by Sidney Rutberg

The trucking industry has a capacity for invoice discounting and factoring of an estimated $400 billion with only about $60 billion of it being serviced, leaving lots of room for finance company expansion in the industry.

And currently the trucking business is strong with the economy doing well and with increased business from imports. Also, many financially ailing truckers have been culled in recent years, leaving a limited capacity. The business is now strong enough to charge fuel surcharges, formerly ignored by shippers, but now paid regularly.

About 90 percent of the factoring business in trucking is done on a full-recourse basis, limiting the credit exposure of the finance companies. The industry is also a good fit for equipment financing and leases. Tractors that pull trailers are the major assets of trucking companies and provide a good fit for equipment financing and leasing. There are now five major players and hundreds of small finance companies specializing in financing trucking companies.

The largest players are General Electric, Systran, a division of Textron Financial Corp., Transportation Alliance Bank, Schneider Financial Services and Marquette Funding, Inc.

According to Richard L. Voreis, president and chief executive officer of Marquette Funding, Inc., Bloomington, MN, the business of financing truckers started back in 1942 when the trucking industry was heavily regulated. It was difficult for a single trucking company to deliver anything outside its own allotted territory. As a result, clearing houses were organized to handle payments on shipments that involved more than one trucking company. It was the function of the clearing houses to allocate payment by shippers to the various companies involved in completing the delivery to the final buyer. These clearing houses then moved into the business of providing financing for the truckers.

When deregulation came in during the 1970s, and truckers could go anywhere, there was no longer any need for the clearing function so the clearing houses concentrated on financing truckers. Generally, truckers were not bankable so it was a natural for factors. About six or eight companies started in St. Paul, according to Mr. Voreis.

Marquette, which originally was in banking, sold its banks to Wells Fargo. The owner, Carl Pohlad, is listed as ranking 78th among the nation's billionaires with a fortune estimated at $2.8 billion by *Forbes Magazine*. According to *Forbes*, Mr. Pohlad received $1 billion from Wells Fargo from the sale of the banks. At the age of 90, his children run the family business which includes the Minnesota Twins and a group of finance businesses, including Marquette Funding which started in 2003 to focus on trucking companies. "It is now about half as large

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as the biggest in the business and became profitable within seven months after starting," Mr.Voreis says.

He says that the factoring is done on a full-recourse basis, although his company has both a credit department and a collection department. Advance rates are relatively high, between 85 and 90 percent. New prospects are trucking companies that are not bankable and need anything over $100,000.

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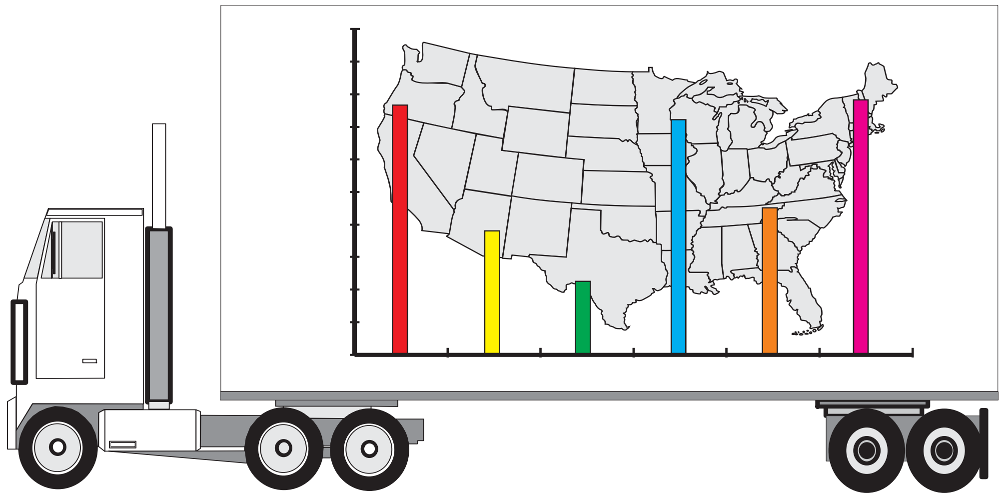

Another trucking finance executive, Timothy Valdez, vice president for national sales at Transportation Alliance Bank, Ogden, UT, said his company does factoring and equipment financing. Currently about 50 percent of its business is in leasing. He said that the trucking industry is in pretty good shape. Most of the weak companies have gone bankrupt, leaving only the stronger companies in business. "The industry changes dramatically back and forth and currently I have an appetite for leasing."

Mr. Valdez added that the smaller truckers financed generally have monthly volume of $500,000 or less; medium-size companies run between $500,000 and $2.5 million and the big players do a monthly volume of over $2.5 million. "The really big players run up monthly revenues of half a billion or higher."

In addition to tractors and trailers, there's another product that has become popular with the rise in the price of diesel fuel. This is the auxiliary power unit, or APU, which serves to provide power for a truck when it is parked. It is much more fuel-efficient than keeping the engine running when trucks are not on the road. Mr. Valdez says that these APUs pay for themselves in fuel savings in about seven months.

On the financing side, Mr. Valdez says transportation companies are getting a lot stronger. The weaker companies have been culled out and the ones left standing are stronger and overall capacity has been reduced. "They are able to get price increases and fuel surcharges. A couple of years ago, this was impossible."

Meanwhile, the cost of equipment is rising and the new engines for tractors in 2007 will use more fuel than the ones currently in use. The reason for this, according to Mr. Valdez, is that they will be designed to cut back on emissions that tend to foul the air, but use more fuel. Thus, he said, truckers are trying to buy as many of the old-style engines they can get.

Prices for tractors are up moving from $105,000 to $120,000. The normal life of a tractor is about 48 months or about a half-million miles. "After that the expense of running the tractor increases," Mr. Valdez says. Leases are set up for 48 months or 25 percent a year.

Marquette's Mr. Voreis says his firm does no equipment financing or leasing, but is exclusively in factoring and receivables financing. Prospects for equipment financing or leasing are referred to other lenders.

Bay View Funding, San Mateo, CA, is one of the medium-size lenders in the business. Vince Narez, president and chief executive officer, says that only about 25 percent of its business is in the trucking area or about $3.25 million His company's trucking business is exclusively discounting invoices and does credit and collection work.

"Basically, the trucking industry is strong, but it is not without problems. While truckers have been generally successful in collecting fuel surcharges, since 9/11 and Katrina, they have been hit with sharply higher insurance premiums, which they cannot cover except by raising prices. They also have problems with drivers, who are in short supply, and tend to wander at times. There is a satellite system that allows companies to locate the position of any truck in their fleet," Mr. Narez says. However, he noted that one fleet owner told him that, if his truckers are spending a couple of days in Las Vegas, he'd rather not know about it.▲

Sidney Rutberg is retired as financial editor of Fairchild News Service, Women's Wear Daily *and the* Daily News Record. *He is a contributing editor to* THE SECURED LENDER.

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