

# Secured Finance Network

---



An association of professionals  
putting capital to work

## Annual Asset-Based Lending and Factoring Survey Highlights, 2005

July 27, 2006

R.S. Carmichael & Co., Inc.  
70 West Red Oak Lane (4<sup>th</sup> Floor)  
White Plains, NY 10604  
914-761-8200

Secured Finance Network  
370 Seventh Avenue (Suite 1801)  
New York, NY 10001  
212-792-9390

## SURVEY HIGHLIGHTS

---

- **The overall state of the U.S. commercial finance industry that embraces asset-based lending and factoring was very positive in 2005.**
  - Economic expansion contributed to the industry's strong performance.
  - Asset-based lending and factoring products also were more widely accepted in 2005.
- **Asset-based lenders and factors alike experienced above-average growth in 2005.**
- **Strong portfolio performance as measured by lower non-accruals and write-offs also was reported by asset-based lenders and factors.**
- **Improved industry profitability in 2005 was achieved in terms of higher ROA and ROE.**
- **The following survey results for asset-based lending and factoring are based on extrapolations of data obtained from members of the Secured Finance Network and from other sources.**
  - The Secured Finance Network represents asset-based lenders across the entire collateral/credit risk spectrum.
  - The SFNet also represents hedge funds, tranche B/junior lenders, floorplanners, captive finance companies and other providers of commercial finance.

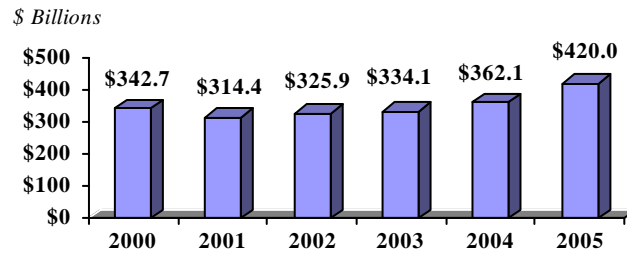
**Commercial finance industry performance was very strong in 2005 in terms of growth, portfolio quality and profitability.**

## ASSET-BASED LENDING SURVEY RESULTS

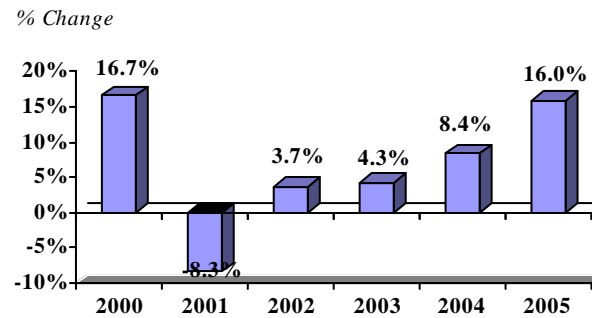
---

- The U.S. asset-based lending industry grew 16% in 2005 to a record level of \$420 billion in terms of total asset-based loans outstanding at year-end.

A number of asset-based lenders reported record years in 2005.



