



Facts on

ASSET-BASED FINANCING, EQUIPMENT & VEHICLE LEASING IN CANADA

The 225 members of the CFLA are active in the asset-based financing, equipment and vehicle leasing industry in Canada. Members range from large multinationals to national and regional domestic companies, crossing the financial services spectrum from manufacturers' finance companies and independent leasing companies, to banks, insurance companies, and suppliers to the industry.

The asset-based financing and leasing industry is the largest provider of debt financing to business customers and consumers in Canada after the traditional lenders (banks and credit unions).

WHAT IS ASSET-BASED FINANCING?

Asset-based financing is the priority financing of equipment, vehicles and related assets primarily by way of lease, but also by secured loan or conditional sales contract.

The specific assets financed are the principal security for the borrower's unconditional obligation to make payments over the term of the agreement. In this way, users of equipment and vehicles can use the value of the asset as security to finance its acquisition. This form of financing relies on cash-flow-based credit analysis. Because the financing company retains legal ownership of the asset until the lease end, it allows a business or individual to qualify on generated cash flow rather than on a net worth lending formula basis as typically offered by traditional lenders.

Funding for this industry comes from commercial markets, notably from pension funds, insurance companies and banks. In addition, well-capitalised manufacturing and servicing companies with substantial earnings have decided to leverage their own equity base and core competencies rather than using third parties. This has led to many manufacturers establishing their own financing arms or partnering with those who manage it for them.

The services of the leasing industry are complementary to traditional banking and other financial lending in providing incremental capital to increase the pool of available credit in Canada and provide a vital competitive alternative in the financial services sector.

THE INDUSTRY ... AT A GLANCE

At December 31, 2008, the industry's portfolio of assets (owned and managed) was estimated to be worth **\$108.3 billion**¹.

Assets owned and managed	2008	2007	07-08% ch
New Business Total (\$billions)	43.9	45.3	-3%
Commercial Equipment	18.1	18.5	-2%
Commercial Vehicles	4.5	5.3	-15%
Retail Vehicles	21.3	21.5	-1%
Total Assets (\$billions)	108.3	107.7	0%
Commercial Equipment	42.3	40.5	4%
Commercial Vehicles	11.5	12.1	-4%
Retail Vehicles	54.4	55.2	-1%

¹ Estimates prepared by The Centre for Spatial Economics, Milton, Ontario. Totals may not add up due to rounding.

According to Statistics Canada, business spending on machinery and equipment in 2008 was about \$115.0 billion and is forecast for 2009 at \$107 billion, a decrease of 6.7%². Around 20% of annual new business investment in machinery, equipment and commercial vehicles is financed by this industry.³

Private and Public Machinery & Equipment Investment by Province

	Millions of Dollars		% Growth	
	2009F	2008	2009F	2008
Canada	107,219	114,961	-6.7%	0.3%
Atlantic	5,560	5,762	-3.5%	-10.6%
Quebec	20,273	20,843	-2.7%	1.3%
Ontario	40,672	42,831	-5.0%	0.0%
Manitoba/Saskatchewan	7,830	7,650	2.4%	3.3%
Alberta	20,863	24,744	-15.7%	2.4%
British Columbia	11,551	12,534	-7.8%	1.4%

Source: Statistics Canada, Private and Public Investment Intentions

In 2008, of the 1,674,145 total passenger and light vehicle sales in Canada⁴, approximately 52% were acquired by way of lease.

In 1998, the federal (MacKay) Task Force on the Future of the Canadian Financial Services Sector reported that the assets of the asset-based financing and leasing industry in 1997 totaled \$50 billion⁵. By 2008, the value of the assets of the industry had risen to \$108.3 billion.

Leasing activity by equipment type

The table below highlights the distribution of assets by equipment type for the equipment lessors.

**Distribution of Reported Equipment Assets by Type
 (excludes independent & manufacturer vehicle lessors)**

Equipment Type:	2008	2007
Total Finance Assets (\$millions)	19,478	18,658
% change	4.4%	
Share of Finance Assets:		
Automotive Total	27%	29%
<i>Trucks</i>	14%	15%
<i>Passenger</i>	6%	7%
<i>Trailers</i>	5%	5%
<i>Buses</i>	2%	1%
Construction	18%	18%
Hotels, Restaurants, Apartments	9%	8%
Aircraft & Related	8%	7%
Manufacturing & Processing	8%	9%
Office Equipment	6%	5%
Mining & Petroleum	4%	4%
Materials Handling	3%	2%
Computers (hardware & software)	3%	2%
Medical, Health Services	2%	2%
Forestry	2%	3%
Store Furniture, Fixtures, Equipment	2%	2%
Agricultural	1%	1%
Railway Rolling Stock	1%	1%
Telecommunications	1%	0%
Water Vessels	0%	0%
Office Furniture, Fixtures	0%	0%
Other	5%	6%

Source: The Centre for Spatial Economics. Note: Total finance assets include all owned and managed loans and leases held by the reporting companies.

