



# **Equipment Leasing and Finance Association Proposes Revisions to the Basel Approach for Credit Risk**

## **Proposals Call for Risk Weightings to Promote Investment in Capital Equipment**

(Washington D.C. — April 20, 2015) — The Equipment Leasing and Finance Association (ELFA) has responded to a new proposal regarding credit risk under the Basel framework. ELFA is calling for risk weighting treatment for commercial leases and loans backed by capital equipment, in response to a proposal issued for comment by the Basel Committee on Banking Supervision. It is significant to note that ELFA, the Canadian Finance and Leasing Association (CFLA) and Leaseurope all have submitted comment letters in responding to the Consultative Document on Revisions to the Standardised Approach for Credit Risk issued by the Bank of International Settlements (BIS).

BIS called for comments on all aspects of the consultative document and the proposed standards text, particularly on the design of the framework. ELFA's response recommends enhanced granularity and risk sensitivity, updated risk weight calibrations and better clarity on the application of the standards to achieve BIS's goal to strengthen the regulatory capital standard. Specifically, corporate exposures consist of various types such as investment grade bonds, non-investment grade bonds, bank corporate loans, small and medium sized business loans, municipal loans and other types of debt. Each business type presents a unique risk profile that calls for treatment as specialized lending.

ELFA, CFLA and Leaseurope's responses to the proposal each support risk weightings on commercial leases and loans that reflect the default risk of their customers and the security offered by equipment collateral. The associations argue and show with historical data that default rates are lower for equipment finance debt when compared against other forms of corporate exposures such as non-investment grade bonds or bank corporate loans. The three organizations represent key industry players in the United States, Canada and Europe. ELFA represents 580 companies in the U.S. equipment finance sector; CFLA represents over 230 firms active in the asset-based finance, equipment and vehicle leasing industry in Canada; and Leaseurope represents 46 associations throughout Europe in the leasing, long-term and/or short-term automotive rental industries.

According to ELFA, the current risk weightings from BIS treat corporate lending the same by applying a 100% risk weighting across all corporate exposures or a 75% risk weighting across most retail exposures (including many small business leases and loans). Commercial loans and leases backed by equipment have a history of lower credit losses than other exposures, which qualifies them for risk weightings different than the riskier corporate exposures.

ELFA believes that risk weightings should reflect the underlying default and loss rates of its members' leases and loans. "If higher risk weights are applied on a 'one size fits all' approach for corporate exposures, then the businesses that use equipment finance may pay a higher cost for access to capital than their risks warrant," said William Phelan, President of PayNet and an ELFA and CFLA board member.

For a copy of the responses please visit the BIS website at <http://www.bis.org/bcbs/publ/comments/d307/overview.htm>.

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**About ELFA**

The [Equipment Leasing and Finance Association](http://www.elfaonline.org) (ELFA) is the trade association that represents companies in the \$903 billion equipment finance sector, which includes financial services companies and manufacturers engaged in financing capital goods. ELFA members are the driving force behind the growth in the commercial equipment finance market and contribute to capital formation in the U.S. and abroad. Its 580 members include independent and captive leasing and finance companies, banks, financial services corporations, broker/packageers and investment banks, as well as manufacturers and service providers. For more information, please visit [www.elfaonline.org](http://www.elfaonline.org).

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