

Secured Finance Network



An association of professionals
putting capital to work

Annual Asset-Based Lending and Factoring Surveys, 2006

Non-Member Edition

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INTRODUCTION

Objective

The principal objective of these Secured Finance Network surveys has been to provide data on asset-based lending and factoring industry activity in 2006 vs. 2005.

The SFNet represents asset-based lenders across the entire collateral/ credit risk spectrum, as well as full-service and entrepreneurial factoring organizations.

The SFNet also represents hedge funds, tranche B/junior lenders, floorplanners, captive finance companies, and other organizations that provide secured business-to-business finance.

The survey results herein are based on extrapolations of data obtained from SFNet members and other sources.

Methodology

Questionnaires were submitted by more than 100 members of the Secured Finance Network.

Data from member questionnaires was extrapolated to account for organizations beyond the SFNet membership that are also active in commercial finance.

These surveys were conducted by R.S. Carmichael & Co. under the guidance of the SFNet Management Information Committee and professional staff.

The following report provides highlights of the surveys and more detailed data on the asset-based lending and factoring industries.

HIGHLIGHTS

The U.S. commercial finance industry experienced another strong year in 2006.

Asset-based lenders reported above-average growth (16%).

The asset-based lending industry approached the \$500 billion milestone in terms of aggregate loans outstanding.

Industries utilizing asset-based loans in 2006 were broad-based.

The performance of factoring organizations was also positive in terms of volume growth (nearly 13%) in 2006.

While industries using factoring were still concentrated, the client base seemed more diverse than in the past.

Non-accruals and write-offs reported by asset-based lenders and factors deteriorated somewhat in 2006; however, portfolio performance appeared to be within normal parameters.

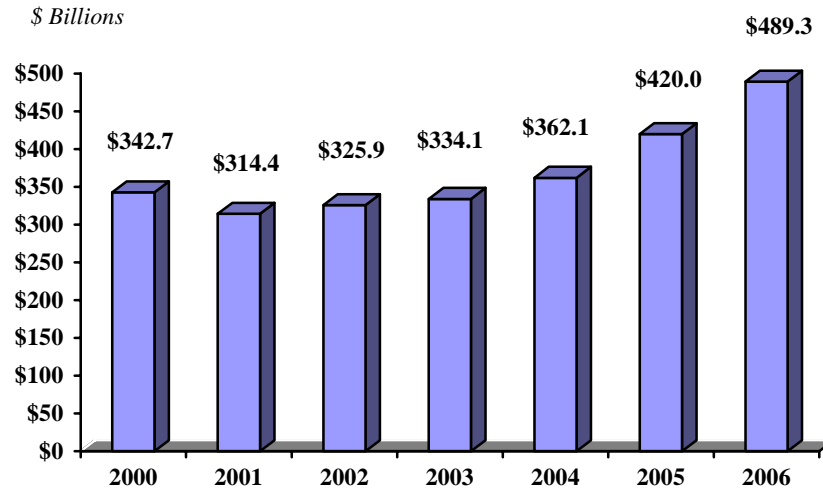
Industry profitability in terms of ROA and ROE remained stable.

The state of the commercial finance industry was again very positive in 2006.

ASSET-BASED LENDING SURVEY RESULTS

The U.S. asset-based lending industry grew 16.5% in 2006 and approached the \$500 billion level in terms of total asset-based loans outstanding at year-end.

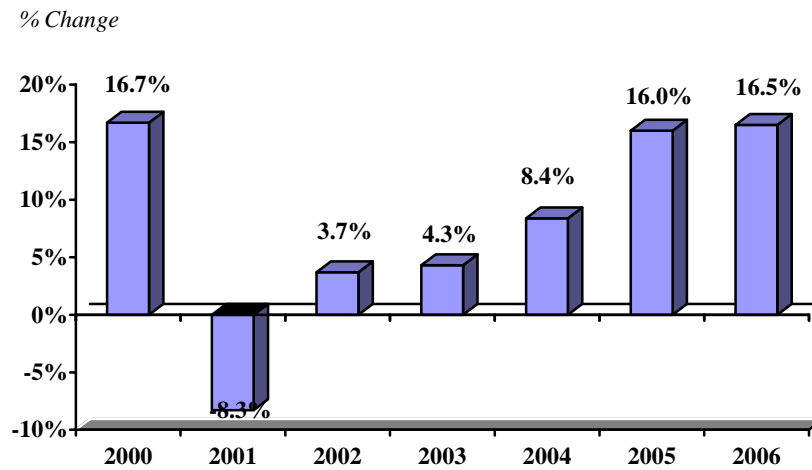
The asset-based lending industry will soon surpass the \$500 billion milestone.



