
# The Alta Group 2025 Insights

## Introduction

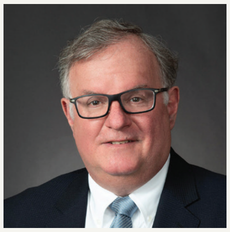
At its outset, 2024 was expected to be a year of slower growth. While growth was somewhat uneven throughout the year, the long-term trend was positive. Much of the year was a waiting game, as uncertainty about the outcome of the U.S. elections and the direction of the Federal Reserve's action on interest rates caused companies and investors to hold back on capital expenditures.

Although plenty of uncertainty remains, November brought a clearer picture, and the market's reaction was evident. The Equipment Leasing & Finance Association's (ELFA) November 2024 CapEx Finance Index (formerly the Monthly Leasing & Finance Index) revealed a 0.7% increase in new business volume from October to November for the 25 equipment finance companies representing a cross section of active banks, captives and independents. That marked three consecutive months of expansion, and brought year-to-date volume growth to 4.2% in November, up from 3.7% in October. The Equipment Leasing & Finance Foundation's Monthly Confidence Index rose to the highest level since August 2021 in November, and then continued that upward climb in December, rising from 67.5 to 68.8 in the final reporting period of the year. Evidence of such strong growth in an environment of inflated prices and higher borrowing costs demonstrated the industry's impressive resilience.

A year ago, many were predicting a recession at some point in 2024, but the economy showed a remarkable durability. The Federal Reserve Bank of New York's calculated probability of a recession consistently declined in the final months of 2024. At the end of December, the index showed a 29.4% probability of a recession in the next 12 months, compared to 42% in November and 57% in September—and less than half of the 62.9% probability posted one year earlier.[1] U.S. annual GDP growth is now expected to be between 2.2% and 2.7% in 2024—higher than forecast at the start of the year, when predictions were more conservative due to concerns about slowing economic momentum and tighter monetary policy. Current forecasts call for GDP growth to slow slightly in 2025, coming in at or just over 2%.

2025 appears poised to bring a pro-growth environment that will have a positive impact on capital expenditures, but at the same time, things will be dynamic and potentially volatile. Equipment finance leaders need to be nimble, ready to act quickly and adjust as conditions evolve.

*"The election results should promote customer demand for equipment financing. In addition, the new administration's priorities, including a reduced corporate tax rate, reduced regulatory environment, and potentially lower interest rates, bode well for volume demand."*



Jim Jackson, co-CEO

1 Federal Reserve Bank of New York, *The Yield Curve as a Leading Indicator*, https://www.newyorkfed.org/research/capital_markets/ycfaq.html

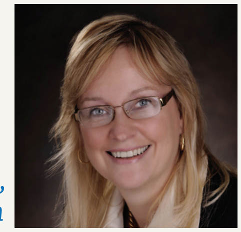
## Overall outlook for 2025

**Banks:** Expect to see growth from existing bank clients plus deliberately controlled growth outside of the bank footprint. There will be increased focus on margins through risk-adjusted pricing, as banks continue to manage through lingering credit and liquidity concerns. As they reengage in equipment finance, banks will be focused on preserving margins and risk-adjusted pricing. This is an overall healthy dynamic for the industry. There will be a marked difference between large money-center banks versus regional and community banks. These smaller banks will face increasing pressure to merge if they are to survive in a regulatory environment that favors economies of scale.

**Captives:** Captives experienced strong volume gains in 2024 as banks either withdrew from equipment finance or reduced their activity in the industry. While there is evidence that this dynamic is reversing, we expect that captives will benefit as the manufacturing sector reinvests in domestic supply chains. We will see increased originations in line with the parent company's own performance. Expect to see expansion in IT systems, construction equipment and transportation—particularly corporate fleets. Compared to other industry players, especially banks, captives are actively using subscription-based and usage-based financing models, which are becoming increasingly popular among end-user customers.

