



## Step-by-Step Guidance for Retailers Seeking SBA Pilot Program Loans for Floor Plan Finance

The Small Business Administration (SBA) launched a pilot program on July 1 that will provide floor plan loans for businesses that finance inventory such as cars, boats and manufactured homes. The pilot program will run through September 20, 2010. As with any lending program today, securing an SBA floor plan loan will require a deliberate and well thought out approach as you work with your local SBA lender. MHI has gathered resources on its Web site and has developed this guide to assist you as you seek to access this funding source for your inventory.

First, you will want to access MHI's Web site to locate the documents that will be referenced in this guide. The address is [www.manufacturedhousing.org](http://www.manufacturedhousing.org) and on the home page, in the lower right side of the page, you will see a flashing link that reads, "Finance Resources." Click on this link, and then click on "Floor Plan Financing." Here you will find the following links and information:

- **SBA Announces Pilot Program for Floor Plan Financing, Including Manufactured Housing** – Click on this link to find the SBA announcements regarding the new pilot program.
- **Community Bank Locator** – Not all community banks are SBA lenders, however, this bank locator may help you identify your local banks for making inquiry about whether they are an approved SBA lender.
- **Retailer Presentation for Local Banks** – This is a PowerPoint presentation that you can download and customize so that you can make a professional presentation about manufactured housing and your business when you meet with a local bank.
- **Modular Builder/Developer Presentation for Local Banks** – This is a PowerPoint presentation on modular housing that you can download and customize for making a presentation to your local bank.
- You will find an **SBA Loan Checklist** and the following loan documents needed for obtaining an SBA Loan:
  - **SBA Application for Business Loan**
  - **SBA Application for LowDoc Loan**
  - **SBA Personal Finance Statement**
  - **SBA Statement of Personal History**

Remember, this is a brand new program, and some SBA lenders that you contact may not be familiar with it, and may in the beginning tell you that they do not do this type of lending. You will need to be persistent if this is the case. Ask for a meeting, and prepare for it by utilizing this guide.

## **Step 1 – Identify SBA Lenders**

To find an SBA lender in your area, you will want to go to [www.sba.gov](http://www.sba.gov) and click on “Local Resources.” From there, click on your state to get information on your local SBA office. Contact them for SBA approved banks in your area. You may also want to ask them if they are aware of the pilot program for floor plan inventory financing and if they are working with the SBA banks in the state on the program. For example, the SBA state offices in Pittsburgh and Philadelphia are working to educate interested SBA approved lenders in Pennsylvania on the pilot program.

## **Step 2 – Contact SBA Lenders**

Contact the SBA lenders that you have identified and ask to speak to the person who handles SBA loans. If this individual is familiar with the SBA pilot program – great! Make an appointment to see them in person. If this individual is not familiar with the program, ask them for an appointment to come and speak to them about the pilot program.

## **Step 3 – Prepare for Your Meeting**

When you meet with the lender, be prepared. If your SBA lender was not aware of the new pilot program, ask for a meeting anyway. Use this as an opportunity to educate the lender about the program. (In other words, don’t take the first “no” as the final answer.) You should bring the SBA Dealer Floor Plan Financing FAQ included in this document and also be prepared to provide information about your business. This might include a customized PowerPoint presentation that can educate the bank about our industry and your business (see the MHI PowerPoint templates on the Web site for assistance), information about the financial condition of your business, and information about your personal finances. Any marketing plans and projections for future business would also be helpful. Refer to the SBA Loan Checklist for the type of information the lender will need to approve an SBA loan and provide as much of that as you can.

