



Opportunities in a Growing Equipment Financing and Leasing Space

🔗 [lending](#) [business customers](#)

Summary: In response to inflation, higher interest rates, regulatory capital increases and declining demand, some banks have pulled back on lending for equipment leasing and financing. That's created opportunities in equipment finance and leasing for interested CFIs.

Did you know that equipment leasing isn't just a modern financial practice? In fact, it traces its roots back to ancient civilizations like Sumer, where people [recorded leases on clay tablets](#) for agricultural tools and even land rights over 4K years ago. King Hammurabi's Babylonian leasing law from 1700 BC stands as some of the earliest hard evidence of leasing transactions. Across the Mediterranean, the Phoenicians, masters of maritime trade, pioneered ship charters resembling today's equipment leases, revealing striking parallels in lease negotiations spanning millennia. So, the next time you negotiate a lease, remember you're treading on ancient ground!

In the past, many companies that wanted equipment leasing and financing took their business to big banks. However, it seems big banks' appetites for this lending niche have decreased. That has created opportunities in equipment finance and leasing for community financial institutions (CFIs) to swoop in.

A Strong Market for Equipment Leasing

Equipment leasing and financing is a booming business — [a \\$1T industry](#), according to the Equipment Leasing and Finance Association (ELFA). Overall, 79% of companies in the US report using loans, leases, or lines of credit to help finance equipment. In 2021, banks accounted for 53% of this financing.

Last year was a good year for equipment leasing, according to the numbers. The ELFA's [monthly leasing and finance index report](#) shows that overall new business volume for February 2024 was \$7.9B, up 4% YoY. Cumulative new business volume was up 4.9% YoY in 2023.

A few factors behind the increase in the equipment leasing and financing industry are easing inflation and resilient economic activity, increased labor force participation, and improved productivity. These factors are potentially steering the US and global economy toward a soft landing, rather than the feared recession. The International Monetary Fund projects that global growth will steady at 3.1% in 2024.

Increased confidence in the US and global economies will likely mean a bigger appetite for companies to buy and lease equipment that can expand or increase the efficiency of their business. The Equipment Leasing and Finance Association forecasts 2.2% growth in the market for real equipment and software this year, with stronger investment happening in the second half of 2024.

A Potential CFI Opportunity

Some of the big financial institutions that [had been primary lenders in equipment leasing](#) and financing no longer lend in this area, typically in response to lower demand. Their absence leaves space for CFIs to serve both existing and new customers.

Offering equipment financing can indeed bring several benefits to CFIs:

- **Diversification.** By offering equipment financing, CFIs can diversify their lending portfolio beyond traditional commercial real estate loans. This can help mitigate risks associated with economic fluctuations or changes in specific industries.
- **Profitability.** Equipment financing, particularly leasing, can be a profitable venture for your CFI. Leasing often yields higher net interest margins compared to other lending products, which can boost overall profitability.
- **New Revenue Streams.** Equipment financing opens up new revenue streams for CFIs. By providing financing options for businesses to acquire essential equipment, CFIs can generate fees, interest income, and potentially cross-sell other banking products and services to these clients.
- **Customer Retention and Acquisition.** Offering equipment financing can strengthen relationships with existing business customers by providing them with additional financial solutions. Moreover, it can attract new customers, particularly small businesses seeking equipment financing, thereby expanding the CFI's customer base and market reach.
- **Geographic Expansion.** As mentioned, equipment financing can help CFIs tap into new business and geographic markets. Offering competitive financing options for equipment purchases can attract businesses from various industries and geographical regions, facilitating growth and expansion opportunities for the institution.

Overall, equipment financing presents CFIs with an opportunity to diversify their revenue streams, enhance profitability, and better serve the financial needs of businesses within their communities.

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ECONOMY & RATES

Rates As Of: 04/22/2024 05:39AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.45	-0.01	0.05
6M	5.39	0.01	0.13
1Y	5.16	0.15	0.40
2Y	4.97	0.35	0.72
5Y	4.68	0.47	0.84
10Y	4.65	0.45	0.77
30Y	4.74	0.40	0.71
FF Market	FF Disc	LOBB	
5.33	5.50	5.40	
SOFR	Prime	OBER	
5.31	8.50	5.32	

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