ASSET-BASED LENDING SURVEY RESULTS (Cont.)

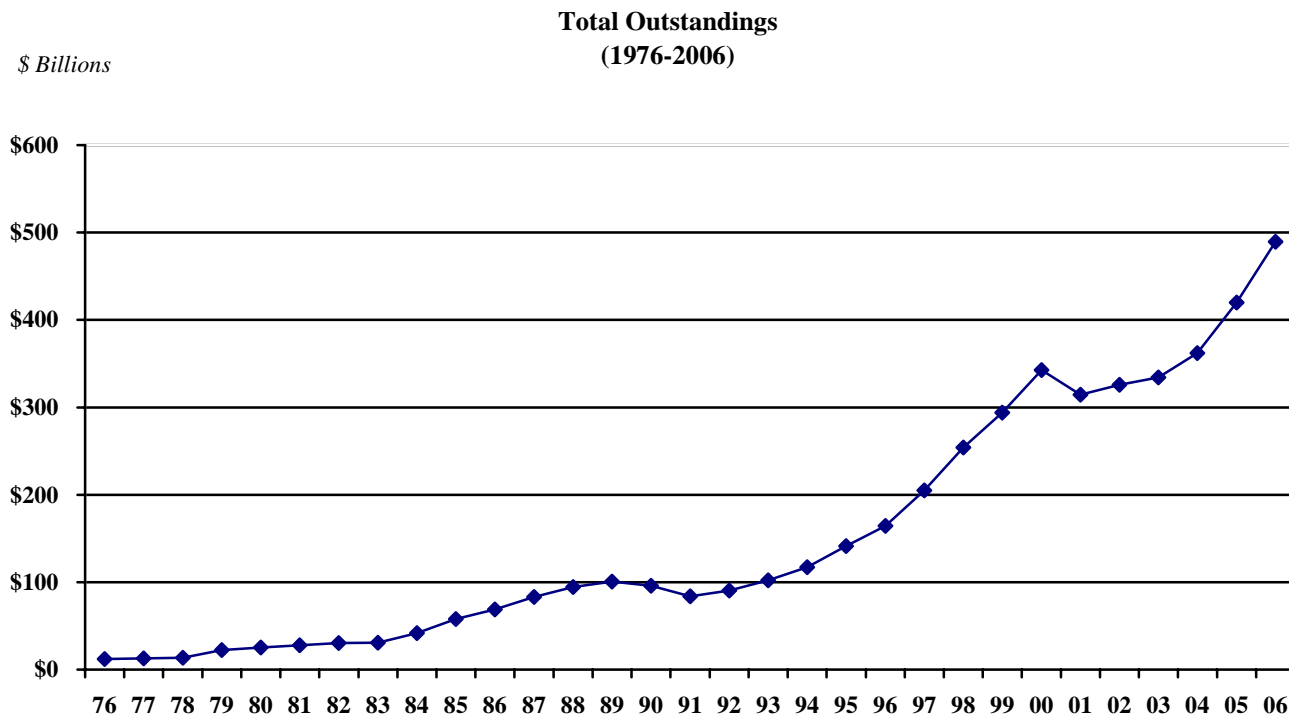
Annual growth above 16% has not been experienced by the asset-based lending industry since 2000.

Growth of asset-based lending over the past two years has been particularly strong.