This is a list of some of the information you may want to prepare:

- A five-year history of operating expense to income ratio figures
- Inventory to sales ratio
- Monthly inventory turnover
- Average amount of home invoice and/or price ranges of homes available at your sales center
- Information on any real estate or other assets owned and their value
- A marketing plan for your sales center that outlines strategies for increased sales growth (some lenders want to see a 3-year plan)
- Personal finance statement (see the SBA Personal Finance Statement on the MHI Web site)

#### **Step 4 – You Are the Expert**

You may be the expert in the room when you meet with your local bank regarding floor plan lending. You are definitely the expert on manufactured housing. Be prepared to explain how a floor plan line of credit usually works in the industry. Provide information about typical time periods, curtailments, manufacturer repurchase agreements, etc.

#### **Step 5 – Be Willing to Bring Something to the Table**

You may need to establish a depository relationship with the lender if you are not currently doing business with them. The bank may be more willing to assist you with your loan needs if you are a customer already. Also, if they do consumer manufactured home loans, let them know that you will refer business to them.

#### **Step 6 – A Presentation with Polish**

Make a detailed outline of all the points you want to cover and put your materials in a professional folder. Dress professionally. Offer to give a tour of your business. Be sure to follow-up promptly with any requests for additional information from the lender.

## HELPING SMALL BUSINESS START, GROW AND SUCCEED

### **Dealer Floor Plan Financing**

#### **Frequently Asked Questions For Borrowers and Lenders**

#### **What is floor plan financing?**

Floor plan financing is a revolving line of credit that allows the borrower to obtain financing for retail goods. These loans are made against a specific piece of collateral (i.e. an auto, RV, manufactured home, etc.). When each piece of collateral is sold by the dealer, the loan advance against that piece of collateral is repaid.

In short, Dealer Floor Plan financing allows dealers to borrow against retail inventory. The dealer then repays that debt as they sell their inventory and borrows against the line of credit to add new inventory.

#### **What is the SBA's new Dealer Floor Plan Pilot Program and how will it work?**

- The SBA's pilot DFP Pilot Program will provide access to capital through the SBA's 7(a) loan program.
- DFP loans can be made by all SBA-approved lenders.
- Under this pilot program, DFP loans will be available for a minimum of \$500,000 up to a maximum of \$2 million (the statutory maximum limit for 7(a) loans).
- Borrowers will receive the fee reduction benefit provided under the Recovery Act on 7(a) loans.
- The maximum guaranty level on DFP loan will be 75 percent, not the maximum 90 percent provided under the Recovery Act for some 7(a) loans.
- The maximum term for a DFP loan will be five years.
- Loans will only be made for inventory that can be titled.
- Lenders will be expected to control title transfer as a means of risk mitigation.

#### **Who can take advantage of SBA's DFP Pilot Program?**

SBA's Dealer Floor Plan Pilot Program will be available to qualifying small businesses in the retail sector, including new and used automobile, motorcycle, RV, manufactured home and boat (including boat trailer) dealerships.

#### **When will these loans be available?**

- We expect to have the Dealer Floor Plan Pilot Initiative available by July 1, 2009, through Sept. 30, 2010.
- We believe this pilot initiative will complement the Recovery Act programs SBA is currently implementing.
- At the completion of this pilot initiative, SBA will evaluate and determine whether to extend the pilot, terminate the pilot or make it a permanent part of SBA's lending programs.

#### **Why is there a minimum and maximum loan amount for DFP loans?**

- Based on our discussions with the various dealership associations, we believe that the limits set for this pilot program provide a range that will be beneficial to dealers who are in need of this type of financing at this time.
- Under the 7(a) program loan amounts are set at the legal maximum of \$2 million.

The minimum loan amount (set at \$500,000), along with limiting the DFP loans to only inventory that can be titled, are steps taken to help reduce risk for lenders and SBA.

#### **Why is this only a pilot initiative?**

SBA has not traditionally offered loans for floor plan financing, so the pilot program will allow the agency to determine the effectiveness of the program and determine whether it should be made a permanent part of SBA's lending programs.

