

Community Banking
in the 21st Century

Equipment Lease Financing: The Role of Community Banks

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CONTEXT – evolving structure of U.S. economy and commercial banking system

MOTIVATION – strategic aspects of community banking response

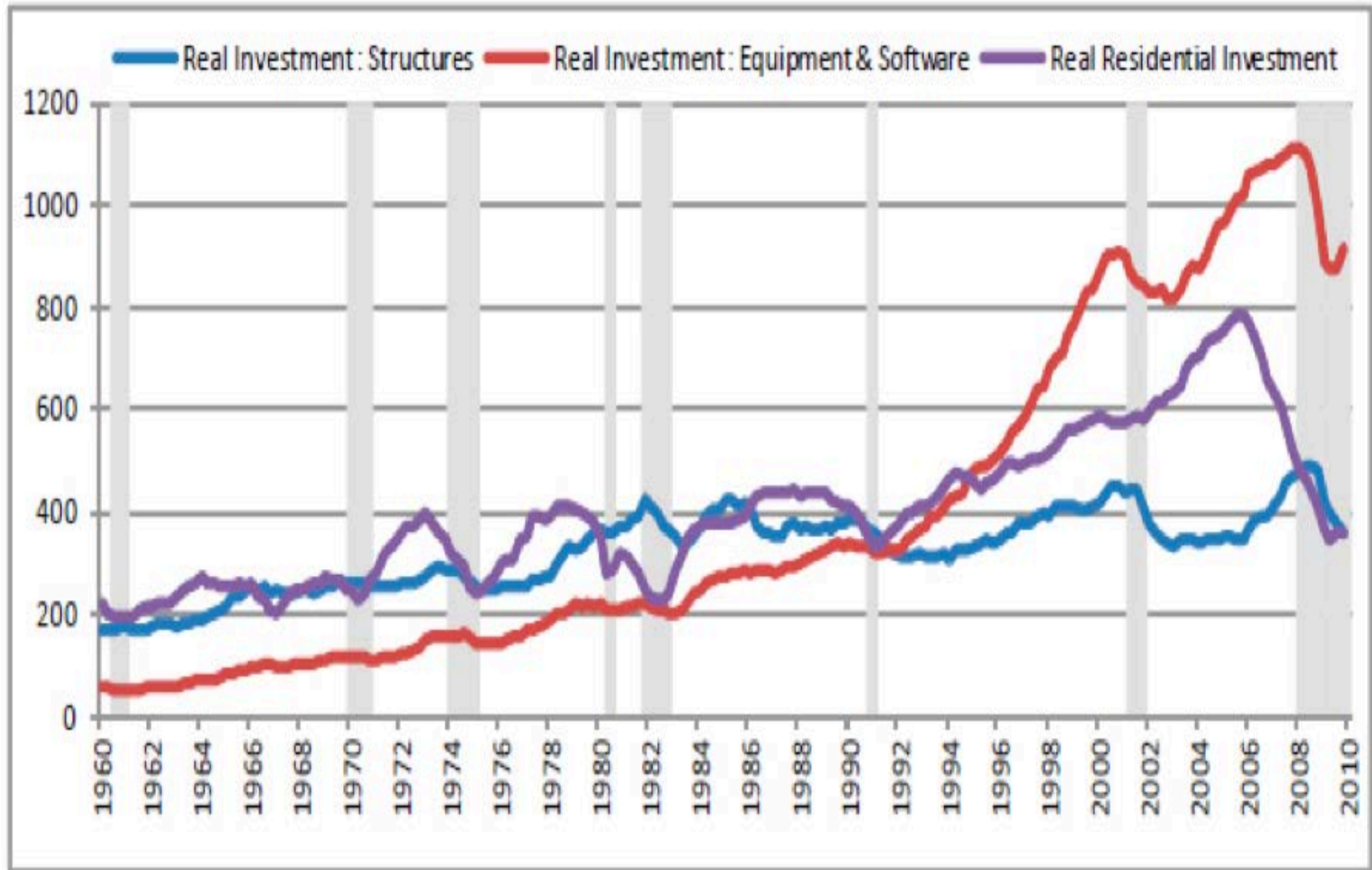
FOCUS AREA – equipment leasing

RESEARCH QUESTIONS –

- Are there systematic relationships between community bank lending specialization and involvement in equipment lease financing?
- Are there distinguishing attributes between community banks with leasing and other community banks?
- How many community banks are engaged in equipment lease financing and are they concentrated in a particular asset size range of specialized activity?
- How does the performance of community banks engaged in equipment lease financing compare to the performance of community banks that do not engage in equipment lease financing?

