Status & Outlook

For The

U.S. Truck & Trailer

Leasing Marketplace

2001
INTRODUCTION

In early April 2001, ELA selected MacKay & Company to undertake a study to measure the size and scope of the finance/lease markets for commercial trucks and trailers. For purposes of this report, finance/lease is defined as a means of financing the purchase of a truck or trailer. The owner/maintainer is the purchaser and responsible for all maintenance during the life of the vehicle while the finance/lease institution owns the title to the vehicle. Other purchasing options (outside of the scope of this report) may include full-service lease, an arrangement in which the leasing company provides all maintenance to the vehicle as well as holding the title.

The overall objectives of this market analysis were to:

- Determine the size and scope of the truck/trailer, finance/lease business in the U.S.
- Provide growth projection estimates
- Identify and analyze future and current trends that are significant to this industry
- Provide an overview of success factors and challenges
- Identify major vendors
- Provide an overview of secondary market.
EXECUTIVE SUMMARY

Based on industry standards, trucks are classified by a truck capacity rating system and placed in weight classes dictated by gross vehicle weight (GVW). Class 6 trucks are those vehicles with a GVW of 19,501 - 26,000 lbs., Class 7 trucks weigh between 26,001 - 33,000 lbs. and Class 8 trucks weigh over 33,000 lbs. Illustration #1 below displays this information.

Illustration #1

<table>
<thead>
<tr>
<th>WEIGHT CLASS</th>
<th>GROSS VEHICLE WEIGHT</th>
<th>GROSS COMBINATION WEIGHT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1 &amp; 2</td>
<td>Under 10,000 Lbs.</td>
<td>Light Duty Trucks</td>
</tr>
<tr>
<td>Class 3, 4 &amp; 5</td>
<td>10,001–19,500 Lbs.</td>
<td>Medium Duty Trucks</td>
</tr>
<tr>
<td>Class 6</td>
<td>19,501–26,000 Lbs.</td>
<td>To 60,000 Lbs.</td>
</tr>
<tr>
<td>Class 7</td>
<td>26,001–33,000 Lbs.</td>
<td>To 70,000 Lbs.</td>
</tr>
<tr>
<td>Class 8</td>
<td>Over 33,000 Lbs.</td>
<td>To 100,000 Lbs. or More</td>
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</table>
• In the Class 8 market, finance/lease historically holds approximately 8.9% of the market.

• Finance/lease makes up approximately 4.4% of the Class 6 & 7 trucks in the market, or about half of what the Class 8 market holds.

• In 1998 and 1999, finance/lease accounted for 8.1% of trailer sales.

As a result of growth in the entire market over the past two years, unit growth has occurred while market share has remained steady within the finance/lease sector.

After completing interviews with the major finance lenders, we've identified current and future trends in the finance/lease market:

• Decreasing number of finance/lease lenders
  • One major player, The Associates, was purchased by CitiGroup and has now exited the market altogether.

  • Another player, Mercedes Benz Finance Corporation, is still in the market but has effectively shut down its finance/lease activity, focusing instead on repossessions and used truck oversupply.

• Shift in finance/lease from new equipment to used equipment. In the past two years, the percentages have switched places, used now comprising the lion's share of finance/lease packages.

• Employee movement from one lender to another because of company closings, acquisitions and mergers. Qualified, educated salespeople with existing client relationships are in high demand.

• Aggressive growth strategies are resulting in additional salesforce hirings. These additions allow financial institutions to better build and maintain existing and new customer relationships.
MacKay & Company also identified the major players' measurements of success and their key challenges.

Measurements of success include:

- Financial growth – in revenue, in profits and in size of their loan portfolios
- Increased customer base
- Additional staff and quality of personnel
- Enhanced name recognition
- Number of locations.