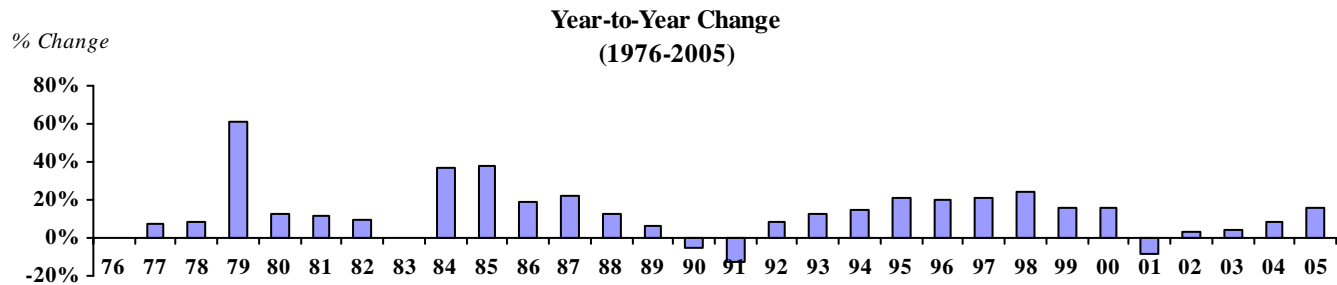
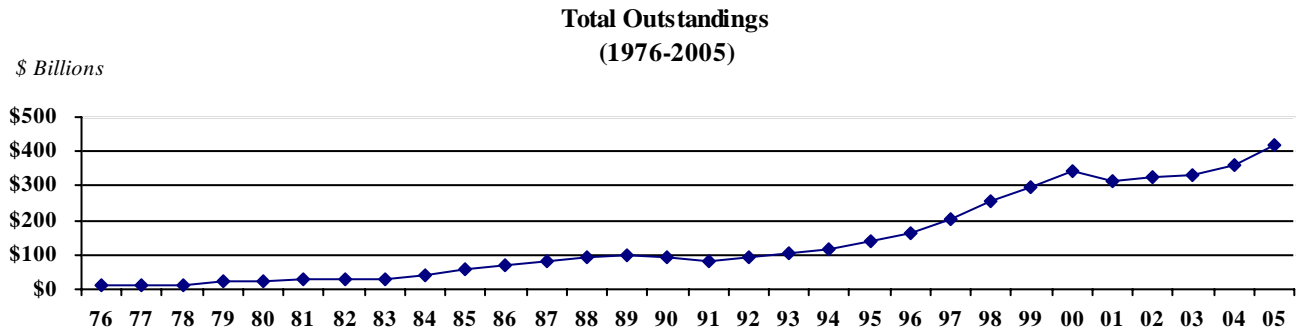
- Double-digit industry growth has not been experienced by the asset-based lending industry since 2000.



## ASSET-BASED LENDING SURVEY RESULTS (Cont.)

---

- For nearly 30 years, asset-based lending in the U.S. has been a growth market.



## ASSET-BASED LENDING SURVEY RESULTS (Cont.)

### Total Outstandings (1976-2005)

Year	Total Outstandings (\$ Billions)	Percentage Change vs. Last Year (%)
2005	\$420.0 <sup>(1)</sup>	16.0%
2004	362.1	8.4
2003	334.1	2.5
2002	325.9 <sup>(2)</sup>	3.7
2001	314.4	-8.2
2000	342.7	16.7
1999	293.8	15.6
1998	254.2	23.9
1997	205.1	21.0
1996	164.5	19.8
1995	141.4	20.7
1994	117.0	14.6
1993	102.1	12.7
1992	90.5	8.1
1991	83.8	-12.5
1990	95.8	-4.7
1989	100.7	6.8
1988	94.3	12.6
1987	83.7	21.8
1986	68.7	18.9
1985	57.7	38.1
1984	41.8	36.4
1983	30.7	0.4
1982	30.5	9.7
1981	27.8	11.1
1980	25.1	12.2
1979	22.3	61.0
1978	13.7	8.4
1977	12.8	7.2
1976	11.9	-

<sup>(1)</sup>Total outstandings, year-end (2003-2005)

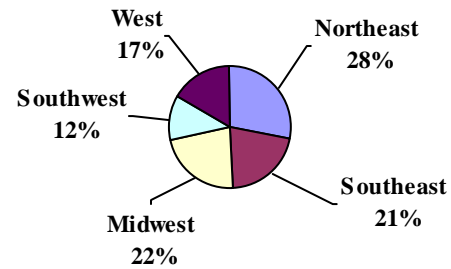
<sup>(2)</sup>Total outstandings, monthly average (1976-2003)

## ASSET-BASED LENDING SURVEY RESULTS (Cont.)

---

- Asset-based loan outstandings were somewhat evenly distributed on a regional basis if the Southwest/ West are combined.

The asset-based lending product was widely accepted across the U.S.