**Independents:** Independents have been steadily increasing their market share within equipment financing for the past five years, according to our analysis of past years' data from the Survey of Equipment Finance Activity. While overall reported equipment finance volume increased by 2.6% in 2023, according to data shared in the 2024 Monitor 100 listing, independents reported new business volume growth of 14.6% (while banks declined by 3.5%). Bet on independents to continue to enjoy the lion's share of volume growth in 2025. What distinguishes independents is their embracing of artificial intelligence, which they've leveraged to gain efficiencies across the leasing cycle, and in developing nontraditional sources of funding, such as private equity and family offices. One potential hurdle: Banks' temporary pullback from EF has been a wind in independents' sails in 2024. That trend may reverse at some point, should banks—with their inherent lower cost of funds—return to a more aggressive posture. When that happens, this source of growth for the independents will subside considerably.

> *"We are in a bit of a wait and see stage. If effected, recent tariff threats for Canada and Mexico could be inflationary for the U.S. economy. During the last Trump administration, tariffs on Chinese steel and aluminum raised costs for U.S. manufacturers, leading to higher costs on machinery, electronics and vehicles, which are key areas for equipment financing.*"



Valerie L. Gerard, co-CEO

## Tailwinds

**The regulatory environment should be less onerous in the near future.** The data-collection and reporting requirements of Section 1071 of the Dodd-Frank Act have loomed over the equipment finance industry since the act's passage in 2010. Implementation of these requirements has been delayed, and there is strong hope that they could be further deemphasized with the change in leadership in the White House. Some advisors within the new administration have called for the abolishment of the Consumer Financial Protection Bureau, the entity tasked with implementing Dodd-Frank and other very broad "consumer" finance regulations. There is some thought that the new administration could push 1071 regulations down to the state level, which could impact the timing, scope, costs and complexity of the requirements. Other options include repealing the Dodd-Frank requirement directly (which would entail Congressional action), delaying enforcement or working with a Republican House and Senate to dilute or nullify the regulations. While the outlook is positive, with Tier I institutions facing a summer 2025 compliance deadline, the uncertainty surrounding the path forward means this cannot be ignored. Increasingly, The Alta Group sees clients seeking software solutions that can address 1071 and other compliance requirements. On the banking front, the Basel III requirements are much less stringent than originally proposed, and could get watered down further or even abandoned as part of deregulation action under the new administration. While the new White House may bring near-term relief on the regulatory front, this isn't going away. Regulatory costs may not rise significantly in the next four years, but they aren't


going down, and compliance will continue to require significant investments in technology and staffing. Equipment finance businesses should be prepared to devote resources to compliance measures at some point in the future.

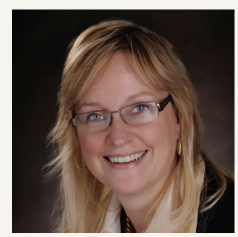
**The liquidity crisis is easing.** As predicted in Alta's previous writing on this topic, the liquidity crisis that followed the 2023 failure of Silicon Valley Bank and Signature Bank has subsided somewhat, but continues to impact the industry. We are turning the corner when it comes to bank equipment finance activity. Some banks are once again seeking growth, albeit selectively. This was evident in data from the ELFA's November CapEx Finance Index, which indicated that bank-based new business volume, while still lagging captives and independents, grew by 20% over the previous six months. In addition to increased lending activity, other encouraging signals include the stabilization of interest rates, positive economic indicators and improved industry confidence.

**M&A activity will likely increase.** The current economic environment, dominated by a strong stock market, anticipated continued interest-rate cuts, reduced regulations, lower corporate tax rates and low unemployment should bring increased M&A activity in 2025. We believe many of the community and regional banks still need to merge to gain scale and deposits, and to offset the costs of digital platforms, compliance and regulations, and we are likely to see more M&A activity among banks concentrated in the $50 billion to $250 billion range as they seek economies of scale and the benefit of spreading technology investments out over a much larger asset base. Expect to see more announcements on bank mergers in 2025, even if all the deals don't close before the end of the year. As banks merge, we may encounter situations where existing bank-owned finance companies are orphaned and displaced.

**Private credit brings new capital to the industry.** Private equity, hedge funds and family offices are showing a growing interest in this industry, especially among independents. This is contributing to the increased M&A activity discussed above, as we are already seeing increased activity by private credit and large strategics looking to acquire independent equipment finance companies or even senior executive teams that can provide them with access to new equipment markets, financial product types, or distribution models to expand their current business offerings. While private credit can be a welcome source of long-term funding, there should be some caution around this funding source, as these investments typically require higher returns, and could prove less stable in a volatile market.