The following are challenges that interviewees are facing today and expect to face tomorrow:

- Slowdown in business caused by economic uncertainty
- Increasing fuel prices and its impact on equipment sales, freight volumes and fleet stability
- The decline in new truck production and the current oversupply of used trucks
- The contraction in the number of finance/lease companies.
Throughout this study, MacKay & Company has identified major vendors. Illustration #2 below lists the top 10 finance/lease or OEM-sponsored companies that serve the Class 6, 7, 8 heavy duty truck market: OEM-sponsored companies are those finance/leasing institutions associated with a truck manufacturer which operate as the finance arm for dealerships. Examples include MacLease (Mack Trucks), PacLease (Kenworth and Peterbilt), Harco (International), Mercedes Benz (Freightliner and Sterling).

**Illustration #2**

**Top 10 Companies* - Class 6, 7 & 8 Finance/Lease or OEM-Sponsored**

<table>
<thead>
<tr>
<th>Finance/Lease Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>MERCEDES BENZ CREDIT CORP</td>
</tr>
<tr>
<td>ASSOCIATES LEASING INC</td>
</tr>
<tr>
<td>GELCO CORP</td>
</tr>
<tr>
<td>FORD MOTOR CREDIT COMPANY</td>
</tr>
<tr>
<td>GENERAL ELECTRIC CAPITAL CORP</td>
</tr>
<tr>
<td>VOLVO TRUCK FINANCE N AMERICA</td>
</tr>
<tr>
<td>HARCO LEASING CO INC</td>
</tr>
<tr>
<td>PACCAR FINANCIAL CORP</td>
</tr>
<tr>
<td>NATIONSBANC LEASING CORP</td>
</tr>
<tr>
<td>PHH FINANCIAL SERVICES INC</td>
</tr>
</tbody>
</table>

* Based on number of units

With the recent exodus of The Associates and the wide number of company consolidations, a firm with adequate financial resources would do well to enter this market. Many of the qualities that make this market desirable are still there - a large customer base which needs financing and will need more in the future, a large population of trucks and off-highway equipment both used and new, and a captive audience among dealers and end users.
MACKAY & COMPANY

MacKay & Company is a specialized market research and management consulting firm. For more than 32 years, the focus has been and continues to be commercial vehicles — trucks, construction equipment and farm machinery — and related components, supplies and systems.

Located in suburban Chicago, MacKay & Company has 18 full-time employees. The entire professional staff has more than 100 years of experience in the industries we serve. To augment the permanent staff, the company retains recently retired executives with years of experience in marketing, distribution, pricing, and product and process engineering.

ASSIGNMENT METHODOLOGY

As a first step, MacKay & Company prepared an overview of the size and composition of the truck and trailer leasing market by conducting an internal search of previous, non Proprietary, related research conducted by MacKay & Company.

As a second step, we conducted telephone interviews with key executives from major leasing companies. These probed:

- The size, composition and trends of the current and future market
- Product offerings
- Customer profile
- The impact of the current oversupply of used power units in the market.

As a third step, MacKay & Company contacted dealers to gather additional information on the above topics.
SIZE AND SCOPE OF THE U.S. TRUCK/ TRAILER, FINANCE/ LEASE BUSINESS

The size of the truck finance/ lease market represents approximately 9% of the Class 2 – 8 truck registrations. The finance/ lease market for medium duty, Class 6 & 7, trucks/ tractors accounts for approximately 4.4% of the total Class 6 & 7 vehicles registered. Almost nine (8.9%) of the Class 8 market is finance/ leased.

Based on historical truck registration data, the top 10 lenders hold 69% of all Class 6 – 8 truck leases. Illustration #3 lists the top 42 lenders, based on registrations.

