EQUIPMENT FINANCE & LEASING

The recession hit the equipment finance business hard, but it's bouncing back

TIM EVANS

President of FirstMerit Equipment Finance

The business downturn that the economy has been emerging from over the last couple years has had a deep impact on the equipment finance and leasing business, but conditions are starting to improve. We recently spoke with Tim Evans, president of FirstMerit Equipment Finance, about the recession's after-effects on the industry and what role leasing will play in the recovery.

With all the talk about reinvesting in business, does the equipment finance and leasing industry play a significant role in supporting this?

Absolutely. A large number of businesses haven't done anything related to replacing equipment during this downturn, so the need now is greater than ever. As the market continues to recover, we are seeing a significant increase in the number of businesses that are now buying replacement equipment and upgrading their facilities. Leasing is a $600 billion industry and continues to grow as a viable component of the equipment finance needs for all of our customers.

Are there any business sectors in which you're starting to see a lot more activity?

Yes. I'm somewhat surprised – but not totally – that the manufacturing sector and the transportation sector are both going gangbusters. We've seen our business, specifically in those two areas, more than triple over the last couple of years.

What are the main types of equipment they're looking to finance or lease?

On the manufacturing side, we're seeing a lot of machine tools, production equipment and material handling equipment. On the transportation side, companies are replacing their tractors and trailers. A lot of these transportation companies really buckled down tight during the recession, and now they're having to replace their transportation equipment. The tractors can only last four or five years, and if you hang on to them longer than that, the maintenance costs start to become excessive.

What important developments are you seeing as we come out of the recent recession?

Companies recognize the importance of how they finance their equipment. When the economy turned, a lot of companies that had been financing their purchases with cash realized they need that money for working capital. When things got tight and working capital lines were tightened down, many businesses found themselves with all their money tied up in their equipment, whereas if they had financed it through a leasing company or a finance company, they would have been in a much better position from a working-capital perspective. As a result, more companies are now looking at our leasing option and comparing it side by side with other financing options.

There's a lot of talk about the changes being put forward by the Financial Accounting Standards Board (FASB) as it relates to the accounting treatment for off-balance-sheet leasing. How do you think this will impact equipment finance and leasing?

The FASB hasn't finalized the revisions yet, but we're predicting there will be a segment of the business – more focused on large corporate entities – that will be impacted. Operating leases and off-balance-sheet financing are the primary reason that large corporate entities financed their equipment through leases. The accounting changes do not impact a lessor's ability to price depreciation and residuals into their lease product, and these are primary motivators for the middle market and smaller businesses. The accounting changes should have little impact on small or middle-market businesses or the need for equipment financing or lease products. ◆

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