**AI is driving demand for data infrastructure.** Data center demand has been growing exponentially in recent years, and the growing use of AI, which requires far more computational power than typical data activity, is supercharging this trend. Research from asset manager Blackstone reports that U.S. demand for data centers has increased by 17 times since 2019, with no end to the growth in sight. Blackstone estimates that the US will see more than $1 trillion invested in data centers over the next five years, with an additional $1 trillion invested internationally. Data centers are challenging and complex financing transactions. One factor to consider is the amount of energy used in operating data centers, so sustainable practices add an important element. Nevertheless, equipment leasing and finance companies are well-positioned to capitalize on the growing demand in this sector by providing financing solutions for the acquisition of data center equipment and infrastructure.

> *Generative AI and large language models (LLMs) require a more robust and scalable data infrastructure as these technologies require massive computational power and huge storage capabilities. The demand for these specialized data centers currently outstrips supply thus presenting a financing opportunity for equipment finance and leasing companies. Data centers need servers, networking equipment, storage systems, cooling technologies, and backup power solutions—equipment that data center owners prefer to finance or lease in an effort to manage upfront costs and maintain cash flow flexibility.*

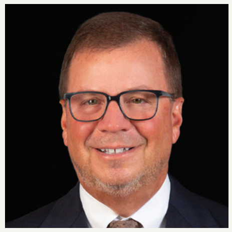


Valerie L. Gerard, co-CEO

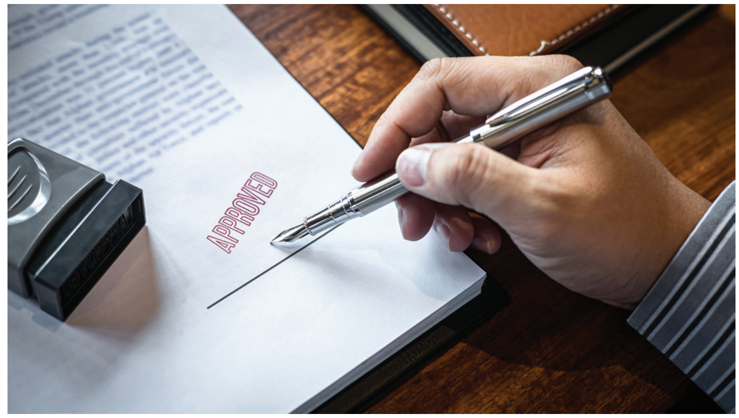
**Reshoring activity could be a boost.** Increased capital expenditure activity could be driven in 2025 by businesses continuing to seek to build more resilient supply chains. Some of this activity has been a product of the CHIPS Act. Potential tariffs under a new administration may drive more of it. But other factors are also driving this, most notably geopolitical events.

**Demand for electricity will continue to drive investment in energy, battery storage.** After years of flat demand for electricity, the U.S. is entering a period of rising demand driven by AI, data center expansion, the reshoring of manufacturing and growing electrification of transportation and other sectors of the economy.

> *Companies want to have control. When it comes to supply chain, they want to have multiple channels. That doesn't mean we're going to bring all manufacturing back to the U.S. But companies want to have some options in case we get locked out of China or some other country. I think you'll see a continued trend toward companies bringing manufacturing back to the U.S.*



Rick Remiker,
vice chairman

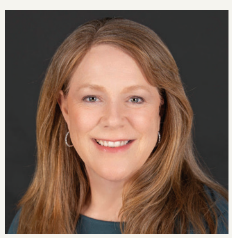



The U.S. Department of Energy projects total energy demand will grow by 15 to 20% in the next decade.[2] Regardless of what the new administration brings for the tax credits and incentives that buoyed investment in clean energy under the Inflation Reduction Act (IRA), the sheer size of the country's power needs will demand development of new and renewable sources of energy, and we will certainly see increased expenditure on solar power development, with many projects close to the shovel-ready stage thanks to momentum from the IRA. As heightened demand puts pressure on the price of power, regulators and businesses will need to focus on energy efficiency. This could drive increased investment in batteries for energy storage and the anticipated accelerating need for electric-vehicle battery replacement and upgrades.