Illustration #3
Top 42 Lenders

| ATT Capital Canada Inc. | First Union Commercial | PNC Leasing Corporation |
| Banc One Leasing | Gelco Corporation | Regions Bank of Florida |
| BancBoston Leasing Inc. | General Electric Capital | Safeco Credit Company Inc. |
| BLC Corporation | Harco Leasing Company Inc. | Schneider Finance Inc. |
| Cargill Leasing Corporation | McNeilus Financial Inc. | South Trust Bank of Georgia |
| Centura Bank | MDFC Equipment Leasing | St. Paul Trust |
| CIT Group Equipment | Metlife Capital Credit | Team Fleet Financing |
| Compass Financial | NA AS Nations Bank | Textron Financial |
| Farm Credit Leasing | Nations Credit Commercial | Transamerica Business |
| FBS Business Finance | Nationsbanc Leasing | U S Bancorp Leasing |
| Fifth Third Leasing | Newcourt Financial Ltd. | Volvo Financial Services |
| First America National Bank | Norwest Equipment Finance | Volvo Truck Finance North |
| First Finance Inc. | PHH Financial Services Inc. | |
As Illustration #4 exhibits, International is the most popular nameplate among Class 6 - 8 finance/leases (24%) followed by Freightliner at 18%. At year-end 2000, Freightliner held the largest market share of Class 6 - 8 retail sales. International at 26% held the next largest share.

Illustration #4

Class 6 - 8 Finance/Lease Share by Nameplate vs.
Retail Sales by Nameplate
INDUSTRY OVERVIEW

The scope of this study includes Classes 6, 7 and 8 commercial vehicles (trucks, tractors and school buses) and commercial trailers pulled by these trucks.

Class 8 Market

Class 8 vehicles are defined as vehicles with a gross weight (weight of the vehicle plus the weight of the load carried by the vehicle) of 33,001 pounds or more. Class 8 vehicles are primarily built in tractor configurations for pulling 40 to 53 foot trailers or, in some cases, they pull two or three 20-foot trailers in tandem. A multitude of examples can be seen on any U.S. highway.

The other significant configuration for Class 8 vehicles is a straight truck with tandem rear axles (eight tires in the rear). Typical applications for these vehicles include heavy dump trucks, refuse packers, milk and other liquid tanker applications.
As seen in Illustration #5, the U.S. Class 8 retail commercial vehicle market historically enjoyed annual volumes between 100,000 and 150,000 units in the last half of the 1980s through 1992. The economy was in a recession in 1991 and 1992 and the Class 8 truck market generally experiences a significant decline during economic downturns. The Class 8 market rebounded in 1993 after the recession and demand exceed 150,000 units.

The Class 8 market has continued to be strong during the balance of the 1990s with demand well in excess of 150,000 units and exceeding 200,000 units in four of these years. The trucking industry, in general, is cyclical in nature but follows the economy. It is a leading indicator of economic activity. The current economic slowdown combined with an excess of used Class 8 trucks has resulted in an expected Class 8 market in 2001 of 135,000 units.

Based on our assumption that the economy will return to a normal growth pattern by the fourth quarter of 2001, MacKay & Company is forecasting the Class 8 market will return to levels in excess of 200,000 through 2005. Our forecast is based on the assumption that the U.S. economy will not experience another slowdown before 2005.
Historically, 70.3% of new Class 8 vehicle sales are to end users of the vehicles. Illustration #6 exhibits the end users range in type of customer from private companies to for-hire carriers to government agencies.

Full-service leasing and daily rental companies account for another 17.3% of Class 8 purchases. Ryder is the largest purchaser of vehicles in the group.

Finance/leasing, on average, accounts for 8.9% of new Class 8 purchases. Over the past 15 years, the finance/leasing share of the Class 8 market has ranged from a low of 7.1% to a high of 10.3%. The average has been 0.7% points higher during the mid and late 1990s compared to the average in the late 1980s and early 1990s.
As we will discuss in detail later in this report, the recent exit of two of the major leasing companies from this business will likely reverse the share growth enjoyed by leasing companies in the late 1990s.

The OEM-sponsored leasing companies, which are the financial arms of the truck manufacturers, have an average share of 3.6% of the Class 8 market.

