Long Live Equipment Financing

lending business customers commercial industrial

Summary: Community banks have business customers that lease equipment, but they may not come to their bank for funding. Is this a potential opportunity for your bank?

New research from the University of California, Irvine shows drinking about 2 glasses of wine or beer a day is linked to an 18% decrease in a person's risk of early death. The study was done on the habits of people living to at least 90. Although not yet published in a scientific journal, this study is interesting.

While there may not be any beer or wine involved, many equipment-intensive businesses, such as construction and farming, have relationships with community banks. Interestingly, these customers may not think of community banks as potential sources of funding when they lease equipment though. Instead, these customers often get financing from equipment vendors. This is good business that brings benefits to community bankers who attract it, so it could be worth a second look.

About 80% of commercial firms use equipment leasing, instead of outright purchasing, to manage their businesses. This lets them preserve liquidity while still accessing cutting-edge technology.

Your bank probably has existing commercial customers that need equipment financing, especially if you have business customers that work in commercial real estate (CRE), construction, or agriculture. When these customers go elsewhere for financing, surveys show it's either because their main bank doesn't offer financing, or because they don't consider their main bank when looking for equipment financing.

For instance, a dentist who opens her own practice might ask her bank to finance the building, but look to an equipment vendor, manufacturer, or other third party to finance the equipment her practice will need. That is opportunity lost.

Sometimes that third party is a large bank and that is bad. When your customers look to one of these banks for equipment financing, your bank runs the risk of losing deposits, other loans, and additional business opportunity. By creating an equipment financing program, you might be able to further protect your current commercial relationships.

A community bank that offers equipment financing may also earn higher yields and fees. Yields on equipment financing are typically higher than those for standard loans and terms are also generally shorter. There are risks too, of course.

To get started in equipment financing, you might want to begin with "essential use" equipment. This category has delinquency rates that are among the lowest for major asset classes, because missing payments means risking repossession on critical business equipment.

Equipment financing can also help a bank increase commercial and industrial (C&I) lending, which can be a tough category to expand. If this is something your bank may consider, remember to teach loan officers to identify opportunities for equipment financing and the reasons why it's important.

CRE customers may also be leasing equipment. A bank might be lumping furniture, fixture, and equipment into a customer's loan. Yet, it might be better to put those assets under an equipment lease. This could give the bank faster repayment and match the financing term to the equipment's useful life.

Whether through direct leasing programs or referring to other firms, your bank may want to consider offering equipment financing services to customers. Either way you go about it, you are helping your customers and increasing your business.

DEPOSIT OPPORTUNITIES

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 1.60%, subject to availability. Contact operations@pcbb.com.