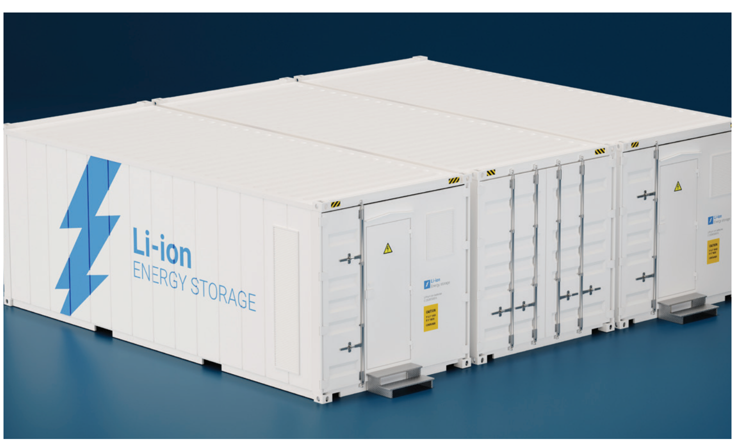
**Tax policy will be favorable to more equipment investment.** The new administration's proposal to lower the corporate tax rate from the current 21% to as low as 15% would have a positive impact on business demand for equipment, thanks to a reduced tax burden. Other aspects of the proposed tax plan, such as tax incentives and accelerated depreciation, could assist companies with assets in rental or service models. During the previous Trump presidency, tax policies included generous Section 179 deductions that allowed companies to write off the cost of specific types of equipment. This provided a boost to the manufacturing sector. The administration could also expand 100% bonus depreciation, which would encourage new investment in equipment. In general, lower tax rates translate to higher profit margins for equipment finance firms.

**Syndications are becoming a more viable source of new business.** The extended period of low interest rates leading up to 2022 left many lessors holding substantial amounts of low-rate loans they were unable to syndicate without incurring a loss in the new higher-rate environment. However, a few key shifts have the potential to revitalize the syndications market. First, much of the lowest-rate business is maturing and coming off the books. Second, lessors have already adjusted to the rising cost of funds by increasing their rates.

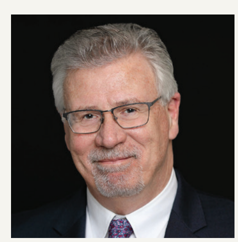
> *An area that I think is a huge opportunity for the industry is batteries up and down the supply chain. These include utility-scale batteries, batteries to support individual buildings or fleets. The supply chain of electricity is going to be a huge area for investment.*



Patricia Voorhees,
director




> *Now that rates are decreasing, the economics of syndication are coming back into balance and lessors can profitably lay off transactions to investors. Many lessors are dependent on syndications for their new business, so they can once again find viable new business in the secondary market."*



Gary LoMonaco,
director

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2 U.S. Department of Energy, "Clean Energy Resources to Meet Data Center Electricity Demand", https://www.energy.gov/policy/articles/clean-energy-resources-meet-data-center-electricity-demand

## HEADWINDS

**Volatility and uncertainty will be prevalent.** The incoming administration is known to move quickly. This has pros and cons, but unpredictability could have a negative impact on CapEx spending this year, as businesses are hesitant to make large investments amid uncertainty over regulatory, trade and tax policy, as well as geopolitical events. We discuss the potential positive and negative impacts that the administration's trade proposals could have on the industry in greater depth in the next section of this document.

**Geopolitical conflicts could upend the narrative in 2025.** The world is waiting to see where global conflicts including the Russia-Ukraine war and Israel's fight against Iran and its proxies will go in the new year. As 2024 drew to a close, we witnessed the overthrow of the Assad regime in Syria and continued threats of military action by China against Taiwan. The potential for greater conflict, or the spread of ongoing conflicts, introduces significant uncertainty. Armed conflicts in the Middle East pose threats to the global supply chain and the potential for government funds to be diverted from investment in the domestic economy. The spread of these conflicts could have an immediate impact on critical industries such as oil and energy.

**The path forward for interest rates and inflation is not clear.** While inflation eased in 2024, it ended the year on an upswing, with the November Consumer Price Index coming in at 2.7% (This document went to press before the January CPI release.). The Federal Reserve's December rate cut of 25 basis points came with a warning that future rate cuts will be slower and perhaps shallower than initially expected, with only two cuts now anticipated in 2025. While this decision was tied to strong economic fundamentals, the fact is that inflation remains persistently above the Fed's 2% target, and the new administration's actions on tariffs and immigration could add to inflationary pressures. This could put a damper on capital expenditures by businesses in 2025.