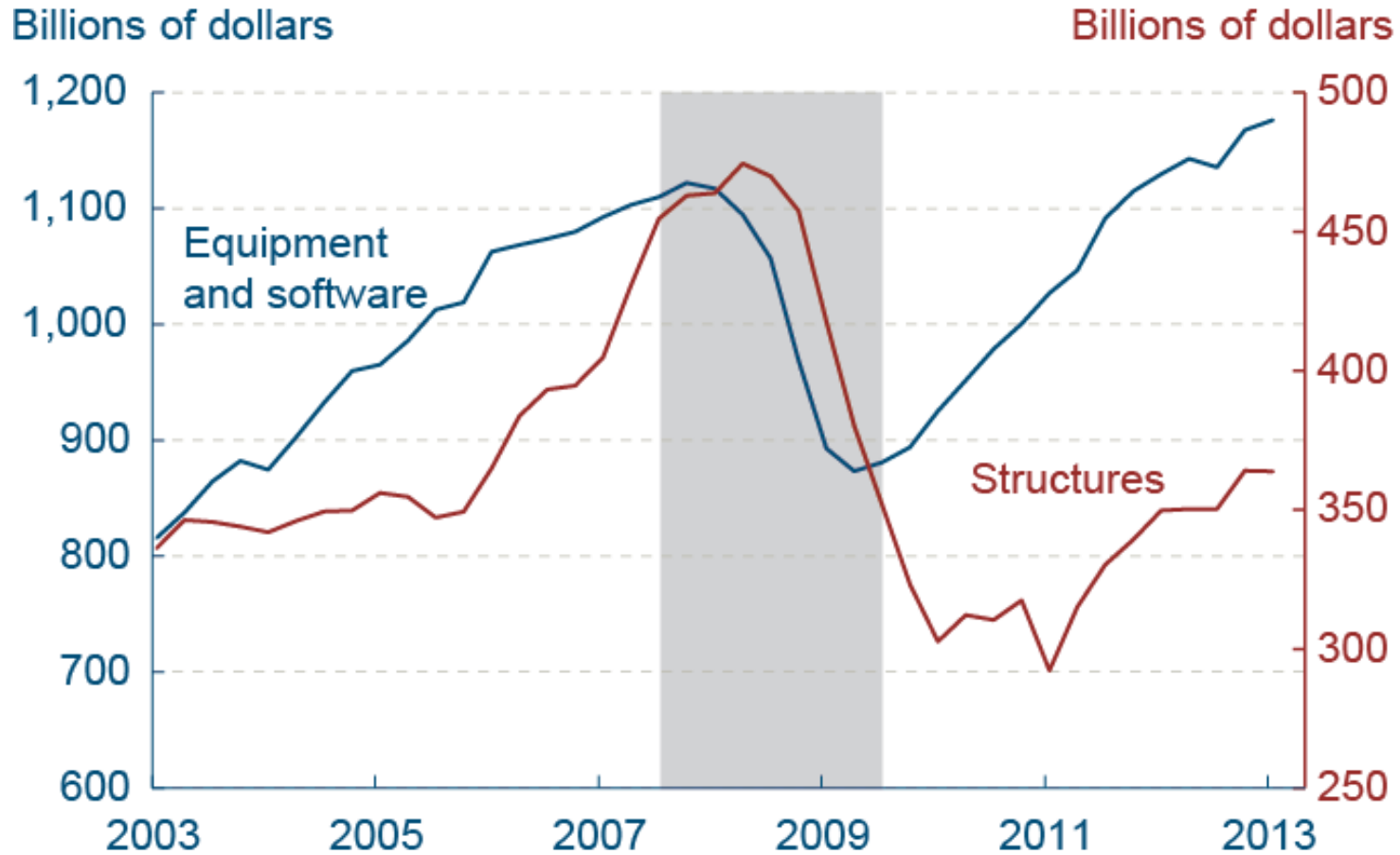


CHANGES IN RELATIVE IMPORTANCE OF INVESTMENT COMPONENTS



Source: Lee and Rabanal, 2010





Note: Shaded bar indicates a recession.