**Class 6 and 7 Market**

Class 6 and 7 vehicles are defined as vehicles with gross weights between 19,501 and 33,000 pounds. Class 6 and 7 vehicles are built primarily in truck configurations. Typical applications for these vehicles include city delivery, wholesale/retail, recycling trucks, lighter dump trucks and utility and service vehicles. The second most common configuration for Class 6 and 7 vehicles is school buses. Some Class 6 and 7 vehicles are built in a tractor configuration for pulling trailers. In this configuration, the tractor has a single rear axle (four tires on the rear). These are usually used in short-haul applications and city delivery pulling a 20 foot trailer.
The U.S. Class 6 and 7 commercial vehicle market historically has averaged between 100,000 and 150,000 units per year. As with the Class 8 market, the Class 6 and 7 market dropped below 100,000 units during the 1991 recession. Illustration #7 clearly exhibits that the Class 6 and 7 market has enjoyed steady growth since 1991 until the economic slow down in 2001. MacKay & Company is forecasting a 22% decline in Class 6 & 7 sales in 2001 from the 2000 level.
Based on our assumption that the economy will return to normal growth in late 2001, we are forecasting that the Class 6 and 7 market will be above 150,000 through 2005.

Historically, 75.6% of Class 6 and 7 new vehicle sales are purchased directly by the end user. These would include, but not be limited to, private companies, government agencies, for-hire (trucking companies) and utility companies. Illustration #8 demonstrates this.

**Illustration #8**
*Type of Ownership*
*Historical Average - Class 6 and 7*

Full-service leasing companies (i.e., Ryder) historically have purchased 18.7% of the Class 6 and 7 new vehicles. Full-service leasing has enjoyed a slightly higher share of the Class 6 and 7 market than it has of the Class 8 market.

Finance/lease companies have averaged 4.4% of the Class 6 and 7 market or about half the share it enjoys in the Class 8 market. The finance/leasing share has been about 1% higher in recent years compared to its market share in the late 1980s and early 1990s.
Trailer Market

For the purposes of this study, trailers are generally defined as vehicles 20 to 53 feet in length or chassis designed to carry containers. These trailers usually have either single or tandem axles with four or eight tires. In some states where other configurations are allowed (Michigan, for example), the trailer may have several axles.

Trailers have a wide range of configurations including standard dry van boxes, refrigerated vans, liquid and dry bulk tankers, flat beds and drop decks, to name a few. Most trailers are pulled by Class 8 trucks. Some trailers in the lighter weight, city and short haul applications are pulled by Class 7 tractors.

Illustration #9 shows that the U.S. factory sales of trailers have ranged from a low of 150,000 in 1991 to a high of 343,000 in 1999.
The trailer market is expected to decline to 186,000 in 2001 and return to 300,000 level by 2005.

During 1998 and 1999, end users purchased 68.5% of new trailers as seen in Illustration #10. These end users include private and for-hire companies.

Illustration #10
Type of Ownership
1998 and 1999 Average - Trailers

- Direct Ownership: 68.5%
- Full Service Lease: 22.8%
- Finance Lease: 8.1%
- OEM Sponsored: 0.6%

Full-service leasing accounts for 22.8% of new trailer sales. Full-service leasing enjoys a larger share of the trailer market than it does in either the Class 6, Class 7 or Class 8 market.

Finance/lease companies have averaged 8.1% of the trailer business - a share slightly less than the finance/leasing share of the Class 8 market.

The OEM-sponsored leases account for only 0.6% of the trailer market. Trailer manufacturers are not as active in the retail financing as are the truck OEMs.
PROFILE OF LEASING COMPANIES

The top ten companies who are classified as finance/ lease or OEM-sponsored finance/ lease companies account for 65% of the total Class 6, 7 and 8 truck finance/ lease business as shown in Illustration #11. These ten companies in a typical year will finance/ lease over 1,000 vehicles.

Illustration #11
Percent of Business by Company
Class 6, 7, and 8 *

Top Ten Companies 65%

Next 90 30%

Balance 5%

* Based on number of units

The next 90 finance/ lease companies capture approximately 30% of the finance/ lease business, based on number of vehicles finance/ leased. The volume of vehicles these companies finance/ lease ranges in size from 25 vehicles per year up to 1,000.