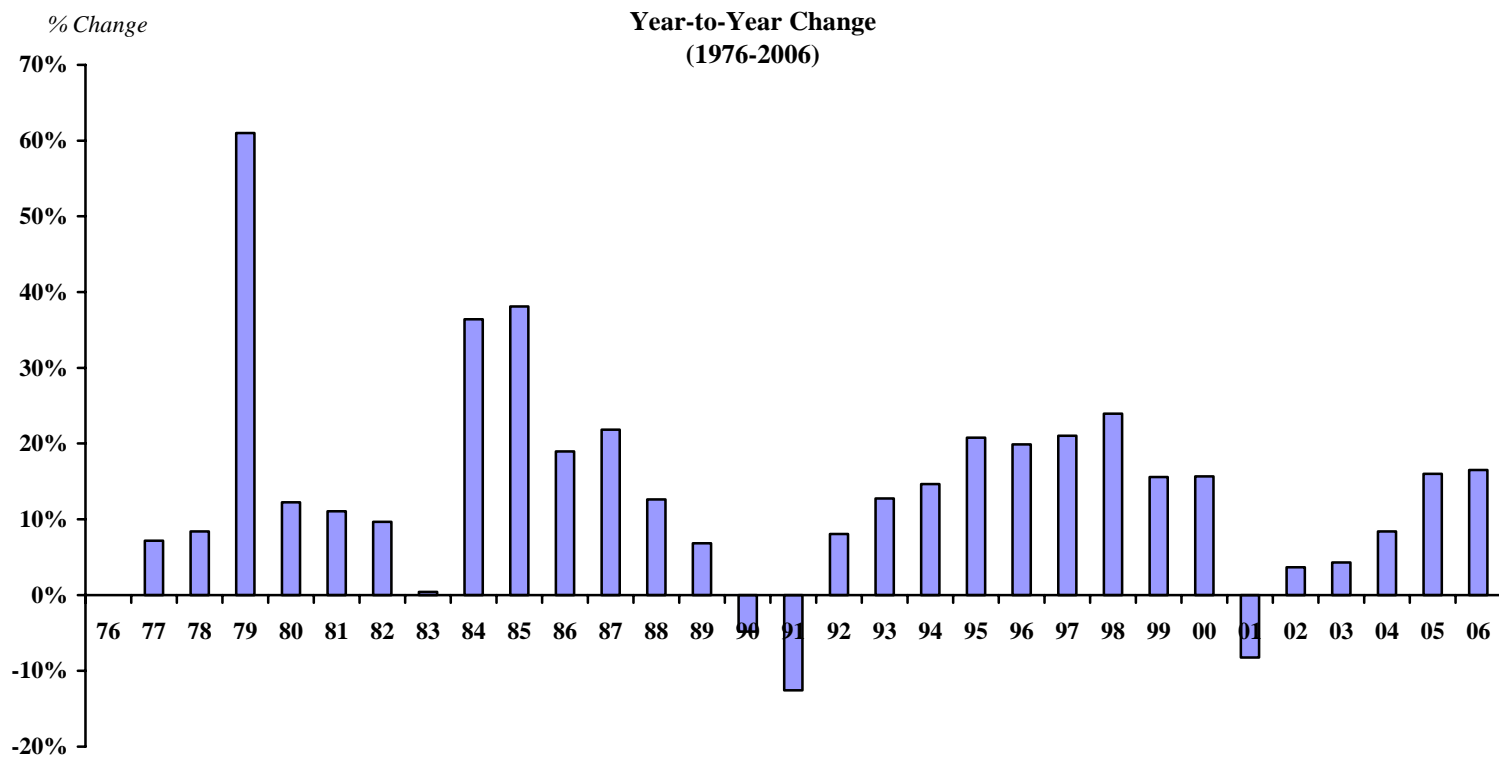
ASSET-BASED LENDING SURVEY RESULTS (Cont.)

The asset-based lending industry has sustained its growth over the past 30 years.



ASSET-BASED LENDING SURVEY RESULTS (Cont.)

The median year-to-year industry change over the past 30 years has been 12.6%.



ASSET-BASED LENDING SURVEY RESULTS (Cont.)

