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MRLN - Q3 2016 Marlin Business Services Corp Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Marlin Business Services Corporation Third Quarter 2016 Earnings Call and webcast. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions)

I would now like to introduce your host for this conference call, Lasse Glassen with Addo Investor Relations. You may begin.

Lasse Glassen - *Marlin Business Services Corp. - Addo IR*

Good morning and thank you for joining us today for Marlin Business Services Corp's 2016 third quarter earnings conference call. On the call today is Jeff Hilzinger, President and Chief Executive Officer; Ed Siciliano, Executive Vice President and Chief Operating Officer; and Taylor Kamp, Senior Vice President and Chief Financial Officer.

Before we begin today's call, let me remind you that some of the statements made today will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected or implied due to a variety of factors. We refer you to Marlin's recent filings with the SEC for more detailed discussions of the risks that could impact the Company's future operating results and financial condition.

With that, it's now my pleasure to turn the call over to Marlin's President and CEO, Jeff Hilzinger. Jeff?

Jeff Hilzinger - *Marlin Business Services Corp. - CEO*

Thank you, Lasse. Good morning and thank you everyone for joining us to discuss our 2016 third quarter results. I'll begin my remarks today with an overview of the key highlights from this past quarter, including an update on our Marlin 2.0 initiative that I outlined on our call last quarter which is aimed at taking Marlin to its next level of growth and profitability. I'll then wrap up my comments with a discussion of Marlin 2.0's longer term key strategic objectives.

Ed Siciliano, our Chief Operating Officer, will provide comments on our third quarter operational performance and Taylor Kamp, our Chief Financial Officer will then discuss additional details about our financial results and 2016 full-year guidance.

The third quarter was a very productive period for Marlin highlighted by record origination volume and portfolio size, continued strong credit quality and significant progress on our Marlin 2.0 initiative. Total origination volume of $128.3 million was an all-time record, up nearly 6% compared to the previous quarter and nearly 26% from a year ago. Our origination growth was broad based and driven by increased application volume in our Equipment Finance business including solid contributions from our new Franchise in Transportation origination platforms.

In addition, Funding Stream, our working capital loan business continues to gain traction and comprised $10.3 million or 8% of total origination volume in the quarter, up from $7.9 million or 6% of total origination volume in the prior quarter.

Our investment in leases and loans also reached an all-time record during the quarter increasing to $756.1 million, up 4% from the previous quarter and 15% from a year ago. Importantly, we achieved the record origination volume while maintaining our strict underwriting standards, as evidenced by the portfolio's credit performance which remained excellent during the quarter.

In addition to our strong financial and operational performance, we continued to make good progress in rounding out the Marlin management team. During the quarter, we promoted David Lafferty to the newly-created position of Capital Markets Leader. Dave has been with Marlin since 1998 in various credit roles and has nearly 25 years of experience in Equipment Finance. In his new role Dave is leading the process of building our capital markets capability in order to help diversify our funding sources while also providing our origination platforms with a broader set of credit products to take to market. This is an important strategic initiative within Marlin 2.0, so I'm very pleased to have somebody of Dave's caliber in this role.

During the quarter we also promoted Richard Irwin to Treasurer. Rich has over 18 years of experience in structured debt finance, capital and liquidity risk management, financial planning and mergers and acquisitions. Prior to joining Marlin in January 2016, Rich held various positions in CIT's treasury and corporate development areas.

In his new role, Rich will be responsible for executing Marlin 2.0's capital plan, including working closely with Dave Lafferty. This is another important strategic initiative within 2.0. So as with Dave, I'm very pleased to have somebody of Rich's caliber in this role.

With respect to the open position of Chief Credit Officer, I am pleased to report that we have identified a strong finalist who is an exceptionally qualified candidate. We expect to make an announcement in the coming weeks. While the hiring of a new CCO has taken longer than we originally expected, I am very excited about this individual for this critical role at Marlin. Across the board, I am very pleased with the world-class team we are assembling. As we move forward, it's very important that Marlin 2.0 leverage new ideas and perspectives while preserving what has helped make Marlin such a great company.

I'd like to now turn to progress on our Marlin 2.0 initiative. As you may recall from our call last quarter, I discussed the plan that our leadership team is focused on in order to address the tremendous opportunity we have to take Marlin to the next level of growth and profitability, a transformative process which we are referring to as Marlin 2.0. Through this transformation process, we expect to drive sustainable growth and improve returns by substantially expanding our target market, operating more efficiently and using our capital more productively.

