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COMMUNITY BANKING

Rising rates push a Pennsylvania bank out of equipment finance

By [John Reosti](#) May 13, 2024, 10:15 a.m. EDT 3 Min Read



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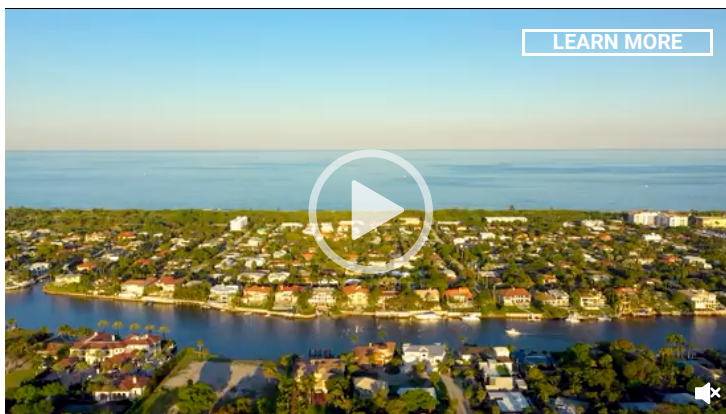
Quaint Oak Bancorp recently sold its stake in Oakmont Capital, an equipment finance lender. Oakmont originates loans for vehicles, landscaping equipment and other small-ticket items. *KOSTIC DUSAN_VUK/Dusan Kostic - stock.adobe.com*

A little over three years ago, Quaint Oak Bancorp in Southampton, Pennsylvania, paid \$3 million to acquire a majority stake in equipment finance lender Oakmont Capital. The \$775.5 million-asset Quaint Oak, which had a decade-long working relationship with Oakmont, figured bank capital would speed that firm's ambitious, nationwide expansion plans.

The strategy worked as planned for two years before higher interest rates derailed it, according to Robert Strong, Quaint Oak's CEO. Strong disclosed the sale of Quaint Oak's interest in Oakmont last week for \$4.3 million.

"Our intention to reduce investment in subsidiary companies that had become less productive considering the Federal Reserve rate increases has culminated in the sale of the bank's 51% interest in Oakmont Capital Holdings," Strong said in a press release.

"When the Fed raised rates so quickly in such a short time, it flipped the market," Strong added in a subsequent interview.



Oakmont's sale comes a little more than two years after Quaint Oak reported a record \$7.9 million profit in 2022, due in large part to the subsidiary. The bank sold most of the equipment-lending volume, driving a 62% year-over-year increase in fee income, to \$19.4 million.

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In 2020, the year before Quaint Oak purchased Oakmont, its noninterest income amounted to \$6.7 million. Fee income jumped to \$12 million in 2021 as Oakmont originated nearly \$165 million of loans and leases, surging further the following year.

Rates began rising in spring 2022. Eventually the trend impacted Oakmont's operations. Equipment-related originations, which topped \$400 million in 2022, fell to \$264 million in 2023. Loan sales and fee income dipped, as well. At the same time, expenses remained relatively static, as Quaint Oak kept staffing at its Quaint Oak Bank subsidiary and at Oakmont level. Net income for 2023 fell to \$2 million.



Rinaldi Advisory Services CEO Bob Rinaldi.

Bob Rinaldi, president of Rinaldi Advisory Services and an expert in the commercial equipment leasing and finance space, acknowledged the impact of rising rates on bank-owned equipment lenders. Rinaldi, however, said generally most of the struggles with bank-owned leasing companies

originated due to banks' circumstances, the result of deposit flight and declines in the value of investment securities, adding equipment lenders actually perform better in a higher-rate environment. "If the leasing company has enough capital, they can grow very dynamically, regardless of conditions," Rinaldi said.

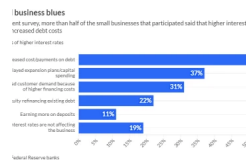
Indeed, the equipment-lending business is seen as resistant to most economic headwinds, since purchases are often mission-critical for business buyers. "Without equipment, something doesn't work, something doesn't run, something doesn't get made," Rinaldi said.

"Those bank leasing companies who pulled back significantly in 2023, pulled back not because the equipment leasing market was off, they pulled back because their capital was constrained [and] they lost deposits," Rinaldi said. "They couldn't sell securities, because they would have recognized a loss. The only thing they could do was husband their balance sheets. If they did lend, it was only to customers who were core, in footprint and who they were selling other products to."

SMALL BUSINESS BANKING

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Quaint Oak disclosed first-quarter results May 6, reporting earnings totaling \$873,000. That profit was up 55% year over year, but it reflected the \$1.4 million gain on the sale of Oakmont, as well as \$935,000 in equipment-related loan sales.

Noninterest income has been a major contributor to Quaint Oak's bottom line in recent years. In 2022, for instance, noninterest income totaled 45% of the bank's \$43.1 million in total revenue. The industry average is closer to 30%, according to Federal Deposit Insurance Corp. statistics. Strong doesn't see the strategy changing. "We're all about fee income," he said.

Even after the sale of its equipment financing interest, Quaint Oak operates a mortgage company, an insurance agency and a title abstract agency. Strong didn't rule out seeking additional noninterest opportunities.

Oakmont was acquired by the Japan-based JA Mitsui Leasing, which said the deal would "supercharge" its North American expansion efforts. "The Oakmont platform is a natural complement to our group companies in the United States," Kiyoshi Doi, CEO of JA Mitsui Leasing USA, said in a press release.

Banks have [traditionally been active acquirers](#) in the \$1 trillion equipment financing marketplace. Rinaldi expects that role to continue and for bank activity in the space to pick up as conditions stabilize. "I'm certain you'll see a lot of banks pick their heads up and say, 'Wow, we're not that bad off. Let's get back out and start talking to customers,'" Rinaldi said.