Total Outstandings (1976-2006)

Year	Total Outstandings (\$ Billions)	Percentage Change vs. Last Year (%)
2006	\$489.3 ⁽¹⁾	16.5%
2005	420.0	16.0
2004	362.1	8.4
2003	334.1	2.5
2002	325.9 ⁽²⁾	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	-

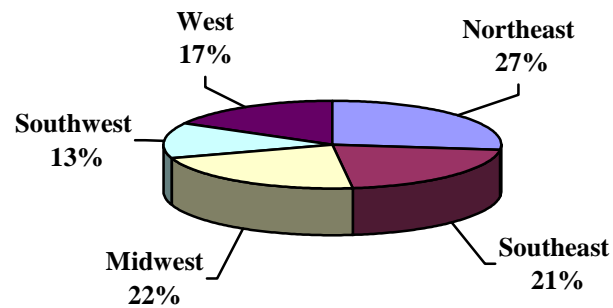
⁽¹⁾Total outstandings, year-end (2003-2006)

⁽²⁾Total outstandings, monthly average (1976-2003)

ASSET-BASED LENDING SURVEY RESULTS (Cont.)

The Northeast was the largest region in terms of ABL outstandings.

Asset-based lending was regionally dispersed in 2006.



"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

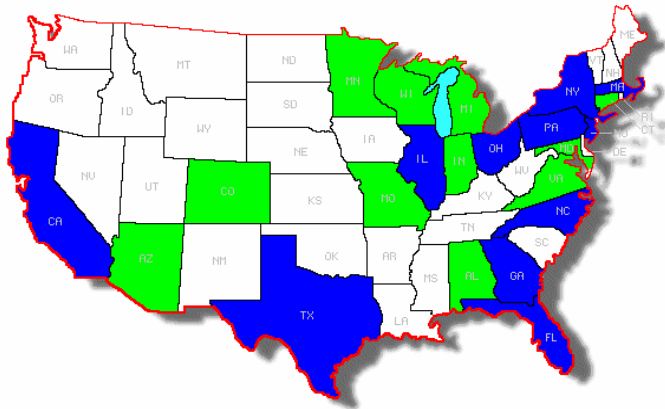
"Southwest" includes AR, CO, LA, NM, OK, TX

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

ASSET-BASED LENDING SURVEY RESULTS (Cont.)

Rust Belt states such as Illinois, Ohio and Pennsylvania were among the largest asset-based lending markets. (Blue states: >\$2 billion in outstandings; green states: \$800 million to \$2 billion.)

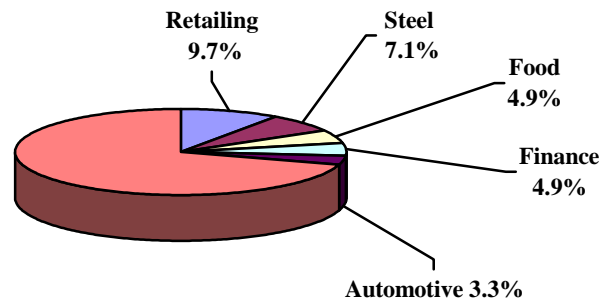
California, New York, and Texas continued to be the top 3 states in terms of ABL outstandings.



ASSET-BASED LENDING SURVEY RESULTS (Cont.)

The retailing, steel, food, finance and automotive industries represented nearly 30% of total outstandings in 2006.

Industries utilizing asset-based loans were broad-based.