As you may recall, the 2.0 plan is comprised of three main areas of immediate emphasis that include; one, a strategic revisioning of the Company; two, better leveraging the Company's capital base and fixed costs through origination and portfolio growth; and three, improve operating efficiency by better leveraging fixed costs and through operational improvements to reduce unit processing costs.

I'd like to share with you the progress we have made in each of these areas since our last call. First, with respect to the strategic revisioning process Marlin's senior leadership team and its Board of Directors agreed during the quarter that the overarching goal of Marlin 2.0 will be to transform the Company from primarily a micro-ticket lessor into a broader provider of credit products and services to small businesses. This transition is supported by our substantial experience underwriting small businesses and by the US small business market itself, which is vast, fragmented and underserved.

In fact, according to recent US census data, over 99% of American businesses have revenues of less than $10 million and a recent Federal Reserve study found that two of the three top issues concerning small businesses were the lack of credit availability and uneven cash flow. Given this overarching goal, the Company adopted new mission and vision statements during the third quarter. 2.0's mission, which is a statement of our purpose, is to help small businesses achieve their American dream. We believe that this mission statement captures the essence of 2.0's commitment to small businesses and their success. 2.0's vision, which is a statement of what we aspire to be, is to become the preeminent provider of credit products and services to small businesses nationwide while delivering exceptional value and service to our customers. We believe that this vision captures not only our commitment to small businesses and their success but also distinguishes 2.0 by its commitment to creating outstanding customer experiences.

An example of this new vision is the early success we are seeing with our Funding Stream working capital loan business, which is our initial offering beyond our Equipment Finance business. Our new Franchise platform also has the potential to become an independent business within 2.0 as we work to expand its products beyond just Equipment Finance.

Consistent with this new vision, we look for Funding Stream and Franchise to continue to gain traction in the quarters and years ahead. Also consistent with this vision, we expect to become much more deliberate in the identification and acquisition of platform extensions, new platforms, teams or products that will help us better serve this small business market.

We also made good progress during the quarter on our second key near-term priority, which aims to better leverage the Company's capital and fixed costs through growth. With respect to leveraging capital, during the quarter we began working with several major financial institutions to establish a wholesale credit facility at the holding company that would better leverage our capital base and increase the Company's return on equity while also providing an additional funding source. We are currently in the process of negotiating terms and conditions and we expect to have the new facility in place soon.

In addition, our commitment to this part of the 2.0 transformation is further demonstrated by the newly-created capital markets leader position and the appointment of Dave Lafferty, which I mentioned earlier. We also continued to make progress better leveraging the Company's fixed costs during the quarter through our record origination volume and portfolio size, which I also noted earlier. And third, Marlin has been operating for almost two decades with an evolving set of business processes that need to be evaluated and renewed in order to improve the Company's operating efficiency. During the quarter we engaged a consultant with significant experience in leading process renewal initiatives and appointed the design team to lead the redesign of our core business processes with the objective of achieving dramatic improvements in productivity, cycle times and quality. We are currently six weeks into this effort and while there's still early days in what will ultimately be a six to nine-month project, I am very encouraged by what we are seeing in terms of the potential gains and throughput while maintaining current headcount levels.

As an early case in point I'd like to highlight as an example, our funding process, which the design team has identified as an initial area of focus. This process, which begins when documents are generated and ends when the lease or loan is funded, is an area of extreme customer sensitivity and is a process that is right for automation.

Before wrapping up my remarks, I'd like to share with you the three strategic objectives that we have established for the next several years as extensions of the new Marlin 2.0 paradigm. The first is growth. It is critical that the Company continue to accelerate growth to leverage its infrastructure across a larger portfolio. As such while we will look to grow our legacy equipment leasing business as much as possible, we will also look to grow our Funding Stream, Transportation, Franchise and Office Equipment channel substantially over the next several years. We will also endeavor to identify future growth engines, both through acquisitions and organic means, with the goal of doubling of origination volume by 2020.

Our second key strategic objective is to operate more efficiently. As we execute on our growth objective, we will be able to better leverage our fixed costs through scale. In addition, we expect to benefit from reduced unit processing cost through the process renewal activities that I discussed earlier. We also know that the value proposition for small ticket businesses is speed and convenience, so we are highly focused on using process renewal to also improve the customer experience which reinforces our growth objective.

