monitordaily
The independent voice of equipment finance.
(https://www.monitordaily.com)

Seizing Opportunity in Today’s Equipment Finance Market as a Third-Party Originator

by Rita E. Garwood July/August 2024

Third-party originators face an evolving equipment finance landscape. Kip Amstutz, Theresa Kabot, Amy Wagner and Scott Wheeler provide a comprehensive overview of current market conditions, highlighting the importance of adaptability, strategic relationships and specialized knowledge.

Many lenders have shifted their go to market strategies in the equipment finance space over the last year or so. In a few examples of this trend, in Q3/23, Key Equipment Finance exited its commercial and municipal vendor finance business; in March 2024, First Foundation Bank shuttered its equipment finance department and Quality Equipment Finance paused funding transactions internally; and in July 2024, Eastern Funding announced the wind down of its specialty vehicles and equipment funding group.

***Rita E. Garwood**, Editor in Chief, Monitor*

With delinquencies on the rise, particularly in transportation and commercial real estate, lenders are doubling down on portfolio quality. Borrowers, facing inflation and higher interest rates for the first time in over a decade, have taken on more revolving debt to make ends meet. What do these shifts mean for third-party originators (TPOs)?

FOCUS ON CREDIT QUALITY

"Funding sources have tightened credit parameters across the board," Theresa Kabot, CLFP, founder and manager of Kabot Commercial Leasing and K2 Funding, says. "There are certain lenders who have remained quite competitive on rate, but only when the transaction meets their exact credit parameters. These lenders know exactly what they are looking for and will back it up with rate. There has also been an increasing trend in tiered pricing or risk-based pricing. Some lenders are willing to risk price for industries, equipment types or credit qualities."

Tiered and risk-based pricing places credit quality in the spotlight. "Maybe what we would've deemed an 'A' customer before is potentially now an 'A-' or a 'B' customer," Amy Wagner, CLFP, CEO of American Financial Partners, says, adding that this scenario results in more difficult-to-place deals and less appealing terms for customers.

Kip Amstutz, CEO and president of 360 Equipment Finance, a 100% TPO-originated sub-prime equipment finance lender, says bank tightening has begun to trickle down to his business. "We're seeing a better credit quality that is accepting our terms and conditions and structure, whereas, 18 to 24 months ago, I think some of those borrowers had lots more options."

While some borrowers' credit hasn't changed, others have experienced a material impact due to current market conditions. "We are seeing a larger debt load on our current customers and our end users," Wagner says. "We do a tremendous amount of repeat business and we're seeing, as an example, increased revolving debt."

Consumer credit card debt climbed to a new record in Q4/23, reaching $1.13 trillion, according to the Federal Reserve Bank of New York.[1] The global merchant cash advance industry, valued at $17.9 billion in 2023, has been growing steadily and is expected to reach $32.7 billion by 2032.[2]

RISING DELINQUENCIES

With an increased focus on portfolio quality, some lenders — especially those with bank parents — have been getting spooked by rising delinquency rates.

Kabot points out that many bank parents don't seem to fully understand that equipment finance tends to experience higher delinquencies than traditional C&I loans. "The delinquency ratios that are associated with equipment finance departments are not as well understood by the traditional bank sector," Kabot says. "But equipment finance businesses have the systems and pricing set up to deal with those delinquencies."

“Delinquencies aren’t that different than the historical averages,” Scott Wheeler, president of Wheeler Business Consulting, says. “It’s comparable to interest rates. People are saying interest rates are so high, but historically they are not. It’s the same for delinquencies. ‘A’ credits are performing exceptionally well. Sub-prime, riskier transactions are performing with significantly higher delinquencies rates than in the recent past, but well within historical levels.”

Regardless of history, brokers and lenders are facing more delinquencies than they have grown accustomed to. “We are seeing delinquencies that are hitting early, like 2022 originations,” Wagner says. “So deals that were put on the books in 2022, we’re seeing some delinquency in them already, which is odd. I think a lot of that has to do with the supply chain and the equipment elevated costs with the secondary market.”

“We are all spending a lot more time working delinquent accounts,” Kabot says. “Over the next year or two, zombie borrowers — some fueled by stimulus funds — will be identified, and then charge offs will start to increase.”

According to the Equipment Leasing and Finance Association’s May Monthly Leasing and Finance Index, a survey of economic activity from 25 companies representing a cross section of the industry, charge-offs were 0.4%, up from 0.3% year over year.

Today’s economic climate has potential borrowers weighing their options. “I think people are just analyzing their purchases a little bit more, whereas, 12 to 18 months ago, things were very bullish — and in that particular case, people tended to just move more quickly,” Amstutz says.

“In our higher ticket dollar amounts, we’re seeing more hesitation because of the rate,” Wagner says. “Our smaller ticket stuff, it isn’t as big of a deal.”

SEIZING OPPORTUNITIES

Although the market faces a plethora of challenges today, signs of economic stabilization are beginning to arise, which will eventually give banks the green light for market reentry. For the time being, independent originators have a unique opportunity to expand their market reach.

