



News Release

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SBA Will Offer Floor Plan Financing to Auto, RV, Other Dealerships Beginning July 1

KOKOMO, IND. – The U.S. Small Business Administration will offer government guaranteed loans to finance inventory for eligible auto, recreational vehicle, boat and other dealerships under a new pilot program announced today by SBA Administrator Karen Mills.

Dealer Floor Plan (DFP) financing will be available beginning July 1, according to Mills. She announced the new program during a visit to Kokomo, Ind., with Dr. Ed Montgomery, President Barack Obama's Director of Recovery for Auto Communities and Workers.

“Countless small businesses, including dealerships, across the country are facing significant challenges as a result of the uncertainty in the auto industry,” Mills said. “Floor plan financing can offer some dealerships the opportunity to get through these tough economic times by allowing them to keep their inventory and cash flow intact, as well as save the jobs these small businesses provide.”

Mills and Montgomery discussed the new DFP pilot program, as well as other resources offered by SBA and the federal government to help small businesses in communities impacted by the troubles facing the auto industry.

“Small businesses are the engine of our economic growth,” Dr. Montgomery said. “We are committed to finding ways the federal government can cut through red tape and get resources to these companies quickly during these tough economic times. From supporting nearly \$4 billion in lending to small businesses across the country since February to the Dealer Floor Plan financing announced today, the SBA is making the resources provided in the Recovery Act accessible and working to provide needed credit. The President is committed to continuing to work with federal officials to identify resources like these that make a real difference in the lives of our auto communities and workers.”

Floor plan financing is a line of credit that allows dealers to borrow against their inventory, and then repay that debt as they sell their inventory or borrow against the line of credit again to add new inventory.

Under the DFP pilot program, the SBA will provide loan guarantees for lines of credit through its 7(a) program. DFP loans will be made through SBA lenders only for titled inventory, including autos, RVs, manufactured homes, boats and motorcycles. The pilot program will begin July 1 and will be available through Sept. 30, 2010, at which time the SBA will make the determination of whether or not to extend the program.

DFP loans will be available for a minimum of \$500,000 up to the \$2 million allowable under the 7(a) program. With a maximum repayment term of five years, the loans will come with a 75 percent government guarantee. Borrowers will also benefit from the temporary elimination of fees on 7(a) loans made possible by the America's Recovery and Reinvestment Act of 2009.

During a roundtable discussion later in the afternoon with local small business owners Mills provided information on other SBA loan programs and benefits provided by the Recovery Act. Specifically, small business owners can take advantage of higher government guarantees on some 7(a) loans, as well as reduced fees on both 7(a) and 504 loans. The agency is also providing more tools to help small businesses compete for federal government contracts, along with technical assistance and counseling for business owners and entrepreneurs to help them deal with the economic challenges they face.

"We are committed to being the real partner small businesses need at this critical time," Mills said. "Floor plan financing is just the latest tool in our toolbox to help small businesses in communities like Kokomo weather this recession and drive our nation's economic recovery."

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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.



2009 RECOVERY ACT



HELPING SMALL BUSINESS START, GROW AND SUCCEED

Dealer Floor Plan Financing Overview

The U.S. Small Business Administration is committed to providing small businesses with the tools and resources they need to survive in the current economic climate. Starting on July 1, 2009, through the Dealer Floor Plan, SBA will offer government-guaranteed loans to finance inventory for eligible auto, recreational vehicle, boat, manufactured home and other dealerships.

The DFP is a pilot program that allows dealers to borrow against retail inventory and acts as a revolving line of credit for a dealer to obtain financing for retail goods. The dealer repays the debt as the inventory is sold and can borrow against the line of credit to add new inventory.

How it will work:

Under the DFP pilot program, SBA will provide loan guarantees for lines of credit through its 7(a) program. DFP loans will be made through SBA lenders only for inventory that can be titled, such as autos, RVs, manufactured homes, boats and trailers. The pilot program will run through Sept. 30, 2010, at which time SBA will determine whether to extend the program.

DFP loans will be available for a minimum of \$500,000 up to the \$2 million allowable under the 7(a) program. With a maximum repayment term of five years, the loans will come with a 75 percent government guarantee. Borrowers will also benefit from the temporary elimination of fees on 7(a) loans made possible by the American Recovery and Reinvestment Act of 2009.

Who it will help:

The DFP program allows SBA lending partners to prudently extend a critical line of credit in these tough economic times to viable dealerships in a number of industries, including RV, auto, boat and manufactured homes. It will help restore their cash flow and in turn, save their business and countless jobs. For auto dealerships, in particular, it will provide the access to capital many of them need at this critical time as they go through the transition brought on by larger changes within their industry.

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.

All loans will be made through SBA lenders to creditworthy dealerships meeting lender requirements, demonstrating sound finances and following viable business plans.

For more information, go to www.sba.gov.