Through the combination of these activities, we expect to improve Marlin's operating efficiency ratio in the coming years to approximately 45%. And finally our third objective is to use capital more productively. To this end, we see a significant opportunity to diversify our funding around Marlin Business Bank and to better leverage our capital base through the wholesale credit facility and the capital markets activities I mentioned earlier. As I also noted previously, we've made a good start on these initiatives with the goal of increasing Marlin's overall portfolio leverage to approximately 90% over time.

In summary, Marlin's transition from primarily a micro-ticker lessor to a broader provider of credit products and services is a significant paradigm shift for the Company. In broadening our strategic purview, we do expect the overall yields to decline somewhat as we grow by extending our reach into new segments. But we expect that the financial impact from reduced yields will be more than offset by efficiencies from scale, improved credit quality, larger transaction sizes and more efficient use of capital.

Taken together, these changes will result in a substantial increase in return on equity which is our primary focus. I look forward to executing on our new strategy, enhancing our financial and operational performance and driving superior value for all of our stakeholders as we move forward.

With that, I'd like to turn the call over to Ed Siciliano, our COO, to discuss our third quarter operational performance in more detail. Ed.

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

Thank you, Jeff, and good morning, everyone. My comments today will focus on our third quarter origination activities and overall credit quality. Total origination volume in the third quarter was $128.3 million, breaking the previous record established last quarter by more than 5%, and up 26% compared to the third quarter last year. As Jeff mentioned earlier, we achieved this record origination volume while maintaining our strong credit underwriting standards and without increasing approval rates.

Our Equipment Finance origination volume, independent of Funding Stream, also reached a historic high of $117.9 million, about 4% higher than the previous record.

In addition, our investment in leases and loans grew to $756 million, also a historic high, up 4% from the prior quarter and up 15% from the third quarter last year. The origination volume growth on both the year-over-year and sequential quarter basis was driven by a number of factors, including increased application levels and dealer contribution, higher average ticket and increasing momentum in our Franchise and Transportation channels.

Overall, Marlin's disciplined credit underwriting continues as evidenced by our excellent credit quality and portfolio performance. For the quarter, 30-plus and 60-plus day delinquencies were 78 basis points and 45 basis points respectively. This is up slightly from the prior quarter but well within a desirable range.

Net charge-offs during the quarter were $2.5 million or 1.36% of average finance receivables, as compared to $2.4 million or 1.38% of AFR in the prior quarter, and $2 million or 1.23% of AFR in the third quarter last year.

We also continue to see momentum from our working capital loan business, Funding Stream, which was launched just over a year ago. Total Funding Stream origination volume increased to $10.3 million, up 31% from the prior quarter and nearly five times higher than the year-ago period. Additionally, Funding Stream represented 8% of total originations in the third quarter, up from 6.5% of total originations in the second quarter and up from 2.2% of total origination volume a year ago. Similar to last quarter, we were able to significantly increase total Funding Stream origination volume while also maintaining better than expected credit results.

During the quarter approximately 80% of funding stream's loans were originated with existing Marlin customers illustrating the power, efficiency and safety of marketing to our substantial small business customer base. In addition, yields in this are nearly 3.5 times higher than our average yields in the equipment finance business. The continued growth in funding stream once again helped to offset the decline in equipment finance yields. We would expect the equipment finance yields to continue to decline driven almost exclusively by channel mix, offset by growing funding stream volume.

During the quarter, we completed our second sale of equipment leases previously held on our balance sheet totaling $3.6 million. Flow based sell side syndication is an activity we plan to continue on a regular basis. This transaction in the third quarter generated an immediate gain on sale of $123,000 that was recorded in other income.

In addition, we also retained servicing rights on the leases that were sold and we will recognize servicing fees over the life of the leases.

In closing, we at Marlin are looking forward to achieving the objectives that we have laid out for you on the past two earnings calls. We continue to reach new milestones and I believe we have a well thought-out strategy for substantial growth as we execute on the Marlin 2.0 plan.

With that, I'll turn the call over to our CFO, Taylor Kamp, for a more detailed discussion of our third quarter financial results. Taylor?