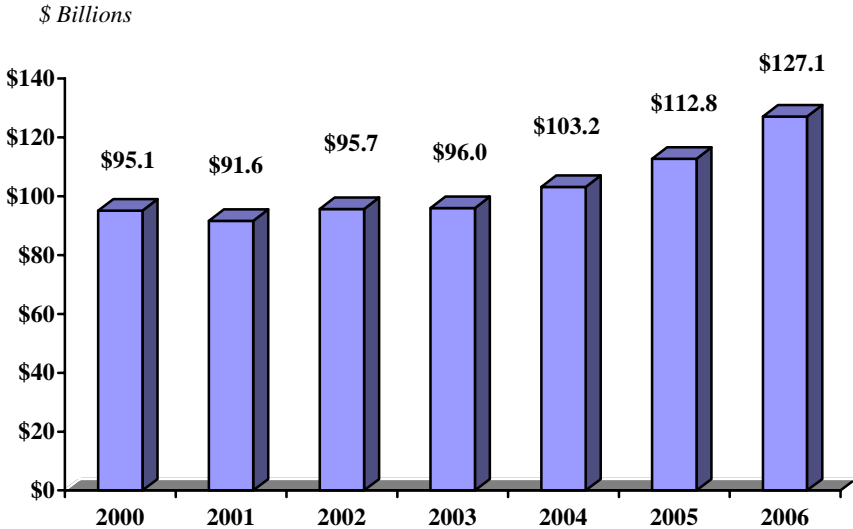


Other notable industries for asset-based lenders included lumber, textiles printing, furniture, information technology, and healthcare.

FACTORING SURVEY RESULTS

Factoring volume for U.S. factors grew to \$127.6 billion in 2006, a 12.7% increase over 2005.

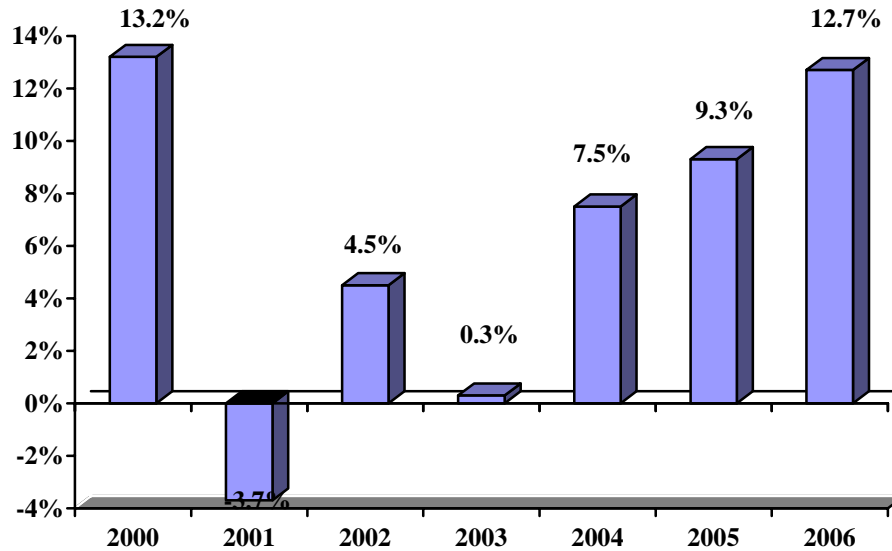
Factor performance was again positive in 2006 in terms of volume growth.



FACTORING SURVEY RESULTS (Cont.)

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

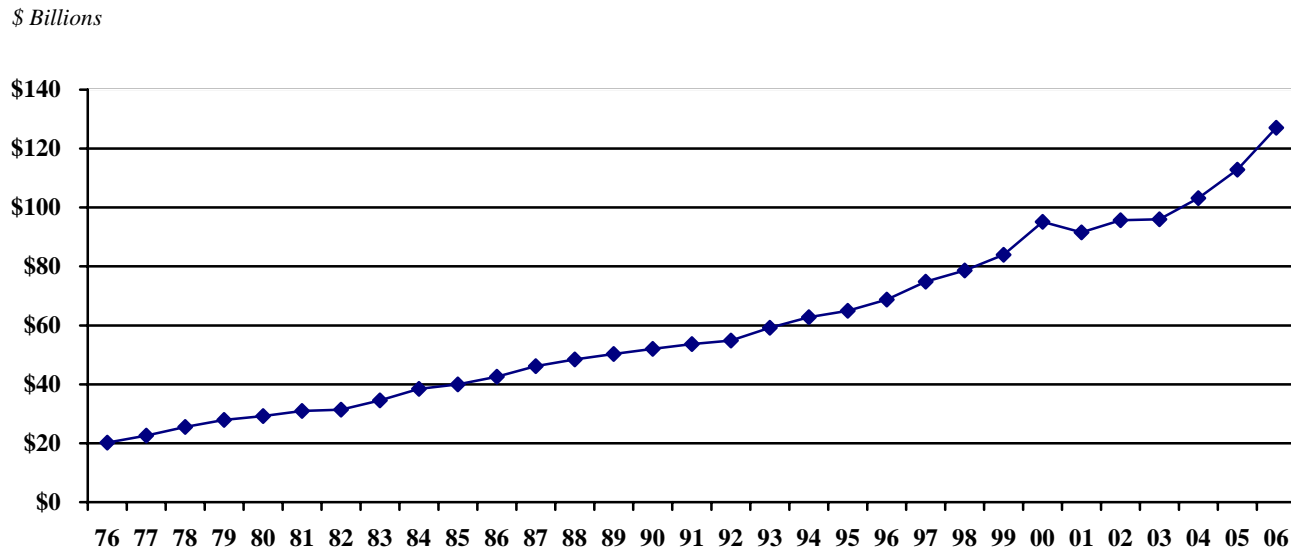
The years between 2004 and 2006 represented a period of above-average growth for factors.



