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FIRST-OF-ITS-KIND STUDY DIMENSIONS \$4 TRILLION DOLLAR U.S.

SECURED COMMERCIAL FINANCE MARKET

Secured Financings Underpin 20 Percent of Transaction Volume in Nation's GDP; Fuel Over 1 Million U.S. Businesses

NEW YORK, March 7, 2019 - The Commercial Finance Association Education Foundation, soon to become the Secured Finance Foundation, today announced the findings of a comprehensive study of the scope and impact of the secured commercial finance market in the U.S. [The 2019 Secured Finance Market Sizing & Impact Study](#), conducted with the assistance of Ernst & Young LLP (EY), was based on surveys of industry participants, in-depth interviews with subject matter specialists and data from a broad range of sources that track the loan markets.

“The results of this landmark study dimension for the first time the breadth, vitality and interconnectedness of the \$4 trillion network of secured finance providers who deploy the capital that fuels our nation’s economy,” said Richard D. Gumbrecht, CEO of the Commercial Finance Association (soon to become the Secured Finance Network). “This study substantiates a number of never-before-available insights such as the size and characteristics of the market for non-syndicated asset-based lending which offers a lifeline to many small and medium-sized businesses and their employees.”

Report highlights:

- The secured commercial finance market in the U.S. is comprised of several large and distinct, but interrelated, product segments including asset-based lending (ABL), factoring, supply chain finance, equipment finance and leasing, leveraged and cash-flow loans, and asset-backed securities. Collectively, providers of secured financing employ over 60,000 people and deploy capital to over 1 million U.S. businesses.
- The volume of U.S. secured financing for commercial entities was over \$4 trillion in 2018, affecting either directly or indirectly about one-fifth of U.S. GDP.

Sector specific findings:

- *Asset-Based Lending*. The study estimates \$465 billion of ABL financing commitments in the U.S. as of year-end 2018, a 6 percent increase over 2017, with growth of 6-7 percent estimated for 2019. Losses on ABL loans have been less than five basis points in each of the past three years. The pace of non-syndicated loan growth has more than doubled that of overall commercial and industrial lending during the last four years. After several years of robust market conditions, survey participants have begun to express concerns about covenant-lite structures and diminishing credit protections—characterizing today’s conditions as “a borrower-driven market.”
- *Factoring*. The volume of receivables purchased in factoring arrangements by some 900 U.S. factors was about \$101 billion in 2018 and could grow in the low single-digit range in 2019,

driven by strength in micro, small, and medium enterprises and expansion into nontraditional industry segments.

- *Supply Chain Finance.* Encompassing purchase order finance, supplier finance and inventory finance, the total U.S. supply chain finance market was estimated to be \$416 billion in 2018, a 9 percent increase over the prior year. Supply chain finance helps support U.S. imports and exports and its presence represents an amount equal to 12 percent of total U.S. trade receivables 2018.
- *Equipment Finance and Leasing.* U.S. private enterprises and public institutions acquired about \$1.76 trillion in equipment and software in 2018, representing 8.5 percent of U.S. GDP. Nearly 60 percent of that purchase volume, or about \$1.04 trillion, was financed by either lease, loan or line of credit financing. Growth in software purchases outpaced equipment by 200 basis points, underscoring the importance of this component of the equipment finance landscape.
- *Leveraged Lending.* The Study approximates the total principal outstanding of leveraged loans at year-end 2018 to be about \$4.3 trillion. Approximately \$726 billion of institutional loan volume was issued in 2018, down from \$919 billion in 2017 indicating a cyclical turn. On a combined pro rata and institutional basis, leverage lending was off by 11.6 percent in 2018, but both 2017 and 2018 were materially higher than all prior years. The volume of loans trading in the leveraged loan secondary market grew to over \$1.1 trillion in 2018.
- *Cash Flow Lending.* 2018 was a record year for issuance of investment-grade cash flow loans, rising 26 percent above 2017, reaching \$1.035 trillion.
- *Asset-backed Securitization.* Total outstanding commercial finance-related ABS has grown at a 9.3 percent CAGR since 2010. At \$305 billion as of the end of 2018, these securities represent 40 percent of outstanding ABS, not including collateralized loan obligations (CLOs).

Additional observations:

- Combined, the secured finance types covered in the Study provide financings to companies throughout their lifecycle, ranging from recourse factoring agreements for early-stage companies, ABL, leveraged loans and cash flow loans to higher performing companies. And other tightly monitored forms of secured loans for companies in need of a turnaround.
- Based on survey participants, the industry continues to experience strong growth fueled by economic expansion, abundant liquidity and a moderately rising interest rate environment, but faces headwinds from trade policy uncertainty, aggressive deal terms and growing talent shortages.
- Non-traditional market players are adding to overall market size by serving underrepresented segments, particularly in the small and middle market while innovations are driving some blurring of financing product distinctions, likely resulting in more bundled and hybrid solutions over time.

“This study will have a long-term impact as it will spawn more granular research at the industry, product and geographic level over the coming months and years” added Gumbrecht.

About the Commercial Finance Association

Founded in 1944, the Commercial Finance Association, soon to become the Secured Finance Network, is the international trade organization representing the asset-based lending, factoring, trade and supply chain finance industries, with over 1,000 member organizations throughout the U.S., Canada and around the world. CFA provides education, networking opportunities and industry advocacy to the global secured finance community. For more information please visit cfa.com.

About the CFA Education Foundation

Founded in 1990 the CFA Education Foundation, soon to become the Secured Finance Foundation, exists to cultivate education, innovation and charitable works for the betterment of the secured finance community. As a separate entity from the Commercial Finance Association, the CFA Education Foundation is a 501(c)(3) organization that funds crucial initiatives benefiting secured lenders worldwide. For more information or to make a donation, please visit cfa.com.

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