Taylor Kamp - *Marlin Business Services Corp - SVP & CFO*

Thank you, Ed and Jeff, and good morning. Marlin delivered another solid quarterly performance led by record growth in originations and record portfolio levels while maintaining excellent credit quality.

In the third quarter, we generated net income of $4.3 million and EPS of $0.35 per diluted share. This was compared with $4.5 million or $0.36 per diluted share in the prior quarter and $4.8 million or $0.38 per diluted share a year ago.

Expenses relating to non-recurring and strategic initiatives tempered EPS slightly in the third quarter. These expenses were comprised of a $120,000 one-time true-up of tax relating to state apportionments as well as transformation related expenses associated with Marlin 2.0 of approximately $100,000 after tax.

As previously noted, total origination volume was $128.3 million, up 6% from the prior quarter and 26% from a year ago and was the fourth consecutive quarter of record originations. Our net investment in leases and loans grew approximately 4% from last quarter and 15% year over year to $759.4 million. Investment in leases and loans before deferred cost and loss allowance, in effect, our portfolio of earnings assets, hit an all-time record of $756.1 million.

Return on equity for the quarter was 11.10%, down 56 basis points from the prior quarter and up 15 basis points from a year ago. The decrease in ROE from the prior quarter was the result of increased expenses driven by the one-time tax true-up as well as the transformation related expense associated with the Company's Marlin 2.0 initiative. We expect ROE to improve as the business grows and we better leverage fixed costs through increasing scale and we begin to experience benefits from process renewal.

For the quarter, net interest margin was 11.30%, 20 basis points lower than the prior quarter and 66 basis points lower than a year ago. The decrease in margin percentage from the prior and year-ago periods was driven by the roll-off of higher-yielding assets, a shift in mix to lower rate, better credit quality assets with higher average transaction sizes, and a decline in late fees. The Company experienced a slight increase of 7 basis points in cost to funds from last quarter to 1.12%. This reflects the increasing impact of the December 2015 Fed rate hike and is in line with our expectations for continued NIM compression in the Equipment Finance business.

The portfolio continued to perform well in the third quarter. Total charge-offs decreased slightly to 1.36% of average finance receivables as compared to 1.38% last quarter but were up 13 basis points from 1.23% last year.

For the quarter, the allowance for credit loss reserves was 1.33% of total finance receivables and 259.3% coverage of 60-day delinquencies. So far in the fourth quarter, we are continuing to see good credit performance. Additional information on static pool losses and delinquencies is available on our Investor Relations website.

Third quarter operating expense was $12.8 million compared to $12.5 million in the prior quarter and $11.4 million in the third quarter last year. The increase in other expenses compared to the prior quarter was primarily related to our Marlin 2.0 strategic revisioning process, the full-quarter impact of the new CEO, as well as prospective changes to where the Company reports expenses relating to its insurance program. Effective during the third quarter, the Company began reporting expenses related to its insurance program in "other expense - general and administrative" on a prospective application. These expenses, prior to the third quarter are reported net in "other income - insurance premiums written and earned".

The increase in other expenses compared to the third quarter last year was primarily due to higher salaries and benefits from an increase in personnel mostly from the build-out of the Transportation and Franchise platforms and Marlin's senior leadership team. Expenses are also up, to a lesser extent, from higher general and administrative expense in the current quarter associated with marketing activities and the prospective change in insurance reporting. It is important to note that increased levels of earning assets in the quarter from the growth in our Equipment Finance and Funding Stream portfolios more than offset higher quarter-over-quarter expenses. As a result, our efficiency ratio improved 76 basis points to 54.9% in the third quarter.

Our capital position remains strong with an equity to assets ratio of 18.26%, 23 basis points below last quarter and 88 basis points below last year. The continuing decrease in the capital ratio quarter to quarter is by design and results from strong asset growth. I am pleased to report that our Board of Directors declared a regular quarterly dividend of $0.14 per share, payable on November 17, 2016 to shareholders of record as of November 7, 2016. We continue to be committed to prudently balancing our growth strategy, while still providing value to shareholders. We will weigh capital investment alternatives and adjust our capital trajectory as needed with the best interests of our shareholders in mind.