FACTORING SURVEY RESULTS (Cont.)

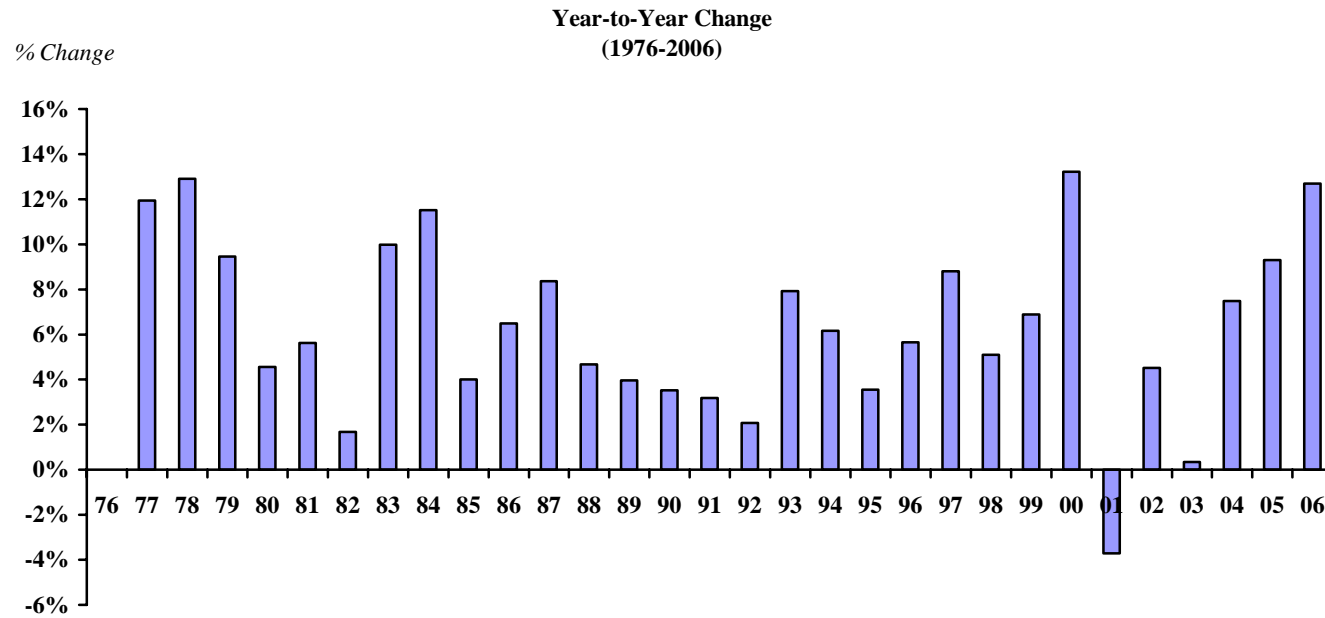
Factoring in the U.S. also has been a growth industry over the past 30 years.

Annual Factoring Volume
(1976-2006)



FACTORING SURVEY RESULTS (Cont.)