The total number of companies in the finance/ lease business in a typical year is about 900. This implies that about 800 companies, who do less than 25 leases per year in total, share only 5% of the Class 6, 7 and 8 commercial vehicle markets.
As recently as 2000, Mercedes Benz Credit Corporation has enjoyed the number one market share position for Class 6, 7 and 8 vehicles and Associates Leasing held the number two position. It’s important to note that the picture will be quite different by end of year 2001. CitiGroup acquired The Associates and effectively exited the truck and construction equipment finance/lease marketplace. Reacting to the oversupply of used trucks and the recent economic downturn, Mercedes Benz aggressively tightened its credit requirements and are not active in the current lending market. Although Gelco and General Electric Capital Corporation are listed separately, they are essentially the same company. The list is accurate as a snapshot of end of year 2000 and highlights the top ten players in the Class 6, 7 and 8 leasing market. As noted earlier, (based on number of units finance/leased) these ten companies historically control 65% of the market.

As a result of the recent economic down turn and the significant increase in the used truck supply, the values of used trucks has declined resulting in losses for leasing companies when compared to the residual values used when the lease was written.

Both Mercedes Benz Credit and Associates Leasing have withdrawn from the truck leasing market. These two companies controlled about 29% of the Class 6, 7 and 8 commercial vehicle leasing markets.
The top ten companies in the trailer leasing market are listed in Illustration #12. They control 60% of the trailer leasing business. These companies generally lease in excess of 500 trailers in a typical year.

### Illustration #12

**Top 10 Companies - Trailer Finance/Leased**

<table>
<thead>
<tr>
<th>Finance/Lease Company</th>
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<tbody>
<tr>
<td>ASSOCIATES LEASING INC</td>
</tr>
<tr>
<td>GENERAL ELEC CAPITAL CORP</td>
</tr>
<tr>
<td>FLEET CAPITAL CORP</td>
</tr>
<tr>
<td>BANCBOSTON LEASING INC</td>
</tr>
<tr>
<td>FIRSTAR EQUIPMENT FINANCE</td>
</tr>
<tr>
<td>FIFTH THIRD LEASING CO</td>
</tr>
<tr>
<td>BANC ONE LEASING CORPORATION</td>
</tr>
<tr>
<td>S T I CREDIT CORP</td>
</tr>
<tr>
<td>FIRST UNION COMMERCIAL CORP</td>
</tr>
<tr>
<td>WELLS FARGO AUTO FINANCE</td>
</tr>
</tbody>
</table>

* Based on number of units
The next 90 leasing companies control 29% of the trailer leasing business and will lease between 20 and 500 trailers in a typical year. Illustration #13 exhibits the percent of business by company.

Illustration #13
Percent of Business by Company Trailers

Top Ten Companies 60%

Next 90 29%

Balance 11%

The balance (11%) of the trailer leasing business is shared between 600 companies. In total, about 700 companies participate in the trailer leasing business.
SUMMARY OF INTERVIEW FINDINGS

In order to better define the fundamental, day-to-day operations, as well as the primary concerns that the major players in this industry grapple with every day, MacKay & Company conducted a series of telephone interviews with a variety of finance/lease companies. They differed widely in portfolio size, type of equipment for which they offered financing, regional vs. national coverage, type of customer targeted, and organizational structure and orientation.

HISTORICAL PERSPECTIVE

Captive finance/lease companies, those affiliated with a manufacturing company, i.e., PacLease, MacLease, Harco (International), entered the lending market in the early ‘80s. Much of their success was an outgrowth of their proximity to the customer, via the original equipment truck dealer, who was eager to make a deal – hence the term “captive”. The captive finance/lease companies are often a truck dealership’s first choice when presenting finance/lease options to the customer.

While independent lending entities always existed, The Associates was probably the most well known and certainly held the lion’s share of the market through the 1980s and well into the 1990s. The Associates’ success was greatly related to its concentrated effort to dominate the market by becoming well-schooled in the heavy truck and construction equipment markets. Its intimate knowledge of the business allowed it to develop more creative deals and, therefore, attract new customers that were more comfortable dealing with ‘industry experts’ rather than financial representatives.