*"Northeast" includes CT, DE, MA, ME, NH, NJ, NY, PA, RI, VT*

*"Southeast" includes AL, FL, GA, KY, MD, MS, NC, SC, TN, VA, WV*

*"Midwest" includes IA, IL, IN, KS, MI, MN, MO, MT, ND, NE, OH, SD, WI, WY*

*"Southwest" includes AR, CO, LA, NM, OK, TX*

*"West" includes AK, AZ, CA, HI, ID, NV, OR, UT, WA*

## ASSET-BASED LENDING SURVEY RESULTS (Cont.)

- **Outstandings in the top 3 states accounted for nearly 30% of the 2005 U.S. total, while the top 10 states comprised more than 60% of outstandings.**

**California, New York and Texas continued to be the major states for asset-based lending.**

Alabama	1.0%	Georgia	4.4%	Maryland	1.8%	New Jersey	5.5%	S. Carolina	0.9%
Alaska	0.1	Hawaii	0.1	Massachusetts	3.7	New Mexico	0.2	S. Dakota	0.1
Arizona	1.1	Idaho	0.1	Michigan	3.0	New York	10.4	Tennessee	1.2
Arkansas	0.7	Illinois	5.4	Minnesota	2.3	North Carolina	3.7	Texas	6.8
California	12.4	Indiana	1.7	Mississippi	0.5	North Dakota	0.1	Utah	0.7
Colorado	2.6	Iowa	0.7	Missouri	1.8	Ohio	4.1	Vermont	0.1
Connecticut	1.9	Kansas	0.5	Montana	0.1	Oklahoma	0.8	Virginia	1.7
Delaware	0.2	Kentucky	0.6	Nebraska	0.5	Oregon	1.2	Washington	1.3
D.C.	0.1	Louisiana	1.2	Nevada	0.4	Pennsylvania	5.0	W. Virginia	0.4
Florida	4.1	Maine	0.3	New Hampshire	0.3	Rhode Island	0.2	Wisconsin	1.9
								Wyoming	0.1

## ASSET-BASED LENDING SURVEY RESULTS (Cont.)

- **The top client industries in lenders' portfolios in 2005 included food, motor vehicle parts, metals and retailing.**

- The highlighted industries below were among the major client sectors noted by individual lenders.

**Asset-based lenders helped preserve and expand jobs in these and other industries.**

SIC Code	Industry	SIC Code	Industry
2099	Food processors/manufacturers	5021	Wholesale – Furniture
2399	Textile manufacturers	5031	Wholesale – Lumber, plywood, millwood
2599	Furniture manufacturers	5032	Wholesale – Brick, stone, related construction
2752	Printers	5045	Wholesale – Computers, peripherals and software
2834	Pharmaceutical preparations	5047	Wholesale – Medical, dental & hospital equipment/supplies
2899	Chemicals and allied products	5051	Wholesale – Metal service centers
3089	Plastic products manufacturers	5065	Wholesale – Electronics parts and equipment
3159	Apparel manufacturers	5111	Newspapers, periodicals, books, directory publishers
3312	Steel products manufacturers	5112	Wholesale – Paper and paper products
3499	Metal goods manufacturers	5122	Wholesale – Drugs
3577	Computer equipment manufacturers	5141	Wholesale – Groceries and related products
3679	Electronic components	5211	Retail – Lumber and other building products
3714	Automobile parts & supplies manufacturers	5311	Retail – Department stores
4112	Agribusiness/agricultural products	5731	Retail – Radio, televisions, consumer electronics
4213	Trucking	6282	Finance companies
4789	Transportation – Other	7363	Employment services
5013	Wholesale – Motor vehicle supplies & parts	7812	Motion picture, entertainment



## ASSET-BASED LENDING SURVEY RESULTS (Cont.)

- Major asset-based borrower industries employ more than 4 million people in the U.S.