The median year-to-year industry change over the past 30 years has been 6.2%.



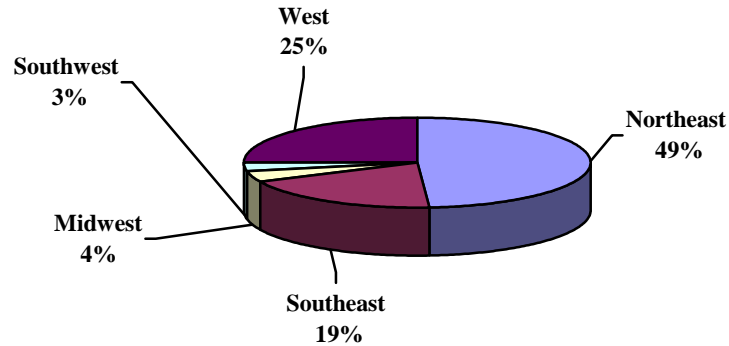
FACTORING SURVEY RESULTS (Cont.)

Annual Factoring Volume (1976-2006)

Year	Total Factoring (\$ Billions)	Percentage Change vs. Last Year (%)
2006	\$127.1	12.7%
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 represented almost 50% of U.S. factoring volume.



Factors were more regionally concentrated than asset-based lenders.

"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

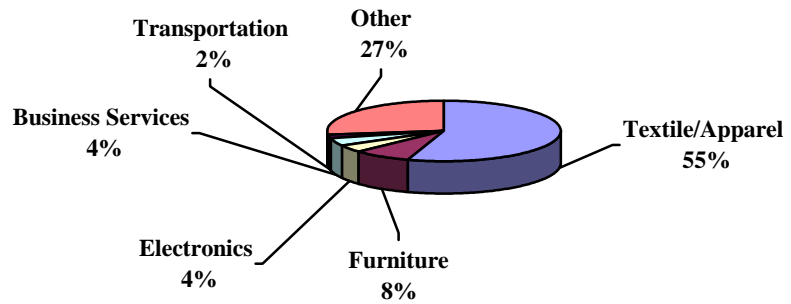
"Southwest" includes AR, CO, LA, NM, OK, TX

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

FACTORING SURVEY RESULTS (Cont.)

The textile/apparel industry continued to account for the majority of factored volume in 2006.

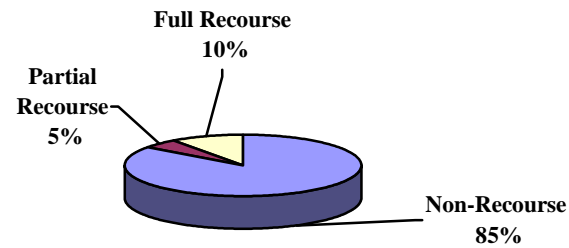
Factors were also more industry-concentrated.



FACTORING SURVEY RESULTS (Cont.)

In terms of total industry volume in 2006, most (85%) factoring was on a non-recourse⁽¹⁾ basis.

Full recourse factoring was more prominent among smaller factors.

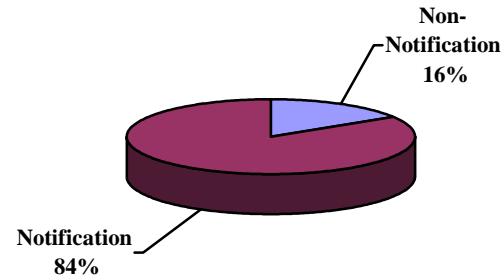


⁽¹⁾Factoring is largely the outright purchase of accounts receivable by a factor on a “non-recourse” basis. “Non-recourse” only applies to the inability of the client’s customer to pay for credit reasons. Should disputes arise as to the quality and quantity of merchandise ordered, etc., then there is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

FACTORING SURVEY RESULTS (Cont.)

The factoring arrangement usually required 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.

Most factoring in 2006 was performed on a notification basis.



FACTORING SURVEY RESULTS (Cont.)

For all factors, the majority of factoring volume involved clients selling goods to retailers.

Service provider clients were more significant among smaller factors.