**Credit showed signs of weakening toward the end of 2024.** While credit approvals hovered in the 75% to 77% range throughout much of 2024, the November CapEx Finance Index revealed they had lowered significantly to 74% from 75.11% in October, representing the steepest monthly drop in approvals since April. In addition, net credit losses worsened toward the end of 2024, nearly doubling to 57 basis points in November from 31 in October. While net charge-offs are still at relatively low levels, this trend bears examination as we enter 2025. We could be seeing signs of financial stress in specific areas of the market, particularly trucking, healthcare and possibly manufacturing. Truck leasing portfolios continue to face significant credit pressures, due to high interest rates, reduced freight demand, vehicle oversupply and weak used truck prices and high fuel costs. These pressures have had a more acute impact on smaller fleets and owner-operators, who are more vulnerable to changes in the economy. While the pressures in trucking have been well-documented over the past year, pressures are more recently becoming visible in another area—healthcare bankruptcies. EF firms with healthcare portfolios are seeing pressure, with Chapter 11 filings in the sector peaking in 2023 at their highest level in five years and continuing to rise in 2024. The surge in bankruptcies among hospitals, health systems, and smaller providers is primarily driven by persistent financial challenges, including escalating labor costs, reimbursement issues, and inflation. The expiration of federal COVID-19 relief funding has further compounded these difficulties.

**Increasing digitization introduces new vulnerabilities.** Cybersecurity threats accelerate and become more sophisticated as the industry becomes more digitized and reliant on technology. Threats come in different forms such as ransomware attacks, where ransom demands are increasing in price point, attacks on software providers, and phishing. Also of concern is the potential of bad actors using AI to create targeted attacks, especially taking advantage of the SEC's 2023


rules for providing transparency around cybersecurity risks and incidents for publicly traded companies. Because EF businesses handle sensitive client financial data, having robust cybersecurity policies is of paramount importance. Savvy EF firms will invest in strong monitoring systems including AI-powered threat detection, robust supplier cybersecurity protocols and, of course, in building employee awareness.

## AREAS TO WATCH

### Trade Policy could bring benefits and challenges

The outcome of the U.S. elections launched intense speculation in the final months of 2024 about what the President-elect's tariff policies would look like, and how to prepare for their impact. Proposed tariffs could have both positive and negative impacts on the equipment finance industry in 2025, but there is no doubt that trade policy will need to be a consideration in strategy planning for the year.

During the campaign, Trump proposed a 10% to 20% tariff on all imports and a 60% tariff on Chinese goods. In late November, he threatened a 25% tariff on goods from Canada and Mexico. While there is some thought that the tariff threats are meant as a starting point for trade negotiations, the economic consequences have already begun. In the weeks after the election, there were indications that businesses were rushing to order equipment in anticipation of potential tariffs. We will likely see an acceleration of capital expenditures in the first and second quarters of 2025 as companies try to get ahead of the implementation of tariffs. Once we get past that surge, and closer to the implementation of tariffs, we will likely see a freeze in activity, due to the front-loading of planned purchases, and also tariffs having a dampening effect on impacted equipment purchases.

One potentially negative impact of tariffs is their inflationary effect, which could adversely impact the U.S. economy. Threatened tariffs could drive up equipment, component and raw materials costs, and could drive raw material hoarding in advance of their imposition, leaving less available funds for capital projects. On the other hand, by putting an emphasis on domestic manufacturing, tariffs may spur investment in equipment as some businesses seek to reshore their supply chains. This could also spark investment in the activities surrounding manufacturing development, such as material handling and construction. There is also some thought that the tariffs could drive investment in automation and innovation at home to help control costs and find new sources for raw materials and parts.

### AI is already transforming our industry.

The conversation around AI has evolved at an unprecedented pace over the past year. In late 2023, we were just starting to imagine the possibilities of generative AI and its potential use cases. Now, just over a year later, we are seeing clients adopting generative AI as an essential tool to drive efficiencies, enhance decision-making and improve customer experiences. At the same time, forward-thinking organizations are already embracing the next evolution—agentic AI — which promises even greater transformation through its ability to learn, reason, and act autonomously. Both of these AI tools have the power to revolutionize decision-making and operational efficiency, and we are still far from seeing what their full potential and capabilities are, as they continue to evolve and improve.