“It is a great time to be an originator,” Kabot says. “Originations are still strong, and TPOs have access to so many different types of capital. The challenge is finding the right match for the capital, as well as credit quality. A TPO who is well funded can adapt fast and find funding options that are otherwise limited. Everything is taking a little more work these days.”

“When banks aren’t lending as freely, then there’s more opportunity for companies like us,” Wagner says.

“I see a huge opportunity in the market right now for any origination company that has access to money — they’re in the driver’s seat,” Wheeler says, though he also stresses the importance of specialization. “The biggest mistake that originators are making today is they’re trying to go to market and say, ‘I’ll do A credits; I’ll do D credits; I’ll do a $5,000 deal; I’ll do a $5 million deal.’ Vendors and end users don’t want to hear that.”

As TPOs hone their specialties, Small Business Finance Insights — Monitor's sister brand serving the small business lending sector — recently published the most promising target industries for TPOs, which include healthcare and telemedicine, e-commerce and retail, sustainable energy and green tech, cybersecurity services as well as the gig economy and freelance platforms.

Wheeler says training and education for originators is essential for those seeking to seize market opportunities, stressing the need for a deep understanding of financials and the ability to work deals across different credit classes. "There are only two things that matter in this business right now — efficiency and data," Wheeler says. "We all have the data, but the people that are making money today are the ones that are using that data efficiently to get to an end result. If you have the data and you know how to read that data and efficiently get that data to a funding, you'll be successful."

To help its members gain the education required to thrive in today's market, the American Association of Commercial Finance Brokers has created a Brokering Essentials Video Series. Wheeler offers training courses as well.

Wheeler also notes that the 'graying of the industry' is creating opportunities for the next generation. "I see people getting into this business in their 20s and 30s today that are taking a holistic view of our industry and saying, 'Oh my goodness, there's a huge opportunity now,' and they're assuming leadership roles for their employers or starting their own businesses," Wheeler says. "I haven't seen that since the mid-80s. There's a huge gap, and I think younger people are seeing that gap, which is exciting."

DELIVERING VALUE AS A BROKER

Third-party originators play a vital role in commercial finance. "Brokers are essential because we rely on them to originate transactions," Amstutz says. "They bring us dollar size diversity, they bring us geographic diversity and they bring us industry diversity."

As always, any broker who wants to succeed must be a good partner to their funding sources. "In my world, that means from the beginning to the very end: submitting good transactions, good write-ups, providing all of the information to our banks and funding partners, being 100% transparent and following that deal all the way through," Wagner says. "If, heaven forbid, there becomes some delinquency or collection issues, we want to assist there as well and do the best job we can — because we feel like, for longevity purposes, that's going to be the best business model."

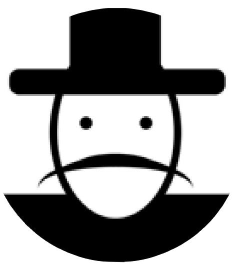
Amstutz uses a broker scorecard to manage and improve broker relationships, reflecting a data-driven approach to business operations: "We've been able to become better partners for those brokers — and the ones that aren't a good fit, we've distanced ourselves from them because, candidly, they're just spinning our resources."

Broker-funder relationships go both ways, so it's important for funders to communicate with their TPO partners and be the best funding partner they can be. "My biggest concern used to be what's in front of me," Kabot says. "And now my biggest concern is who's behind me." •

[1] Federal Reserve Bank of New York, “Quarterly Report on Household Debt and Credit 2023: Q4,” February 2024.
[2] Allied Market Research, “Merchant Cash Advance Market Size, Share, Competitive Landscape and Trend Analysis Report, by Repayment Method, by Application: Global Opportunity Analysis and Industry Forecast, 2024-2032.”

Rita E. Garwood *is editor in chief of Monitor.*

One Reply to “Seizing Opportunity in Today’s Equipment Finance Market as a Third-Party Originator”



Tamara McCourt (http://huddlebc.com)
August 16, 2024 at 1:28 pm

Great Article. As someone who has seen many ups and downs in this industry, the new generation is bringing a whole new dynamic.

Reply (https://www.monitordaily.com/article-posts/seizing-opportunity-in-todays-equipment-finance-market-as-a-third-party-originator/?replytocom=694720#respond)

Leave a comment

Your comment

Your name

Your email

Your website

ADD COMMENT

Advertiser Index

Association

- AACFB (https://aacfb.org/home)
- NEFA (https://cvent.me/l30E9Z)

Event

- Monitor Converge (https://convergebymonitor.com/)

Exclusive EF Content Platform

- Monitor Suite (https://suitebymonitor.com)

Executive Search

- Molloy Associates (https://www.molloyassoc.com)

