON has good liquidity and they are opportunistic right now—looking for investments in categories ranging from manufacturers to service companies and from mining to energy. He also noted they are international in scope.

Stephen Whelan, a partner with Sonneschein, Nath and Rosenthal, LLP, said he was optimistic for the industry's future "because there is real value in our sector and it never had the froth that the real estate mortgage sector had. "No one ever bought a forklift with 10 percent down and then flipped it. There is a constant need in the economy for replacement equipment."

Global equipment finance executives may be fairing better than others, and independents seem to remain hopeful to some extent. John Deere's vice president of wind energy, David A. Drescher, has four years in the sector and he said he believes in the potential here for continued growth, noting the company is self funded and was an early entrant in what is now a more recognized sector with government interest behind it.

Concerning the energy sector, he said, "This is going to be one of the opportunities of a lifetime. This is a green tsunami and I think this is a good one."

Ed Castagna, president of Nassau Asset Management, a speaker at the investor conference, said people are seeing that on the positive side there is great skilled labor in the market now. He said his company has recently hired two executives to expand his company's collections division. Another CEO Chalons-Browne Roland, of Seimens Financial Services, said he too was interested in acquiring certain skill sets for this global company.

Seeking Clear Path

No one speculated on when the economic downturn would hit a bottom or when a reset would occur. Paul Sinsheimer, president and CEO of Financial Federal Corporation, said "no one knows where we are (referring to the industry) or what to do when "all of my lenders are broke." He said his company will endure because it didn't rely solely on securitization and they didn't rely on credit scoring which he suggested is outsourcing underwriting, a critical function. He advised staying in the game and finding a clear path. "Today is pretty ugly, but this will pass."

A clear path was described by Charles Willis, president and CEO of Willis Lease Finance Corporation, of Novato, CA. He said his company's focus on jet engine leasing remains strong because these are fuel efficient and continue to hold value in a worldwide spare engine pool shared by his clients, major commercial carriers such as American, Delta, and Alaska airlines. He said engines are more likely to be leased in down times and that it has saved three major airlines more than \$120 million dollars. Airlines share the spare engines among themselves rather than going it alone and Willis acts as the conduit.

Though there may be higher returns for investors elsewhere right now, speakers said on a panel lead by Daniel Marino, first vice president, DZ Bank, that there are pockets of opportunity. There are portfolios that banks are selling as they return to core businesses and others with now out-of-favor assets, such as in trucking. Frank Cirone, senior vice president, Relational Technology Solutions, says the A-rated portfolios may not be on the market yet.

"We are niche oriented, so we have some focused targets in mind," he added.

Craig Weinewuth, president and chief executive officer of Mericap Credit Corporation, said his company is taking advantage of the current downturn to grow through acquiring assets, rather than relying just on origination as was his original strategy. He added, though, that due diligence is “extreme.” Most of what he said they are seeing are sellers who are seeking to improve their liquidity.

“No one wants to make a mistake,” he said. On the subject of opportunities to acquire portfolios, Mike Lockwood, managing director of Aequitas Capital Management, said they are seeing opportunities come through regional banks, but on all situations they evaluate collections practices, underwriting and standards used in documentation. Marino produced four slides outlining the types of deals this panel has seen in the current distressed market. These included a distressed seller of diversified small ticket leases. There as a partial platform transfer and the purchaser’s source of funds was a hedge fund. Another example was a small-ticket leasing portfolio being sold to increase funding capability for the seller. The third example involved middle-ticket leasing of out-of-favor assets.

Miles Herman, president and chief operating officer of Leaf Financial Corporation commented on the importance of understanding the seller’s motivation and the human side concerning the management approach and whether the portfolio is “core to our business or enabling new area of growth.” He also noted how important the integration of portfolios becomes. In considering portfolios for sales, he asks these two key questions:

- “Is there an adviser on the other side and are they realistic?”
- “What about the training of the people?”

Andrea Petro, executive vice president of Wells Fargo Foothill, said “as a nation, our competitive advantage has always been that we could get financing out to the whole spectrum of businesses,” but with all of the government intervention she said she is concerned about a lasting impact on capital markets. Petro said “intellectual capital will migrate to where it can be utilized.” She said her company is bullish in certain segments, but they’re looking for one-year track-records with a minimal number of write offs.

Mark McCall, managing director of Suntrust Robinson Humphrey, said his bank’s view is that there are people running good businesses and money needs to get out to the small and medium size businesses. “My view on the economy is irrelevant to what I am doing in the market.” He said he is focusing on finding new sources for the companies they have relationships with and that there are at least “short-term runways.”

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