Examples of generative AI use cases that are reshaping operational processes include:

**Customer service** – Using AI-enabled chatbots and virtual assistants to quickly address inquiries and personalize recommendations, serving customers faster while freeing up employees to focus on other areas.

**Credit analysis** – Analyzing an even wider number of data sets and variables than are captured in traditional models. This leads to more accurate risk-based pricing and a reduction in risk of defaults.

**Fraud prevention** – AI's pattern-recognition capabilities help detect anomalies and fraudulent behaviors across all aspects of a transaction, thus reducing financial and reputational risks.

Whereas generative AI creates new content, Agentic AI learns from its environment, adapts its behavior to achieve specific goals and takes action autonomously. Examples include:

**Embedded financing** – Fully automated point-of-sale financing that autonomously assesses creditworthiness and approves financing without human intervention.

**Operational efficiency** – Saving time and resources by automating repetitive, time-intensive tasks such as reconciling unapplied cash and investigating payment discrepancies without constant human oversight.

**Collections** – Driving improved efficiency and recovery rates by prioritizing actions, such as which past-due accounts to contact first based on pre-set parameters and learned patterns.

**Asset management** – Predicting residual values based on historical data, usage patterns and overall market conditions, resulting in better lifecycle management of the asset and enhanced profitability.

Many organizations still face challenges around organizational readiness and the quality of their databases. But those that are investing in AI-based solutions are becoming more agile, giving them a competitive advantage. However, this rapid evolution underscores a critical truth: AI is no longer just another tech initiative. It is a fundamental shift in how work gets done, how decisions are made, and how strategy is executed. In a world where AI is advancing at light speed, not getting on board means getting left far behind.

### Increasing demand for alternative business models will impact traditional equipment financing.

Demand for Equipment-as-a-Service (EaaS) usage models has grown steadily in recent years. Because traditional equipment financing organizations do not have the ability to leverage profits from supplemental services and data intelligence revenue streams, they struggle to balance market requirements against contract and customary credit risks and often fall short in providing offerings that address customer requirements. As end-user transactional content continues to shift from hardware to a higher proportion of more lucrative services and data intelligence revenue streams, we see ‘Intelligence-as-a-Service’ gaining momentum as the preferred business model. A new generation of executives, who have grown up on subscription and usage models, will leverage this business model strategy by collaborating with business partners who can provide equipment usage flexibility, efficient logistics and less risk averse funding. To the extent traditional hell-or-high-water equipment financing and leasing organizations want to remain relevant, they will need to innovate to stay competitive.

## Conclusion

Don’t misread the signals. At first glance, 2025 is poised to promote a strong economy with a positive growth outlook, strong job market and steady consumer spending. Add to that a more business-friendly regulatory environment, and there is plenty of cause for optimism in 2025 as business plans are being built and deployed. However, there are a lot of factors that could shock the economy and derail growth projections in 2025. Ongoing global conflicts will contribute to volatility, impacting trade policies, supply chains, and the domestic economy. The effectiveness of tariffs on U.S. trade policies will influence equipment markets, pricing, and strategic planning for the coming years. While some relief is expected in the regulatory environment, compliance will continue to demand substantial investments in technology and staffing. This will likely fuel consolidation, especially among regional and community banks.

For the equipment leasing and finance industry, the outlook is cautiously optimistic, especially as the industry rebounds from the liquidity challenges of recent years. Banks are re-entering the market, private equity and family wealth funds are investing in the industry, portfolio performance remains strong thanks to prudent risk management, and industry confidence is on the rise. Growth is expected to be moderate before taking the geopolitical and tariff wildcards into consideration. That being said, financing of climate equipment, data centers and Equipment-as-a-Service present powerful growth avenues for those who have the financial resources and structuring prowess to meet burgeoning customer demand. Firms that prioritize innovation, operational efficiency and exceptional customer service, while keeping an eye on the fundamentals, will be well-positioned to seize emerging opportunities.

## Looking for more on this?

Contact
Valerie L. Gerard
vgerard@thealtagroup.com
+1 917-664-4192 (mobile)

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