Source: Bureau of Economic Analysis.

Economic Trends, Federal Reserve Bank of Cleveland, May, 2013



Business Investment in Equipment and Equipment Leasing: 2006 – 2015

(Billions of dollars)

Year	Business Investment in Equipment	Equipment Leasing Volume	Market Penetration Rate
2006	\$1,168.0	\$656.0	56.2%
2007	\$1,217.0	\$716.0	58.8%
2008	\$1,182.0	\$707.0	59.8%
2009	\$1,004.0	\$454.0	45.2%
2010	\$1,078.0	\$591.0	54.8%
2011	\$1,191.0	\$664.0	55.8%
2012	\$1,280.0	\$725.0	56.6%
2013*	\$1,349.0	\$742.0	55.0%
2014*	\$1,438.0	\$778.0	54.1%
2015*	\$1,551.0	\$816.0	52.6%

* Forecast

Source: Equipment Leasing and Finance Foundation; Bureau of Economic Analysis



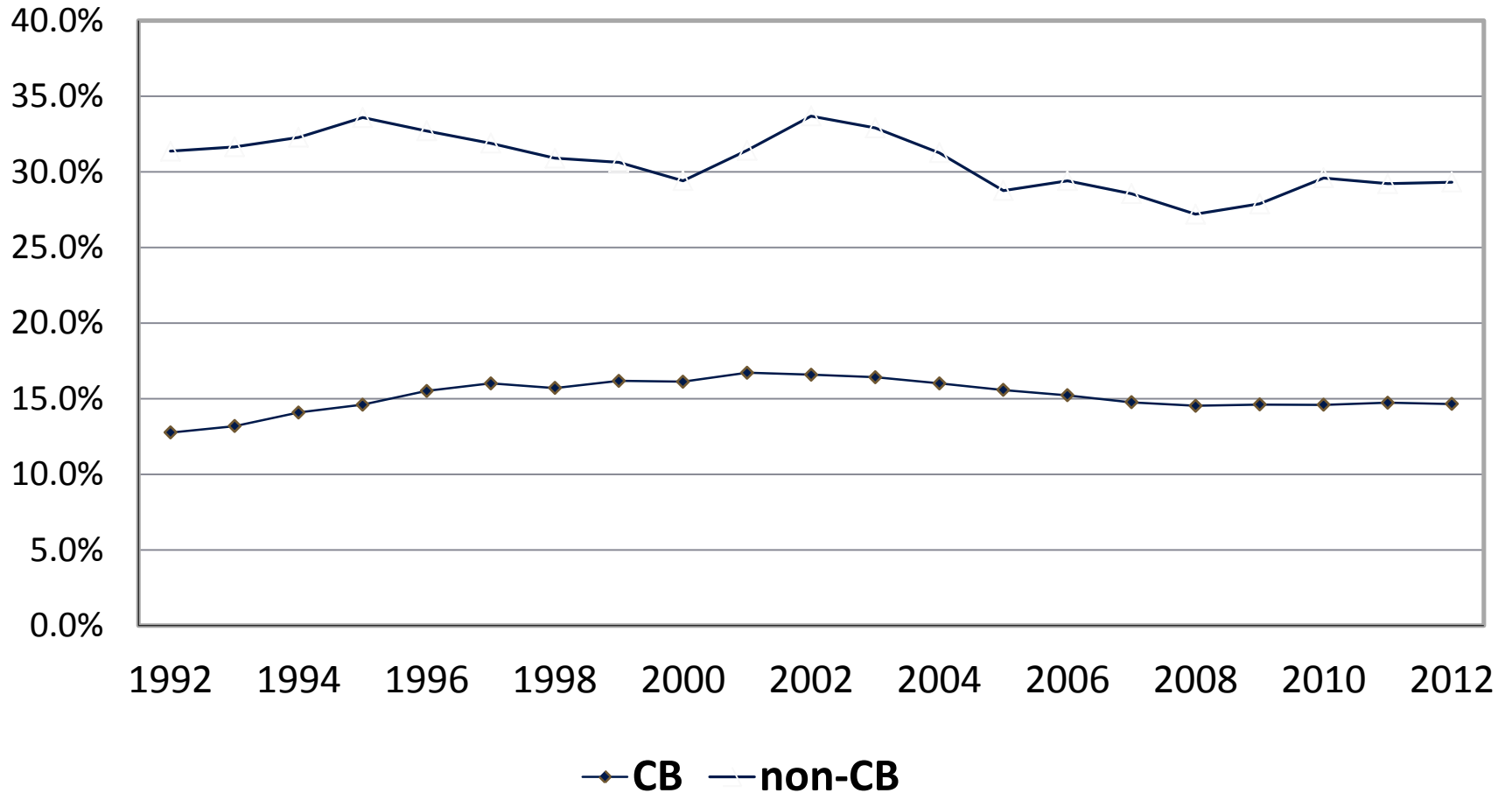
Average Age at Year-end of Private Fixed Assets, Equipment and Software, and Structures by Type

