

Equipment Repossession Index: New Tool for Mitigating Risk

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BY EDWARD CASTAGNA

EDITOR'S NOTE:

The *Monitor* and *monitordaily.com* will provide NasTrac's Quarterly Index (NQI) in print and online to keep readers abreast of equipment types generating the greatest volume of liquidations.

Whenever a customer defaults on a lease or loan, there is usually more to blame than simple business mismanagement. There often are broader economic forces affecting the customer's market and industry that played a role in the default. That's why statistics on repossessions are of vital interest to equipment leasing and finance companies determined to mitigate risk in their portfolios.

Nassau Asset Management has tracked equipment for several decades as a function of its nationwide remarketing operation, which recovers and resells all types of assets, including construction equipment, printing presses, machine tools, and buses, for a broad client base involving many different vendors. Recognizing the value its historic and current data holds for the equipment leasing and finance industry, the company has launched the NasTrac Quarterly Index (NQI), which reports on equipment types generating the greatest volume of liquidations.

The *Monitor* and *monitordaily.com* will keep readers abreast of NQI data as it becomes available. In addition, Nassau clients can obtain more detailed information as part of the NasTrac service, including customized data on specific types of equipment and their values extending back to the year 2000.

NQI's public data provides a snapshot of recent recovery and sales activity compared with the same time frame a year before, helping equipment leasing and finance companies forecast current market conditions so they can evaluate the strengths and weaknesses of their portfolios. Portfolio managers whose programs are heavy in the types of assets experiencing the most repossessions as tracked by NQI, for example, can consider the data among other variables when developing a framework for future decision-making.

"For years, asset managers have had lots of equipment sales data available from auction and industry trade publications, blue books, and the like. Nassau has taken information retrieval and collection a step further

by developing a unique set of statistical data that can be individualized for each user, while complimenting the information we already use in analyzing industries and equipment," says Jim Noyes, senior vice president of asset management for Greater Bay Capital in Lincolnshire, Illinois. "NQI's tracking and reporting on repossessed assets and their historic values will provide the asset manager with another useful tool for mitigating risk in their equipment lease portfolios."

Repossessions of printing presses were down by 68% and construction equipment by 24% compared with the same time frame in 2002.

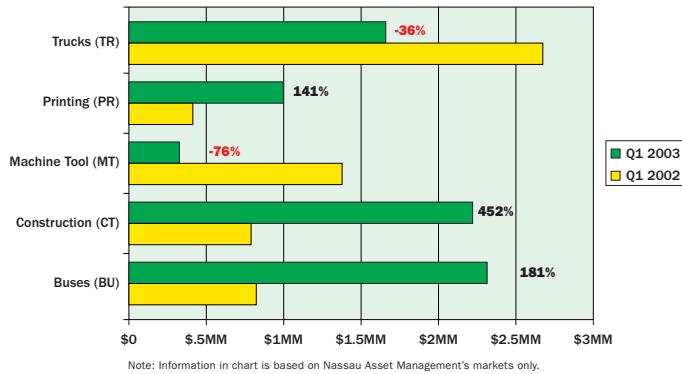
NQI also can be leveraged as one of several components to help gauge the economic health of individual industry sectors. Viewed over time, NQI's quarterly data on repossessions can be compared with data from the previous year to help identify which industry sectors may be experiencing financial downturns, upturns, or merely cyclical changes.

Readers should keep in mind that the assets NQI covers may change from quarter to quarter since Nassau plans to feature only the largest asset groups in its multimillion dollar portfolio. Additionally, results must be viewed over several quarters to establish reliable trends.

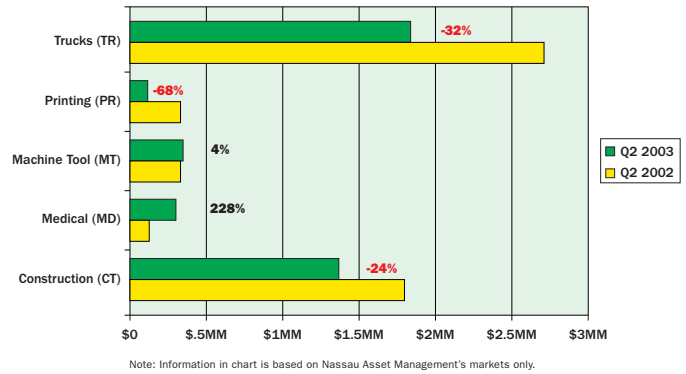
The first NQI reported on trucks/ trailers, printing machines, machine tools, construction equipment, and buses. These were the top five repossessed capital assets in the first quarter (1Q) of 2003, according to Nassau's internal records on liquidations. See *Figure 1: Top Repossessions in 1Q 2003*.