During 2000 and 2001, what had been a relatively stable market went through tremendous upheaval. Companies that had long been market share leaders (most notably The Associates and, as another example, Norwest Financial) were bought. The Associates was purchased by CitiGroup, which almost immediately stepped away from funding the heavy duty truck and construction equipment markets. Norwest Financial, purchased by Wells Fargo Bank, now operates under the Wells Fargo name but is mentioned as an example of a consolidation strategy shrinking an already diminished pool of lenders.

When looking at the past three decades, the finance/lease picture has changed - sometimes slightly and at other times more dramatically. The more dramatic changes have occurred within the past few years. The major players in the market have remained the same while their role and level of importance have changed. The dealers have most often turned to their captives for the best offers for their customers. The independents have remained players, but sometimes more as secondary players and certainly not always as the top choice of dealers.
The Associates held a large portion of the independent market and most recently with the elimination of their interest in the truck and construction markets, the captives and the brokers are seeing an increase in their percentage of the finance/lease market. Other smaller independents are seeing more action, but most of the finance/lease companies that we spoke with are maintaining relationships with the end users and not so much with the dealers. The brokers are in the business of selling paper and there are those independents that rely heavily on this traffic and others who would never buy a piece of paper from a broker. Other smaller lenders have exited the industry. Still others, such as Mercedes Benz, effectively shut down their financial arms in order to regroup and pay attention to other pressing concerns - repossessions, delinquencies and a glut of used trucks, for example. Illustration #14 exhibits the change in the finance/lease market and its players over the years.

Illustration #14

80's

90's

2000's
LENDER PROFILE

Portfolios of interviewed finance/lease institutions range from $100 million to approximately $21 billion. The biggest player in the heavy duty truck market today is probably an entity with a portfolio of $500 million in truck and truck-related equipment. The institution classifications range from independent financial lenders to bank-based leasing affiliates. The number of employees operating at these companies varies widely and ranges from eight dedicated salespeople to well over 500 independent commission-based brokers.

The types of finance/lease institutions that exist within the marketplace can be categorized into three distinct classes:

1) OEM captives, i.e., MacLease, PacLease, Mercedes Benz Credit Corporation, Harco

2) Institutions that market specifically toward the end user, from large fleet owners to owner/operators, i.e., Associates

3) Financial institutions that obtain their leases exclusively through brokers, i.e., US Bancorp

While the companies interviewed fell into the three categories above, that did not usually dictate differences in their business strategies. Throughout this report, MacKay & Company addresses the group as a whole unless there is a distinction that occurs based on their business category.
PRODUCT MIX

The lenders interviewed offer three major products:

- Traditional loan financing – straightforward, traditional equipment financing to meet capital needs. The end user holds the title to the vehicle.

- TRAC leases – Terminal Rental Adjustment Clause leases. These are available for titled motor vehicles that are usually used at least 50% for commercial purposes. This lease allows a fixed residual amount at the end of the lease term. The end user or fleet owner may purchase the equipment for the residual amount and either retain the excess or pay the amount of the shortfall. These leases are also called open-ended.

- Straight leases – ownership and title stay with the lending company. Individuals enjoy “quiet enjoyment” of the equipment and expense the payment. Options at the end of the lease include purchase, renewal rental, or return. These leases are also called close-ended.
As you can see in Illustration #15, finance/lease institutions hold 9% of the vehicle financing market which includes TRAC and term leases. By combining the number of finance/leases and the number of traditional loans, finance/lease companies hold 20% of this market. If there are finance/lease companies that are not providing traditional loans, those companies are missing out in over 50% of the business that they could obtain.

Lenders generally employ a specialized staff to examine equipment, both new and used, and determine fair market value or residual value before finance/leases are extended. The companies MacKay & Company interviewed each have developed their own customized matrix for determining residual value. The matrix is based on type of equipment, nameplate, application of equipment and model year. Residual values are generally a black or white issue based on the criteria the institutions have developed over a period of time. Severe service usage may prevent institutions from lending money to certain vocational users. For instance, we found many institutions that avoid equipment to be used in coal mining and logging applications. Equipment used in these applications can be run almost 24 hours a day and run hard. Their life span is significantly shorter. Their residual values and their ensuing resale values, therefore, are very low.
Product mix remains constant regardless of the customer profile and is consistent with what was offered three to five years ago. In addition, no interviewed people expect or anticipate significant change in the mix that they currently offer.