Now turning to our business outlook for the full year ending December 31, 2016. Full-year origination volume including both Equipment Finance and Funding Stream is expected to finish in the range of $480 million to $490 million. At the low-end, this would represent an almost 26% increase over 2015. Credit quality is anticipated to remain strong and within the expected range. Net interest margin is expected to slightly decrease during the fourth quarter as the mix of Equipment Finance originations continues to shift to flows with larger average transaction sizes, higher credit quality and lower yields. This decline in NIM will be partially offset by continued strategic growth in the higher yielding Funding Stream product.

And finally, despite transformation expenses incurred during the third quarter that caused a slight decline in ROE, we expect full year ROE to improve as the business better leverages its fixed costs through increasing scale and ongoing emphasis on improving efficiencies.

In conclusion, Marlin's strong third quarter performance led by robust origination growth and excellent credit quality represents another well-executed quarter as we continue to achieve new levels of growth and profitability in 2016.

And with that I'll turn the call over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris York, JMP Securities.

Chris York - *JMP Securities - Analyst*

Good morning, guys. And thanks for taking my questions. So you attributed the pressure on yields a little bit to growth and low rate yielding equipment demand channel. So what channels specifically are driving the growth? Is this Franchise and Transportation?

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

Yes. Chris, this is Ed. Yes, thanks for the question. That is the case. Wouldn't call it a breakout quarter but we had substantial growth within those two channels combined in Q3. So in the second quarter Transportation and Franchise together accounted for about 5% of originations. In the third quarter that went up to 12%. Now the yields in those channels are very similar, so approximately 7%, so it has a dilution effect, overall yields -- new origination yields. So the decline in yields has been -- it was very much a part of mix. Our core channels, Chris, have been very, very stable throughout the whole year. We are not seeing price compression in the core channel, so it really came from the new channels.

Jeff Hilzinger - *Marlin Business Services Corp. - CEO*

And I would just say, Chris, this is Jeff, that that's -- our point on this is that that's more than offset by higher average transaction costs or higher average transaction sizes and lower credit cost expectations in both those channels. So both those channels will be accretive to ROE notwithstanding the fact that they are at a lower NIM than the sort of historical leasing business.

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

Yes. It's very much part of the plan, Chris. And as evident by the total implicit yield on new originations including Funding Stream, we are kind of outrunning that through Funding Stream originations which is really pumping up yield. In fact this year, total origination yields are higher than last year as a result of the Funding Stream contribution.

Chris York - *JMP Securities - Analyst*

It makes sense. And then maybe breaking down these channels further within Franchise and Transportation, so what types of equipment or Franchise are driving the demand specifically?

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

It's everything you would find in a fast service restaurant. So it's restaurant equipment. In the case of hotel, it could be AV equipment. It spans the gamut depending on the nature of Franchise, but we are doing a lot within a restaurant. And then in Transportation of course it is trucks.

Chris York - *JMP Securities - Analyst*

Okay. And then presumptively I know Taylor, I think commented on this that the lower yield should imply lower risk, so what effect you expect to have on the asset quality metrics maybe over the duration of these leases relative to the core lease portfolio?

Taylor Kamp - *Marlin Business Services Corp - SVP & CFO*

Good morning. We are obviously very selective on what we are funding and what we are putting on balance sheet. And so certainly in the Franchise area we believe the losses are below the average of what our retail business is for instance. On the Transportation side, we are very selective and trying to get a fair mix of both owner operator and fleet. And so, Ed, maybe you have some views on the Transportation fees.

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

Yes. You know what I'd point to, Chris, is the overall approval rate for all of our business which has been declining for the past four quarters. And that's driven by Transportation and Franchise. Again as we move slowly into those channels, we are being very cautious, very selective on the credits that we put on balance sheet and it is causing a drag on approval rates, but we are perfectly fine with that. In fact, that is very much part of the plan.

Chris York - *JMP Securities - Analyst*

Okay. And then maybe in totality, what are you expecting or what is the expected range for your credit volume metrics?

Taylor Kamp - *Marlin Business Services Corp - SVP & CFO*

When you say credit volume, Chris, are you speaking of just the loss rate to AFR, to average finance receivables?

Chris York - *JMP Securities - Analyst*

Yes. I mean the press release states the credit quality (multiple speakers) --

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Taylor Kamp - *Marlin Business Services Corp - SVP & CFO*

All things being equal we see that loss metric moving horizontally over time. We have been in a very sort of exceptional period over the last few quarters. So all things being equal, we would expect it to go sideways. Over time with the increasing mix in some of these less risky channels and with our expertise on the credit side, we expect the percentage to even inch down.