## **Why is SBA offering a floor plan financing program now?**

A number of large floor plan lenders have exited the market recently due to their inability to sell the loans into the secondary market. This has decreased access to capital for a number of viable small business owners in the retail sector. Since many SBA lenders already have other credit relationships with these retailers, this program will allow these lenders to prudently extend this critical line of credit as a lifeline to these dealerships in these tough economic times. It will help restore cash flow and, in turn, save jobs.

## **Isn't this just throwing money after businesses that are likely going to close anyway?**

No. All loans will be made through SBA lenders to creditworthy dealerships that meet the lender's and SBA's requirements, demonstrate sound finances and have a viable business plan. In each case, the lender will have extensive capital at risk as these loans must be held on the lender's books.

## **How many DFP loans do you expect to be made under this program?**

We know that there has been a lot of interest in a dealer floor plan financing program, and we expect a fairly high demand for this line of credit.

## **Are you really going to be able to make enough loans to help this industry?**

SBA lenders are already very involved with the auto, recreation vehicle, boat and other industries that will benefit from DFP. Since 2000 SBA lenders have extended more than 4,250 7(a) and 504 loans worth \$1.125 billion to borrowers in these industries.

We believe the DFP pilot program will provide the access to capital many viable auto dealerships need at this critical time as they go through the transition brought on by larger changes within their industry. The DFP financing will also help dealerships in a number of other industries that are facing restricted access to capital.

Because of the severe decrease of dealer floor plan financing over the last several months, each of these loans most likely will keep open a viable business that would have otherwise closed.

This pilot initiative will also give SBA the opportunity to assess and evaluate DFP financing and then determine whether or not to extend the pilot initiative.

## **Isn't floor plan financing available through GMAC, which has received significant financial help from the federal government already? If so, why is it necessary for SBA to offer this program?**

GMAC will primarily be assisting GM and Chrysler dealers that have been slated to continue their franchise after the announced downsizing. There are other GM and Chrysler dealers that are viable but have lost their access to floor plan financing when their lenders stopped making those loans.

In addition, some of the dealers slated for downsizing may still be viable as used car, service and repair providers. In fact, the majority of new car dealership profitability comes from the parts and service side of the business.

## **What about the dealerships that Chrysler and GM have already cut? Floor plan financing won't help them?**

Across the country, small businesses in the auto-related sectors, from dealerships to parts suppliers and others, are going through a transition.

In the case of dealerships, some will continue to be dealerships. Others will transition to other business models and offer different products and services.

The SBA offers an array of loan programs and other tools that may help these small businesses through this transition and these tough economic times.

DFP financing is just one of those tools. Whether it's another loan program or technical assistance to help them through

this transition, SBA stands ready to work with small business owners and be the real partner they need at this critical time.

### **Why hasn't SBA offered floor plan financing in the past?**

DFP is a specialized type of revolving credit. Historically, SBA loan programs were term oriented and only recently have revolving credit products been offered.

In addition, SBA previously serviced and liquidated most of its loans and never had the resources to properly manage the collateral necessary for a successful DFP program. SBA has now delegated almost all of these functions to our lending partners making a DFP initiative viable.

### **What is the maximum advance rate on these loans?**

New auto and light truck inventory can be financed up to 90 percent of the wholesale price and all other inventory can be financed up to 80 percent.

### **What is the maximum interest rate?**

The maximum interest rate is the same as that for standard 7(a) loans with a maturity of less than seven years. Lenders can charge one of the authorized SBA base rates (such as Prime), plus up to 2 ¼ additional points.

### **What fees can lenders charge on these loans?**

Lenders may charge the same fees as are allowed in the standard 7(a) program with the exception of the extraordinary servicing fee. Under the DFP Pilot Program, SBA will allow lenders to charge more than 2 percent for servicing these lines of credit, as long as the fee is reasonable and prudent in light of the extraordinary effort required.

In addition, if the lender currently provides floor plan financing to its customers, the lender may not charge higher fees for its SBA-guaranteed floor plan lines of credit than it charges for its similarly-sized, non-SBA guaranteed floor plan lines of credit.