**EQUIPMENT PROFILE**

**New vs. Used**

All the companies interviewed stated that they provide lease/financing for both new and used equipment. One lender said his customary mix of new vs. used financing is usually 80% new and 20% used but in the last 18 months his loans have shifted to 50% new and 50% used. He attributes that shift to the wide availability and low pricing of late model used trucks.

Although lenders may extend loans on used equipment, they are more active in pursuing new equipment loans. One lender indicated that he would extend loans on used equipment only after examining the vehicle in-person in order to determine a fair market value. He also extends financing on used equipment because it’s a way of continuing his business relationship with his long-term customers (65% of his business comes from repeat business).

The current state of the used truck market presents two challenges to the finance/lease marketplace. Those include:

- To maintain the current level of credit standards and not to overextend the company’s resources. Those companies who currently find themselves in a precarious business position ignored their own established criteria for extending credit. Financially sound lease/finance firms maintain and use an extensive database of customers in order to dispose of repossessed vehicles. This is the case for many of the companies that we interviewed.

- Because of the overextension of credit and the resulting increase in repossessions (both voluntary and forced), there is an oversupply of late model used trucks in the industry. The normal buyers - those fleets operated by construction/mining/refuse firms, owner/operators and small fleets - are precisely those companies who are turning their trucks in. Unless firms have an established database of used truck buyers and continue to actively add to that database, they will be saddled with an increasing number of used trucks that they can’t sell.
Boom, or Doom and Gloom?

A quick glance through daily newspapers and recent industry trade journals might give the casual observer the impression that the end of the trucking industry is near. It has certainly changed - and in some cases dramatically - but the end is not even in the foreseeable future. Some of the major players within the finance/lease industry have changed - some have departed - leaving the playing field open for others to gain more market share and become more successful.

The market has also seen an exodus of end users, more specifically owner/operators and small fleets. These two groups have been hit the hardest by the economic downturn and increased fuel prices. As a result, they have been forced to exit the market. While the picture has certainly changed for the larger fleets - decrease in the number of drivers and loads - they are still very active in the marketplace. One of the changes that has occurred is the decrease in the purchase of new vehicles, but those finance/lease institutions that have long standing relationships with fleets are continuing to conduct business with them.

The bad news - and that’s what tends to be covered prominently by the media - is that there has been an increase in loan defaults and repossessions. The companies interviewed for this study, however, indicated that while they’re seeing slightly higher levels of both loan defaults and repossessions, it’s occurring at manageable levels. The most common reaction from finance/lease institutions is a tightening of credit standards before they extend a loan.

Loan Defaults

Who bears the responsibility when a customer defaults on a loan varies. Bank-supported leasing arms absorb all of the financial responsibility. While Mercedes-Benz Credit Corporation has removed itself from the active lending process, for those loans that it still holds, a program has just been recently introduced that requires dealers to share in the liability for loan defaults. A PACCAR dealer indicated that he absorbs 0-100% responsibility - depending on what he needs to do to ‘get the deal done’.
Repossessions

Financial responsibility is a significant topic among financial institutions because almost all of the interviewees indicated that they are seeing an increase in delinquencies or repossessions. A representative from one financial institution said he had not yet repossessed any trucks but expected to in the next 30-60 days; another said he had experienced a number of repossessions at the beginning of the year but have not experienced any in the last 45 days and does not expect any more to occur in the near future.

The finance/lease bodies we interviewed deal with repossessions in several different ways. Several individuals told us they maintain in-house databases comprised of dealers and fleet owners who are frequently in the market for used trucks. This group is often partially comprised of current and past customers. When the institution repossesses equipment, it faxes descriptions of available equipment to dealers and fleets. In most instances, they unload equipment without claiming loss. Another interviewee said he disposes of his repossessions through equipment auctions. Still other institutions have longstanding relationships with truck OEMs. When the customer defaults on a loan, the finance/lease company takes the vehicle to the OEM’s local dealer where it is resold. Among the lenders we interviewed, loss ratio is at or close to zero. In many cases, however, they expect repossessions to continue to increase.