Chris York - *JMP Securities - Analyst*

Okay. So do we have formal range or is it just kind of directionally?

Taylor Kamp - *Marlin Business Services Corp - SVP & CFO*

No. I think we are going through a bit of transition and I think giving that guidance it's too early.

Jeff Hilzinger - *Marlin Business Services Corp. - CEO*

I think we will be -- Chris, we will be ready to give guidance on that when the Chief Credit Officer is here. We've locked down our proxies by channel. We have a pretty good sense right now as to where that's going to be. We are modeling it at the 2.0 level and it looks good. But I just think in fairness to the new Chief Credit Officer before we go public with sort of our expectations on that that I'd like to give that person a chance to weigh in.

Chris York - *JMP Securities - Analyst*

Sure, understood. And then maybe how has the disruption of online lenders affected demand for Funding Stream because one of your bank competitors made comment that they are seeing very good opportunity as a result of the disruption?

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

Yes. I'll start, maybe Jeff you want to jump in. We are tracking that obviously very closely. I mentioned in my comments that we are still very much focused on our existing customer base for all the reasons you might expect, Chris. We know these customers. They've had leases with us. We understand their credit history, they paid us back. So 80% of our Funding Stream portfolio consists of existing customers. We are seeing a significant opportunity to increase Funding Stream volume through the broker community, but we are resisting that. And we had a couple of -- there have been a couple of competitors that have stepped out of the business. One of them Windset and immediately we saw an increase in broker activity. But that's not where we are going -- that's not how we are going to increase our working capital portfolio. We've decided to resist that and continue to focus on our customer base for credit quality reasons.

Jeff Hilzinger - *Marlin Business Services Corp. - CEO*

Yes, I think just as a matter of strategic choice, Chris, we want to do as little broker as possible. We probably will never go to zero because we get tremendous market insight from doing business with brokers, but we don't want to do much and the business that we do do with brokers we want to do with the best brokers that we know. But the primary focuses of Funding Stream is a product for small businesses that will be focused primarily on our existing customer base where we've already adjudicated them, we already understand what the credit risk is. And I will say that from what we've seen over the last quarter in terms of what's happening in the broker channel of the marketplace lenders it's pretty scary. So we are grateful actually that we've got sort of a captive set of customers that we can provide this product to because it serves a very good purpose and it's obviously in demand by small businesses. And clearly the cost of acquisition for us in the existing portfolio is substantially less than it is when we were originating through the broker channel.

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

The only thing I would add to that is we are fortunate because we have a tremendous amount of headroom within our customer base. So I think we put on something like 300 loans in the third quarter while we are marketing to 100,000 pre-qualified existing Marlin customers. So from a penetration standpoint we are just scratching the surface of the potential within our customer base. So that's where we are going to focus.

Chris York - *JMP Securities - Analyst*

That makes a lot of sense. I think that 80% metric that you provided in regards to your client that you provided Funding Stream is quite powerful. So that was helpful. And then lastly so maybe help me understand a little bit the full year ROE is expected to grow comment. Is this specifically year over year because I would think that that's quite clear given maybe extremely conservative 4Q results.

Taylor Kamp - *Marlin Business Services Corp - SVP & CFO*

Yes. So I would expect -- even though we have some expense relating to our various initiatives, Marlin 2.0 and so on and so forth, I would expect our ROE in the short run to continue up slightly through the end of the year. And then our mid-range target for ROE, I'll go ahead answer your next question, our mid-range target for ROE is in the sort of low to mid-teens and our longer range target in the next three years an ROE in the mid to high teens.

Chris York - *JMP Securities - Analyst*

Got it. Okay, yes, that's what I thought. And then how are you tying maybe within that capital management in terms of balancing your capital ratios which are well above the well capitalized metrics? And then your pursuit of growth and then maybe lastly tying in the dividend in terms of a payout ratio.

Taylor Kamp - *Marlin Business Services Corp - SVP & CFO*

Sure. So that I'll say that capital plan and capital management is at the top of my to-do list. And, as Jeff has articulated, we've added some other levers so that we can manage that whether it be funding through the parent, whether it's funding and or syndications and secondary marketing. And so we can manage that much more precisely now than we could in the past. And so we will be moving the capital ratio down over time both through growth and through these other methods. So that is a -- we'll manage the denominator that way in the ROE calculation and we will -- as you know there are Basel III floors, that we have to be aware of and have to manage too starting in 2019. So we will -- it will come down. I am not going to tell you precisely although as Jeff has also articulated we believe on a portfolio basis we can get our advance rates to 90% and so that will help us as well.