² *Private and Public Investment in Canada, Intentions 2009*, Statistics Canada (61-205-XIB), The Daily, February 25, 2009

³ *2009 Annual CFLA Survey: Asset-Based Financing & Leasing in Canada*, The Centre for Spatial Economics

⁴ *New Motor Vehicle Sales*, June 2009, Statistics Canada (63-007-X)

⁵ *Report of the Task Force on the Future of the Canadian Financial Services Sector*, September 1998, at p. 43

THREE DECADES OF FEDERAL POLICY:

An efficient and sound financial system assuring a diversity of choice

Federal policy over the last three decades has actively sought to expand and diversify the number of financial service providers in the Canadian marketplace. This policy has been based on the view that users of financial services, both individuals and businesses, stand to benefit most if the financial services marketplace:

- assures an expanding diversity of choice of providers;
- increases the pool of credit and capital;
- improves access to credit and capital;
- ensures access to innovative services and products; and,
- increases available specialized technical expertise.

By ensuring that a wide diversity of financial providers exists to offer Canadian consumers and businesses a range of financing solutions, the asset-based financing, vehicle and equipment industry plays an important role in Canada's financing sector. It has been active in Canada since the 1960s. The fundamental business model is proven effective and in demand by both business and consumer customers.

Impact of the current credit crisis – reduction in choice?

With the current crisis in the credit markets, if liquidity is not restored, many of those financial service providers will disappear from the Canadian marketplace. Once gone, their financing products, services and expertise cannot be easily replaced. By way of example, according to a post-budget presentation prepared by the Department of Finance, \$1.125 Trillion of business credit was outstanding in 2007:

Non-equity Financial Markets	\$458 Billion	(41%)
Equity	\$306 Billion	(27%)
Chartered Banks	\$271 Billion	(24%)
Other	\$ 90 Billion	(8%)

It is the Non-equity Financial Markets (where most CFLA members can be found) that have been the most severely impacted in the current liquidity crisis. All reports suggest that the banks have increased available credit but it is not possible to expect them to fill the very substantial vacuum left by Non-equity Financial Markets. Canadian consumers and businesses will be the losers because there will be fewer financial providers and fewer financial product alternatives available.

ASSET-BASED FINANCING, PRODUCTIVITY AND ECONOMIC GROWTH IN CANADA

*Asset-based financing, investment and economic growth in Canada*⁶, a 2004 groundbreaking study prepared by The Centre for Spatial Economics, a respected, independent group of economists who are also retained by the federal Department of Finance, has found that:

“the rise in asset-based financing from 1992 to 2002 improved living standards in Canada by 2.3% (or about 8% of the 26.8% increase in Canada's living standards over that period).”⁷

This study was positively peer-reviewed by Jack Mintz, then Professor of Taxation at the Rotman School of Management at the University of Toronto, and then CEO of the C.D. Howe Institute, and by Jim Stanford, Economist in the Research Department of the Canadian Auto Workers(CAW).

“This unique study overwhelmingly demonstrates the importance of asset-based financing to Canada's economic growth by supporting greater financial product choice and innovation. The industry contributes a disproportionate share to higher living standards that has been experienced during the decade, 1992-2002.”

Dr. Jack Mintz

Key findings

Investment drives productivity – economic research states that machinery and equipment investment directly contributes to labour productivity gains by increasing the amount of productive

⁶ *Asset-based financing, investment and economic growth*, The Centre for Spatial Economics, Milton, Ontario, December 15, 2004 http://www.cfla-acfl.ca/files/public/CFLA-Final_Economic_Report-PDF-Dec04.pdf

⁷ *Asset-based financing, investment and economic growth* (see footnote #6), at p. 62

capital available for workers to use. Research also suggests that machinery and equipment investment is either directly the agent of technological change, or else an important facilitator in the diffusion of new technology.

Productivity raises living standards – in order to boost living standards either labour productivity needs to rise, or people need to work harder, or more people need to become employed, or more people of working age need to enter society relative to total population. Canadian living standard gains rely primarily on labour productivity growth.

Financial system development promotes investment – research conducted by the OECD supports the notion that financial system development promotes capital spending and that countries with weaker financial systems are unable to effectively channel domestic or global savings towards new investment opportunities.

Asset-based financing adds significantly to the financial system – the analysis in this report finds that asset-based financing was responsible for a 2.3% increase in Canada's living standards over the decade 1992 to 2002 (or about 8% of the total increase in Canada's living standards over that decade). Asset-based financing makes a significant positive contribution to increasing national living standards.

FURTHER REFERENCE DOCUMENTS

A more detailed analysis of industry data is contained in *The 2009 Annual Survey of Asset-based Financing and Leasing in Canada*, prepared for CFLA by The Centre for Spatial Economics, Milton, Ontario.

- ▶ CFLA Annual Reports 2003-2008. Please go to: <http://www.cfla-acfl.ca/members/annualreport.asp>
- ▶ CFLA *Backgrounder* on the Asset-based financing, equipment & vehicle leasing industry in Canada. Please go to: http://www.cfla-acfl.ca/files/public/CFLA_Backgrounder-Jan06.pdf
- ▶ *Asset-based Financing and Leasing in Canada: an Overview*, published in the World Leasing Yearbook 2010. Please go to: http://www.cfla-acfl.ca/files/public/CFLA-Reference-World_Leasing_Yearbook_2010.pdf
- ▶ *Asset-based financing, investment and economic growth*, The Centre for Spatial Economics, Milton, Ontario, December 15, 2004. Please go to: http://www.cfla-acfl.ca/files/public/CFLA-Final_Economic_Report-PDF-Dec04.pdf