



SPECIAL REPORT: **Macro-Economics** **of Crane and** **Equipment Finance**

Scott Blair at the controls
of Heartland Wisconsin

Heartland Wisconsin Benefits in Tighter Approval Market

As lending and leasing organizations tighten credit requirements due to slow economic times, one Milwaukee finance company and other firms that specialize in high-risk deals are filling the void.

While the total number of lease and construction equipment loan deals seem to be down, Heartland Wisconsin Equipment Finance & Leasing Corp. is seeing an increase in some types of transactions – and a steady stream of others.

“While the overall number of deals have declined, we are seeing more people come to us instead of their local bank,” Heartland Wisconsin President Scott Blair said. The Milwaukee-based company devotes about half of its efforts to financing construction equipment through dealer networks of manufacturers including Terex and Putzmeister.

Blair’s stable volume of deals is understandable given the more cautious approach of other lenders and leasing companies.

“We started increasing our turndowns nine months to a year ago when we started taking a little harder line from a credit perspective,” Tom Alberti, executive vice president of Johnson Commercial Leasing, a Milwaukee subsidiary of Johnson Bank, Racine, said. “Companies that are start-ups and companies with limited cash flow are probably the ones that have had a hard time getting financing.”

Like Blair, Alberti is involved in the construction equipment market, but has found that equipment deals – particularly for more substantial items – are few and far between.

“Construction equipment – that end of it has been very, very slow,” Alberti said. “With some of the business we already have we are having a hard time getting payments in some cases. Home builders seem fairly busy. I guess we are seeing a range from everything from excavators to skid loaders. The deals we have seen have been smaller pieces – smaller things used by landscapers. Heavy or highway – we haven’t seen much of that in the last year and a half. We have bid on just a few of them.

The difference in volume and types of deals between Heartland Wisconsin and Johnson Commercial Leasing has to do with their vastly different business models. While Johnson Commercial bases their credit decisions on cash flow and a company’s balance sheet, Heartland Wisconsin Corp. bases their decisions on the value of the equipment.

“We strike a balance between cash flow and overall financial strength as reflected on their balance sheets,” Alberti said.

The risk of equipment finance deals Heartland Wisconsin engages in is manageable, according to Blair, because unlike mainstream lenders, the company lends on an asset basis rather than on the basis of cash flow.

Based on Alberti’s recent experience, Blair’s characterization may be accurate. Alberti said that while the company has had some collections problems, they are not of epidemic proportions.

“I do not find it particularly worrisome,” Alberti said. “We have had to tighten our credit standards as the economy is slipping into slower times. Overall, I see most companies being able to pull out of it. Companies that have had serious problems have already fallen by the wayside.”

Other commercial bankers are also seeing customers with problems meeting their financial commitments on capital equipment.

“We have been getting involved with companies that have an existing relationship with another bank – and we can restructure their balance sheet and allow for the extension of shorter term financing for equipment,” Mark Maurer, Market President for Sheboygan-based Wisconsin Business Bank’s Southeast Region, said. “We can use Small Business Administration loans and other programs to free up some operating revenue.”

Maurer said the bank had always been conservative in their lending, but rather than turning down a potential lender outright, was more likely to encourage them to wait before making a purchase.

“Sometimes we are asking companies to wait a while so we can see some type of recovery on their balance sheet before we finance a purchase,” Maurer said.

While Alberti’s and Maurer’s organizations have become more conservative in the current downturn, tough economic times have allowed Blair to extend additional credit to existing customers in the form of equipment equity loans. Equity loan requirements are minimal, according to Blair.

“Those customers have a track record with us,” Blair said. “We just ask them to send us a photograph of the equipment and they have a check in two days.”

Growth in equity loans has been explosive. “We have seen about a 300% increase in the last few months,” Blair said, indicating that the loans are positioned as a quick way for a contractor to get cash. The loans are doing better in parts of the country that are seeing a lot of construction activity, including the south and southwest, according to Blair.

Blair’s observations about the geographic nature of equipment deals is right on, according to Alberti.

“About 80% of our business is in Wisconsin, but we have programs with some distributors nationwide,” Alberti said. “Some of them are seeing a little more activity than we are seeing locally – in the small crane business for example. We see activity in the south and the southeast. Maybe a little bit in the southwest. It may be more active in other parts of the country because there is a weather component. As you get further south, there is more activity there.”

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