As far as dividends, we announced the $0.14 per dividend per share this quarter. We will evaluate quarter to quarter how we decide to deploy capital and employ capital. We think that in the short run we have very good opportunities for growth and for profitable growth. And so certainly that's kind of at the top of the list. But we will look at the opportunity to the extent that we are not able to reduce capital as quickly as we hoped to, we would look for opportunities in other ways to deploy capital. So just to finish off, we are at around 3% dividend yield, I would expect we are not going to be that far off.

Chris York - *JMP Securities - Analyst*

Okay. That's helpful. One last one and then -- thinking about I mean doubling origination volume by 2020, that was a helpful long-term target. What are your thoughts in regards to maybe growth in loan and lease volume for 2017? I know you are taking share, I know you are expanding into new channels with Transportation and Franchise but we had a good GDP print here in Q3, any tailwinds are you expecting from companies finally investing in the business in CapEx?

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

Well, on the guidance side, Chris, I would tell you that -- well a few stats. This year as we've changed our strategy application, we are up in this business about 35%. And we would expect overall volume to be up about 25% in 2016. On a go-forward basis we are modeling, we are planning around 20% growth year over year for the next three years. And that's how we get to the number that Jeff was talking about.

Not necessarily seeing tailwinds. I think what we are seeing is success in moving slightly up ticket. So our average ticket has been increasing quarter over quarter for the past four consecutive quarters. I think in the third quarter here our average booked ticket was about $18,000. That's probably a historical high, but still very low and we've got some headroom there to scale the business by moving further up ticket. And that growth is going to come from slower growth within our traditional core channels, probably 5% growth and substantial growth within the new channels and the expansion channels that Jeff mentioned, specifically Franchise, Transportation, Office Equipment and of course Funding Stream.

Now two of those channels will have to hold back growth to some extent. Transportation and Funding Stream we can actually turn on a lot faster than we are turning on now. But for credit quality reasons and just prudent underwriting we are not doing that. So in 2017 we kind of pull those back a little bit but overall it would be about 20% growth. The economy is just -- there is no headwinds, there is no tailwinds, it's just in second gear and I think it's been that way for about three years now.

Jeff Hilzinger - *Marlin Business Services Corp. - CEO*

It's pretty benign environment. I think the way to think about it, Chris, is you got -- you sort of have the legacy or the historical Marlin Equipment Finance business which is originating around $400 million and that can reasonably without compromising credit quality or price can grow 3% to 5% a year. And then wrapped around that are these four growth platforms that we talked about. Each one, I think, our goal is to try to get each one to $100 million of volume over a three-year period. So that's another $400 million that gets us to $800 million. And then maybe $850 million and then we got $100 to $150 million kind of go find it business over the next three years which I think will either happen through just natural organic extensions in the existing businesses or actually hopefully I think that we find things to acquire and to provide to other platforms, I think a lot of the positives that Marlin has and then obviously Marlin gets the benefit of accelerating the leveraging of its structural cost.

Ed Siciliano - *Marlin Business Services Corp. - EVP & COO*

Yes, Chris, I just want to comment on one last point that we typically talk about and that's sales headcount. So we are also planning on doing what we just described basically keeping sales headcount relatively flat. So we've got very, very small growth in sales headcount in 2017, probably six to seven people and that's exclusively for the new channels that we continue to invest in Franchise, and Transportation and to a lesser extent Funding Stream. So it starts to become pretty powerful as we gets rep productivity growing at a flat headcount.

Chris York - *JMP Securities - Analyst*

Got it. Good color again, it's very helpful. Appreciate it and thank you very much for taking my questions.

Operator

(Operator Instructions) I am not showing any further questions at this time. I'd like to turn the call back over to Jeff for closing remarks.

Jeff Hilzinger - *Marlin Business Services Corp. - CEO*

Well, thank you everybody for your support and for joining us on today's call. We look forward to speaking with you again when we report our 2016 fourth quarter and full year results at the end of January. Thanks again.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.