Funding Source

- 1st Source Bank (https://www.1stsource.com/business/industries/)
- Ascentium Capital (https://ascentiumcapital.com/about-us/careers?utm_source=monitor&utm_medium=ad-print&utm_campaign=2355-monitor_print_ad)
- Aspen Capital Company (https://www.aspencapitalcompany.com/)
- Bank of Utah (https://www.bankofutah.com/business/loans/equipment-loans)
- Channel (https://www.channelpartnerscapital.com)

- Commercial Capital Company (https://ccckc.com/)
- Dakota Financial (https://www.dakotafinancial.com/)
- Entegra Capital LLC (https://entegracapital.com/)
- Falcon National Bank (http://falconequipmentfinance.com/)
- Global Financial & Leasing Services (https://www.gfrservices.com/)
- Leasing Solutions, LLC (https://leasingsolutionsllc.com)
- PNC Vendor Finance, LLC (https://www.pnc.com/en/corporate-and-institutional/equipment-finance.html?WT.mc_id=CIB_Offline_equipmentfinance)
- Quality Equipment Finance (https://www.qualityequipmentfinance.com/)

Insurance

- Great American Insurance Group (https://www.greatamericaninsurancegroup.com/about-us/business-operations/division/specialty-equipment)

Leadership Development

- STRIPES Leadership Program (https://www.stripesleadership.com)

Software/Technology Services

- Alfa Financial Software (https://www.alfasystems.com/en-us/product?utm_campaign=Elevate&utm_source=Monitor&utm_medium=1%2F4%20page%20ad&utm_content=Monitor%201%2F4%20page%20ad)
- DataScan (https://www.onedatascan.com/)
- IFS Leaseworks (https://www.ifsleaseworks.com)
- LTI Technology Solutions (https://www.ltisolutions.com)
- Orion First (https://orionfirst.com)
- Solifi (https://www.solifi.com)
- Tamarack (https://tamarack.ai)
- TimeValue Software (https://www.timevalue.com/tvalue-leasing?utm_source=monitor&utm_medium=print&utm_campaign=JULAUG24)
- TomorrowZone (https://tomorrowzone.io/)

See More In

No categories available

Related Content

No tags available

Recent Opinion

A New Way for Small Carriers to Make Connections with Shippers (https://www.monitordaily.com/opinion-posts/a-new-way-for-small-carriers-to-make-connections-with-shippers/)

Patrick Gaskins, Senior Vice President Fleet Solutions, Corcentric Capital Equipment Solutions
July 2024

Though a traditional broker relationship is beneficial, it comes with a cost that is often too significant for small fleet owner-operators. Digital freight marketplaces, known as no broker freight load boards, can eliminate these broker fees and put more money into small fleets' pockets.

read more (https://www.monitordaily.com/opinion-posts/a-new-way-for-small-carriers-to-make-connections-with-shippers/)

VIEW ALL OPINIONS (HTTPS://WWW.MONITORDAILY.COM/OPINION-POSTS)

Liability and the Collapse of the Francis Scott Key Bridge – Are You Protected? (https://www.monitordaily.com/opinion-posts/liability-and-the-collapse-of-the-francis-scott-key-bridge-are-you-protected/)

Merrick Benn, U.S. Chair & CEO-elect, Womble Bond Dickinson
June 2024

Following the recent collapse of the Francis Scott Key Bridge in Baltimore, Maryland, this article covers ways vessel owners or passive-financiers can limit liability in case of a disaster, including regulatory limitations and indemnity language in lease or loan documentation.

read more (https://www.monitordaily.com/opinion-posts/liability-and-the-collapse-of-the-francis-scott-key-bridge-are-you-protected/)

↑

VIEW ALL OPINIONS (HTTPS://WWW.MONITORDAILY.COM/OPINION-POSTS)

(/)

Monitor continues to provide readers, online visitors, on-the-go executives and advertisers with multimedia platform options.

(https://twitter.com/monitordaily) (https://www.facebook.com/Monitordaily) (https://www.linkedin.com/company/the-monitor-daily-inc-?trk=biz-companies-cym)

Useful Links

Subscribe (https://www.monitordaily.com/magazine/subscribe/)

Advertise With Us (https://www.monitordaily.com/advertise/)

Industry Jobs (https://www.monitordaily.com/equipment-finance-jobs/)

Contact Us (https://www.monitordaily.com/contact/)

Categories

Economy (/news-categories/economy)

Mergers / Acquisitions (/news-categories/mergers-acquisitions)

Technology (/opinion-categories/technology)

Asset Management (/opinion-categories/assetmanagement)

International (/news-categories/international)

People (/news-categories/people)

Recent Earnings (/news-categories/recent-earnings)

Best Practices (/opinion-categories/best-practices)

Company / Executive (/article-categories/company-executive)

Advertising Opportunities (https://www.monitordaily.com/advertise/)

Industry Jobs (https://www.monitordaily.com/equipment-finance-jobs/)

Latest Edition

(https://www.monitordaily.com/issue/the-2024-monitor-101-issue/)

View Now (https://www.monitordaily.com/issue/the-2024-monitor-101-issue/)

↑