	2004	2008	2011
Computers and peripheral equipment	1.9	1.2	2.1
Medical equipment and instruments	4.2	4.2	4.5
Communication equipment	5.3	5.6	6.1
Office and accounting equipment	2.2	2.9	3.8
Transportation equipment	7	7.4	8
Aircraft	8.9	9.6	10.5
Agricultural machinery	7.4	6.8	6.6
Construction machinery	5.3	4.8	5.1
Furniture and fixtures	6.1	6.5	7.4

Source: Bureau of Economic Analysis



Proportion of Banks with Non-zero Leases



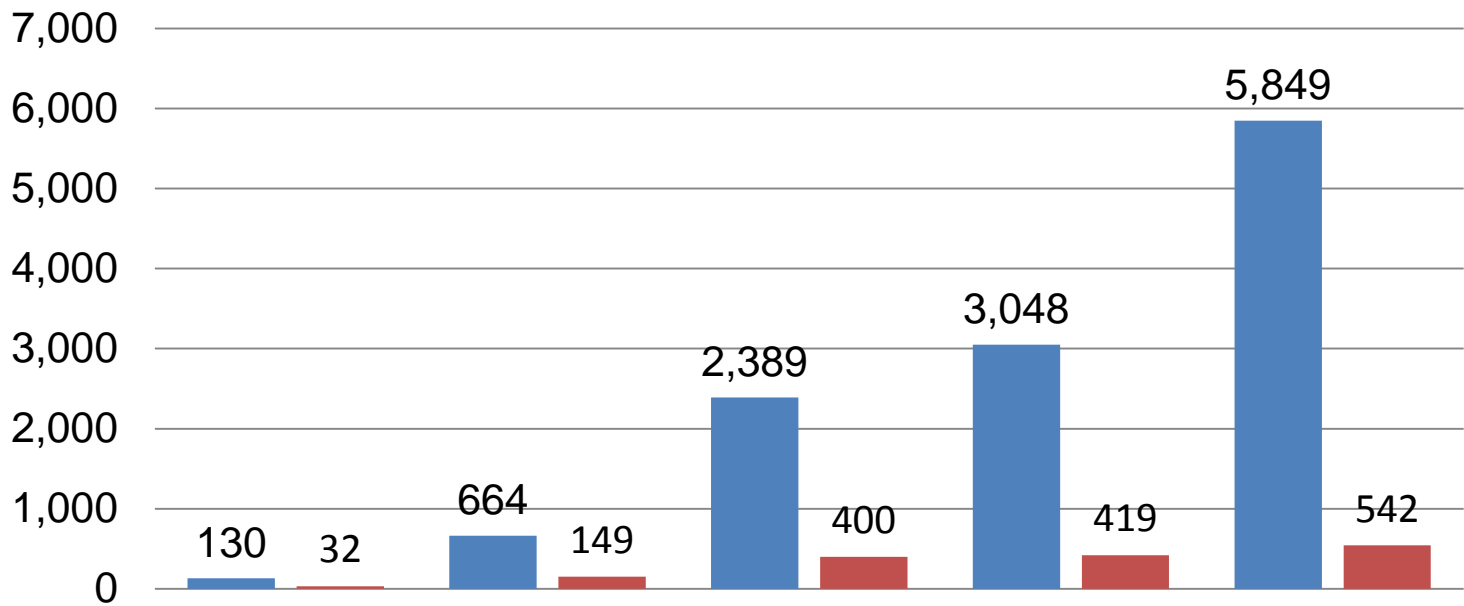
Percent of Community Banks by Lending Specialty Area: 1990 and 2012