NQI's 1Q data, when compared with the same quarter a year ago, shows there was a 36 percent decrease in repossessions of trucks and trailers, and a 76 percent decrease in repossessions of machine tools. NQI's data on machine tools was in line with findings released Sept. 7 by the American Machine Tool Distributors Association and the Association for Manufacturing Technology, which reported increased demand

Nastrac's Quarterly Index (NQI)
2003-2002 Q1 Comparison "Top5" Repossessed Capital Assets



Nastrac's Quarterly Index (NQI)
2003-2002 Q2 Comparison "Top5" Repossessed Capital Assets



for machine tools that could be signs of a healthier manufacturing industry. NQI data also was consistent with favorable trends in the trucking industry outlined later in this article.

However, other sectors clearly suffered in 1Q 2003. Construction equipment repossessions, for example, jumped 452 percent. Repossessions involving printing presses increased by 141 percent, and those involving buses by 181 percent. These 1Q results are especially interesting given that the prior year benchmarks occurred during 2002, which was itself a difficult year for the equipment leasing and finance industry. The Equipment Leasing Association (ELA) 2003 Survey of Industry Activity estimates that there was a year-to-year contraction in the leasing and finance industry of 4.6 percent from 2001 to 2002. Additionally, Return on Assets (ROA) decreased by 1.2 percent and Return on Equity (ROE) dropped 11.2 percent, based on data compiled from respondents to the survey.

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The second NQI reports on trucks/ trailers, printing machines, machine tools, medical equipment, and construction equipment. These were the top five repossessed capital assets in the second quarter (2Q) 2003, according to Nassau's internal records on liquidations. Repossessions involving buses, which dropped off the Top 5 list in 2Q, historically peak in 1Q each year for Nassau Asset Management. See Figure 2: Top Repossessions in 2Q 2003.

The 2Q data, when compared with the same quarter a year ago, shows there was a 32 percent decrease in repossessions of trucks/trailers. Repossessions of printing presses were down by 68 percent and construction equipment by 24 percent compared with the same time frame in 2002. Machine tools did not perform quite as well, with repossessions increasing slightly, by 4 percent. Medical devices made the Top 5 list in 2Q, posting a 228 percent increase in repossessions compared with 2Q 2002.

Truck Repos Down in First Half of 2003

NQI statistics to date indicate that fewer trucks were repossessed in the first two quarters of 2003 than the same time last year, down 36 percent and 32 percent in Q1 and Q2, respectively. If clear trends can be established over the next few quarters by NQI, this may be another sign that the economy is indeed improving for the trucking industry.

TransportTopics, an e-newsletter of the American Trucking Association, on Sept. 10 alerted members to an Associated Press story indicating trucking was starting to show growth that many economists associated with a true improvement in the U.S. economy.

"Although the industry is still negatively affected by high diesel prices and insurance costs, analysts said trucking companies have been able to pass along most of these expenses to their customers as a result of tight capacity and increased demand," the newsletter said. The story also reported that the Dow Jones Trucking Index, which tracks 38 companies in the sector, was up 33 percent over the past year.

Nassau expects to release Q3 data on repossessions involving trucks and other assets during the ELA Convention in October, followed by year-end data in early 2004. **m**

EDWARD CASTAGNA is senior vice president of Nassau Asset Management, a nationwide company based in Roslyn Heights, NY, that has been providing full-service asset management, including asset recovery, collections, global remarketing, full plant liquidations, and appraisals, for more than 25 years to the equipment leasing and finance industry. For more information, please visit www.nasset.com, email Castagna at ecast@nasset.com or call 1-800.4.NASSAU, ext. 301.