Industry State	Food Manufacturing	Motor Vehicle Parts Manufacturing	Metal Service Centers/ Distributors	Retail Department Stores	General Freight Trucking
Alabama	34,807	11,206	3,351	14,483	16,651
Alaska	6,989	0	249	2,499	499
Arizona	8,830	3,611	1,401	25,966	25,898
Arkansas	55,837	5,807	2,499	9,448	34,570
California	161,375	27,488	15,704	175,365	27,105
Colorado	16,473	1,578	2,147	18,993	5,224
Connecticut	8,745	4,999	2,361	17,638	1,116
Delaware	9,007	499	295	5,826	1,655
District of Columbia	499	99	249	999	19
Florida	34,331	6,620	5,371	77,482	16,401
Georgia	62,582	10,121	3,861	35,487	20,294
Hawaii	5,723	99	140	6,950	499
Idaho	15,314	99	250	5,272	2,525
Illinois	78,818	27,535	13,601	69,134	28,007
Indiana	33,532	78,970	4,419	29,599	24,027
Iowa	50,444	7,172	1,489	13,621	20,744
Kansas	31,090	3,502	1,000	13,990	6,525
Kentucky	22,741	27,418	2,863	18,481	8,269
Louisiana	18,936	1,423	1,944	16,039	5,664
Maine	7,306	999	499	5,334	2,139
Maryland	14,981	2,163	1,938	32,677	3,374
Massachusetts	20,861	3,669	2,286	29,965	3,188
Michigan	30,393	162,294	7,621	50,854	14,476
Minnesota	46,875	4,713	2,495	37,728	8,560
Mississippi	26,316	6,339	813	8,107	8,234
Missouri	37,374	14,734	4,999	31,318	18,471
Montana	2,247	99	268	4,645	2,049
Nebraska	36,665	3,708	744	8,945	11,052

## ASSET-BASED LENDING SURVEY RESULTS (Cont.)

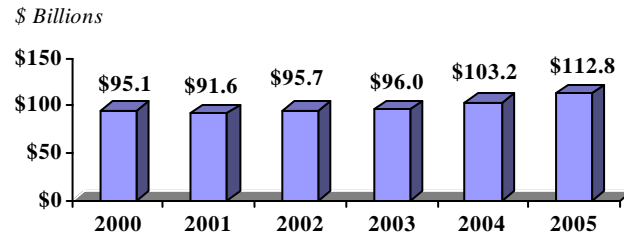
Industry State	Food Manufacturing	Motor Vehicle Parts Manufacturing	Metal Service Centers/ Distributors	Retail Department Stores	General Freight Trucking
Nevada	3,760	687	423	13,124	1,171
New Hampshire	2,490	1,591	636	10,098	1,667
New Jersey	29,886	2,499	4,540	42,891	7,753
New Mexico	5,054	99	499	6,672	2,521
New York	51,230	30,659	6,004	72,413	8,117
North Carolina	52,092	18,367	2,966	36,928	20,081
North Dakota	5,325	999	99	5,354	2,727
Ohio	55,333	97,443	9,057	63,982	24,292
Oklahoma	15,184	5,965	2,012	13,546	7,845
Oregon	19,488	1,902	2,499	14,029	8,106
Pennsylvania	71,076	13,521	7,200	65,724	22,765
Rhode Island	2,748	499	499	3,846	635
South Carolina	17,199	17,252	1,205	15,046	7,197
South Dakota	7,258	783	249	4,827	2,296
Tennessee	39,724	33,836	3,444	25,179	25,484
Texas	88,450	12,195	13,217	88,307	36,586
Utah	14,034	4,585	1,080	9,523	10,103
Vermont	3,579	249	99	2,499	615
Virginia	33,654	8,641	1,987	34,023	10,776
Washington	32,636	2,688	4,999	26,311	7,277
West Virginia	4,348	2,499	602	7,273	1,678
Wisconsin	61,968	17,234	2,242	39,378	25,710
Wyoming	499	99	249	2,499	999
Total Employees	1,496,106	691,256	150,664	1,370,317	553,636

Source: County Business Patterns

## FACTORING SURVEY RESULTS

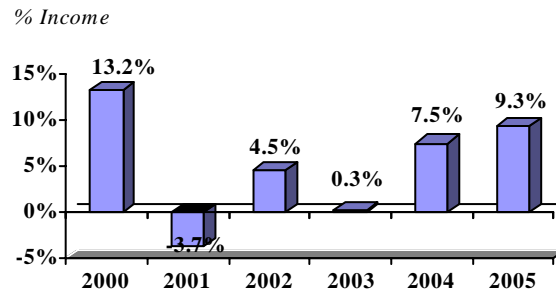
---

- Factoring volume for U.S. factors grew to \$112.8 billion in 2005, a 9.3% increase over 2004. This includes domestic factoring as well as import and export factoring.