Specialty	Proportion of Community Banks in Lending Specialty Area	Proportion of Community Banks in Lending Specialty Area	Proportion of Community Banks Involved in Equipment Lease Financing by Lending Specialty Area
	1990	2012	2012
Agricultural Lending Specialty	11.6%	14.2%	22.9%
C&I Lending Specialty	6.6%	2.2%	22.7%
Commercial Real Estate Specialty	3.6%	22.5%	13.0%
Mortgage Lending Specialty	20.5%	15.9%	6.2%
Multi-Specialty Lending	8.0%	11.2%	16.6%
No Lending Specialty	44.4%	33.4%	15.1%
Other Consumer Lending	5.3%	0.6%	16.7%
Number of Community Banks	13,150	6,544	959

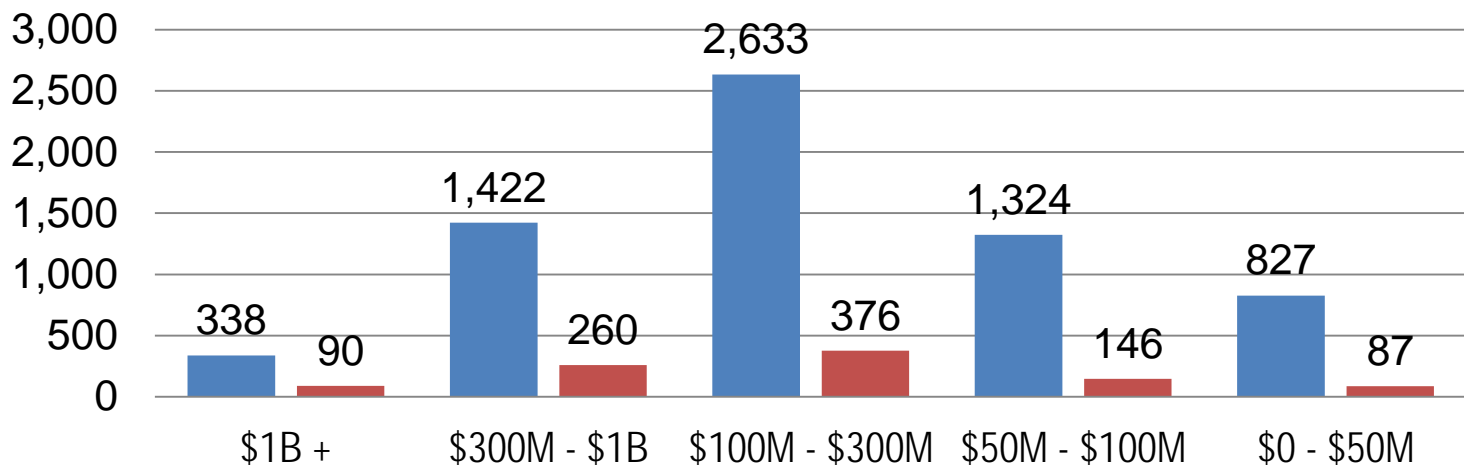


■ Count of CB ■ Count of CB with nonzero leases

1992

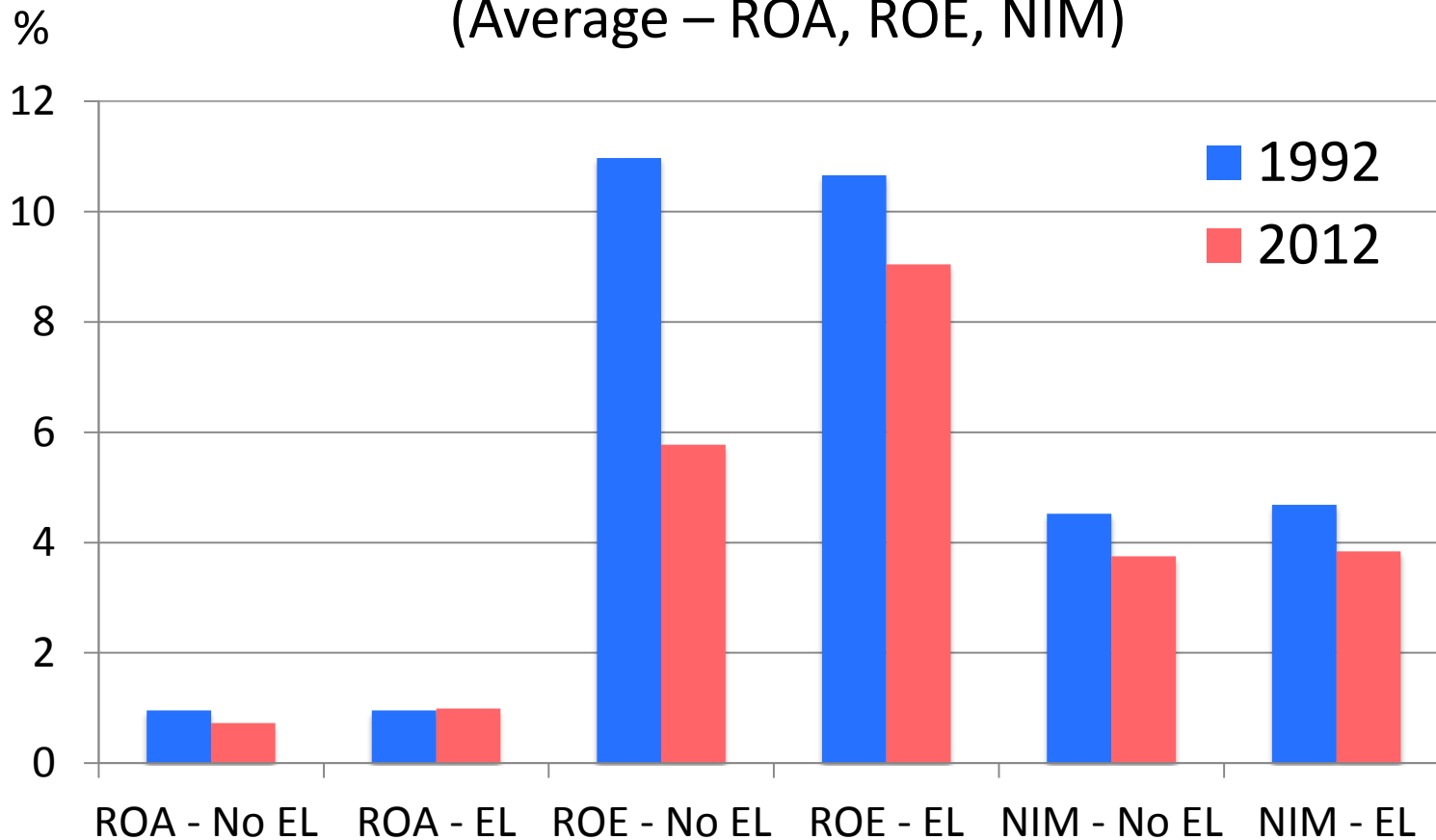


2012



Performance Indicators of Community Banks with Zero and Non-Zero Equipment Leases: 1992 vs. 2012

(Average – ROA, ROE, NIM)



Comparison of Attributes of Thriving Community Banks with Equipment Lease Financing

	Thriving Community Banks	Equipment Lease Financing
Prudent Underwriting		
• Recognition of relevant risks	x	x
• Incorporation of relevant risks	x	x
• Limit lending to areas understood	x	x
• Internal underwriting	x	x
• Less emphasis on CRE	x	?
Superior Risk Control Standards		
• Quick action on problem loans	x	x
• Review charged off loans	x	x
• Less "loaned up"	x	?
Strong Customer Relationships		
• Community networks	x	x
• High community visibility	x	x
• Localized customer service focus	x	?

