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Dale Kluga Sees Alternate Finance Bubble Ahead

Concerned History is Repeating Itself

(Respected lessor, writer, who appears on radio
and television business interviews, is concerned about the
direction of the finance and leasing industries)

Similar to today's alternate finance lenders, the industry before bet the ranch on computer assisted models. I don't think it's a coincidence that today, we have all just completely forgotten that the birth of the brilliant creation of the data analytics' "too good to be true" online credit models have also occurred within the nearly identical 15 year cycle from our prior leasing sub-prime disaster in 2000. Using Google, LinkedIn, Facebook, and so-called new analytics, appears to be driving the business loan, working capital, equipment financing view of credit.

As I wrote back in 1998, "Too bad our memories and computer models aren't as reliable as good old-fashioned history". How could we be so naïve to believe the passing of time would generate any different result from the same culprit? Coincidentally, I think that's also the definition of insanity - repeating the same behavior and expecting a different outcome. Identical to the current data analytics' online credit models, back in 2000, our industry also argued that their high credit losses would be covered by their egregiously high rates and terms they charge, (before these operators all went down in flames).

Here's what I have learned over the last 34 years about their high rate theory - if it's too good to be true than it's simply not true. These dangerous models all assume that most of the high risk credits in their portfolios will continue paying on time irrespective of a financial downturn or a disruption in the credit or capital markets, (like how CIT imploded with the securitization lock down and relied on the government to allow them to stay in business).

Once the margins start compressing in the online high risk business model, (and we soon will be approaching that point), these online high risk lenders will predictably operate outside their original credit parameter models and start reaching for even riskier credits, just like our leasing sub-prime meltdown in 2000. Similar to any kiting or treadmill scheme, the underlying credits can only continue paying if the online high risk lenders remain liquid and solvent and keep feeding the animal. These online high risk lenders are all extremely susceptible to liquidity funding shortages in the market. Once the regulators of the bank sponsor finance groups, (who lend to the online portfolio company's owned by the last resort BDC's, PEF's and Hedge Fund wholesale funding sources), figure it out, then the banks will predictably call in their loans to the online lenders (just like in our 2000 sub-prime crisis and again in 2008 during the Great Recession), these data analytic lenders will become dead in the water.

Dale R. Kluga
President
Cobra Capital LLC
2831 W. 83rd Street
Darien, Illinois 60561
630-985-3500 Office
Email: dale@cobrallc.com
Web: www.cobrallc.com