SUCCESS FACTORS

All of the companies interviewed report successful levels of business in the last three to five years. They measure their success in several ways:

• Financial growth - in revenue, in profits and in size of their loan portfolios
• Increased customer base
• Additional staff and quality of personnel
• Enhanced name recognition
• Number of locations.
Those companies who elected to provide specifics on measurements of success reported increases in staff size from 10% to 25%. Others reported revenue increases. One independent lender reported aggressive growth targets of 17% per year; their actual growth in revenue in 2000 was closer to 30%. Still another bank-based credit firm reported 50% growth each year since 1996. His bank is on an aggressive acquisition path and, as the bank expands its geographic scope, so does the finance/lease company.

Another group of finance/lease institutions defines their success through the quality of their employees. If the recent company closings, consolidations and buyouts have a silver lining, it’s the number of qualified and experienced sales and credit personnel. Those remaining companies have been able to almost effortlessly add to their staff, thus extending their ability to penetrate the current marketplace. This has been an especially important strategic move because these financial institutions have switched their focus from the equipment dealers to the end users and fleet managers. Their increased sales forces have allowed them to increase and maintain their customer relationships.

OUTLOOK FOR THE FUTURE

In general, the executives interviewed for this study were optimistic about the future. There are, however, several issues that will continue to require their close attention.

- **The economy.** No one used the word recession but many used the terms credit crunch, downturn, slowdown and risky business to describe today’s climate and tomorrow’s climate, too. As a result, most of our interviewees said they have tightened up available credit and are focusing on established customers rather than introducing unknown customers into the mix.

- **Fuel prices.** Many lessors are concerned about the high price of diesel fuel and the effect it will have on equipment sales, freight volumes and the stability of fleets as a whole.

- **Downturn in new truck productions and used truck sales.** Obviously, if fewer individuals and fleet owners are purchasing equipment – new or used – business is at risk for these financial institutions.

- **The contraction in the number of finance/lease institutions serving the heavy duty trucking and construction equipment industries.** According to the interviewees, there were 15 major lenders serving these industries 18 months ago. Today, there are five or six.
While the individuals interviewed are optimistic, MacKay & Company's outlook is one of caution. With the slowing economy and an uncertain atmosphere within the entire truck marketplace, lenders will need to carefully choose those fleets with whom they want to do business. Class 8 production numbers have significantly declined within the past two years. The number of new trucks being purchased and the number of individuals/fleets requiring financing have declined as well. With a shrinking audience, lenders need to cautiously select those companies to which they will extend financial lending.

So what does the future hold? In the near future, lenders should look to the used truck market. Used truck financing will command attention. With the number of used trucks entering the market escalating, lenders need to position themselves to attract financially sound and solid used truck buyers.

Thirty-three (33%) of used truck purchases are made at new truck dealers. Since the majority of used trucks are sold outside of the dealer network, lenders will not have to compete with the OEM captives. A strong sales force that can establish and maintain customer contact will be a necessity. Unlike large fleets purchasing new trucks, the used truck buyer is purchasing one, possibly two vehicles at a time. Only when the largest fleets purchase used Class 8 vehicles are purchase quantities significant. Fleets with between 100 and 500 Class 8 trucks purchase an average of five used Class 8 vehicles. And, while the largest fleets participating in the used Class 8 market buy much larger quantities, these fleets have been minor participants in the used Class 8 market. It is the small purchaser that provides the greatest opportunity. With careful selection, lenders could find the used truck market lucrative and profitable.

In the distant future, the number of new trucks being purchased will return to prior levels and the number of used trucks flooding the market will decrease. MacKay & Company sees the market - as we know it - returning no sooner than 2004. By this time, the number of lenders will be fewer than today and those that are successfully competing with the OEM captives will have attracted fleets by using incentive programs, specials and discounts.

Thus, in the short term, lenders should direct their focus on the used truck market and, in the long term, concentrate on attracting new customers with an active sales force and appealing programs.