Factoring growth in 2005 was attributable not only to economic expansion, but also to greater acceptance of the factoring product.

- The U.S. factoring market achieved its strongest year-to-year growth since 2000.

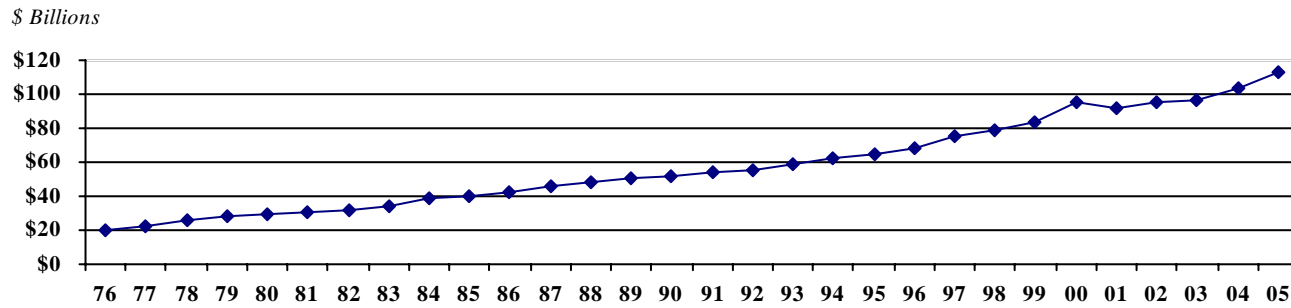


## FACTORING SURVEY RESULTS (Cont.)

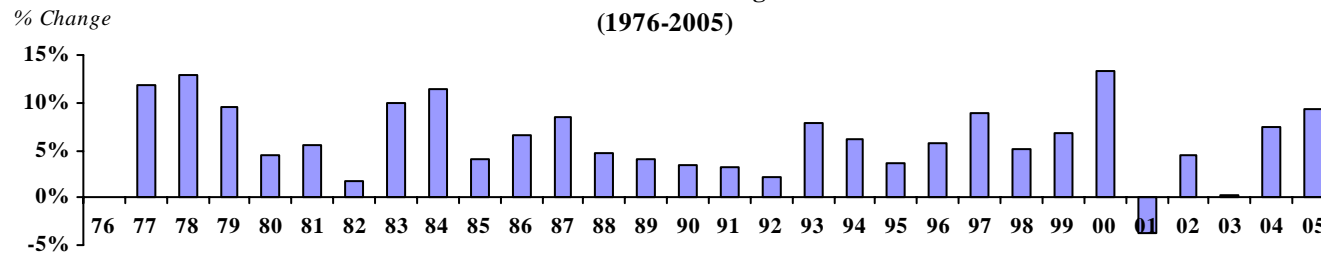
---

- Factoring in the U.S. also has been a growth market since 1976.

Annual Factoring Volume  
(1976-2005)



Year-to-Year Change  
(1976-2005)



## FACTORING SURVEY RESULTS (Cont.)

---

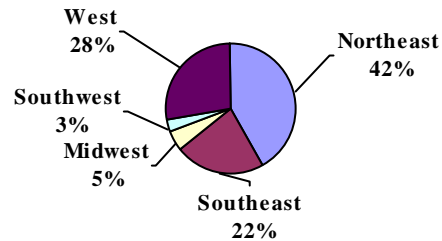
### Annual Factoring Volume (1976-2005)

Year	Total Factoring (\$ Billions)	Percentage Change vs. Last Year (%)
2005	\$112.8	9.3%
2004	103.2	7.5
2003	96.0	0.3
2002	95.7	4.5
2001	91.6	-3.7
2000	95.1	13.2
1999	84.0	6.9
1998	78.6	5.1
1997	74.8	8.8
1996	68.7	5.7
1995	65.0	3.6
1994	62.8	6.2
1993	59.2	7.9
1992	54.8	2.1
1991	53.7	3.2
1990	52.0	3.5
1989	50.3	3.9
1988	48.4	4.7
1987	46.2	8.4
1986	42.6	6.5
1985	40.0	4.0
1984	38.5	11.5
1983	34.5	9.9
1982	31.4	1.7
1981	30.9	5.6
1980	29.2	4.6
1979	27.9	9.5
1978	25.5	12.9
1977	22.6	11.9
1976	20.2	-

## FACTORING SURVEY RESULTS (Cont.)

---

- **The Northeast and Southeast regions accounted for almost two-thirds of domestic volume.**



**The Northeast is the major region for factoring volume.**

*"Northeast" includes CT, DE, MA, ME, NH, NJ, NY, PA, RI, VT*

*"Southeast" includes AL, FL, GA, KY, MD, MS, NC, SC, TN, VA, WV*

*"Midwest" includes IA, IL, IN, KS, MI, MN, MO, MT, ND, NE, OH, SD, WI, WY*

*"Southwest" includes AR, CO, LA, NM, OK, TX*

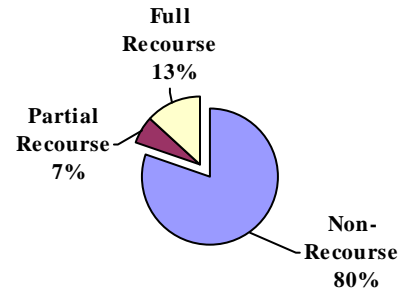
*"West" includes AK, AZ, CA, HI, ID, NV, OR, UT, WA*

- **While only limited information relating to the international factoring activities of U.S. factors was reported, data from other sources such as Factors Chain International suggest that international factoring is a huge industry.**
  - According to Factors Chain International, global factoring now exceeds \$1 trillion in annual volume.

## FACTORING SURVEY RESULTS (Cont.)

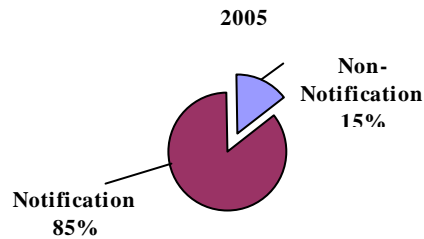
---

- Most (80%) factoring in 2005 was on a non-recourse<sup>(1)</sup> basis.



Factoring is largely a non-recourse, notification business.

- The majority (85%) of factoring was also performed on a notification<sup>(2)</sup> basis.



<sup>(1)</sup>Factoring is largely the outright purchase of accounts receivable by a factor on a “non-recourse” basis. “Non-recourse” only applies to the inability of the client’s customer to pay for credit reasons. Should disputes arise as to the quality and quantity of merchandise ordered, etc., then there is recourse from the factor to its client.

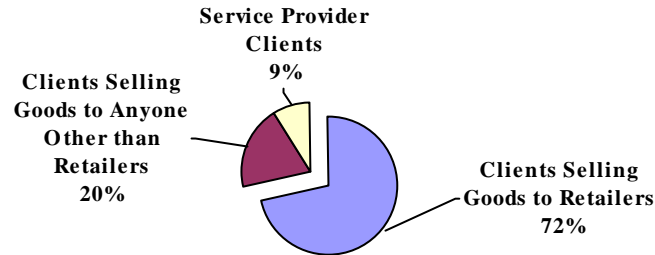
<sup>(2)</sup>The factoring arrangement between the factor and its client usually requires that the client notify its customers that their accounts receivables have been assigned to the factor and that payment should be remitted to the factor.

## FACTORING SURVEY RESULTS (Cont.)

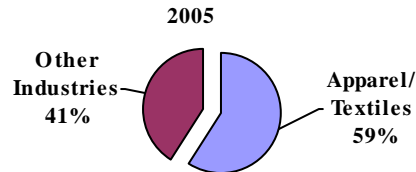
---

- Most factoring volume (72%) involved client sales to retailers.

Factors have been seeking expansion in new industries beyond textiles and apparel.



- The top client industry, textiles/apparel, continued to represent almost 60% of factored volume in 2005.



- Other factored client industries included:

Business services	Electronics	Plastic products
Construction	Energy	Printing
Consulting Services	Fabricated metal products	Staffing/temporary employment
Contractors (e.g., HVAC)	Furniture	Telecommunications
Delivery services	Janitorial services	Transportation