



SBA Floor Plan Financing - Will it Ever Work?

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In July of 2009 the Small Business Administration (SBA) developed a plan to help dealers with their floor plan financing. Unfortunately as you are probably aware, the program was not well received and only a handful of loans have been made nation wide.

So what went wrong?

To be clear, the SBA had very good intentions of making the program as straightforward as possible and implemented it as quickly as possible. Unfortunately, two of the restrictions placed on lenders had adverse consequences.

First, lenders were not free to sell the loans on the secondary market. Most large commercial banks make a lot of money packaging portfolios and selling them to investment groups or other financial institutions. This almost immediately made large banks uninterested.

The second restriction was that you had to have a prior existing relationship with the lender who was making the loan. This was later clarified to mean that only customers who had a relationship (accounts) with a lender June 30, 2009 and prior would be eligible under the program. This resulted in most small lenders being unable to reach out to anyone other than their existing account holders.

This along with other smaller factors such as servicing burdens and a heavy administrative learning curve was why the program never left the ground.

What is the government doing about it?

Unless additional legislation is passed, the program has several hurdles to jump through. The federal office of financial assistance had an open comment period which has ended and it is my understanding that many of the program's shortcomings will be amended. Once the program has been polished, it then will go to the Office of Management and Budget to have the funding approved. It is not a quick process and there is no definite approval timeline, but we are hopeful that it will be sometime in January based on discussions with the administration.

What can a dealer do right now?

Have your financial information in order now. If you wait until the program changes it may be too late. You should have clear financial statements, a good business plan, and tax returns that have been competently prepared. Lenders are more cautious now than ever before and they will simply not spend the time to get you up to speed. It is likely that once the program is revised, many lenders will participate, so you want to be one of the first to be funded.

What dealers will be eligible?

Dealers who have been sound business people in the past and have demonstrated that they are a viable business will most likely be the ones considered for this lending program. Sometimes there is a misconception that the SBA is able to lend to businesses with poor credit. While this happens occasionally, often they are lending funds to people with good credit and profitable businesses. Currently the SBA has caps on the size business that may apply for these loans, and a gross receipts test is usually a factor that eliminates many dealers and manufacturers. However the change to the program is likely to have a provision increasing these limits, and increasing the maximum loan amount from 2 million to 5 million. Hopefully this will reach more businesses. Feel free to call one of our dealership specialists if you have any questions regarding this.



Why lenders should consider participating?

If a lender is new to floor plan lending, it will be challenging to get a program up and running, however, it may be a golden opportunity to enter the market as well. Assuming that there are larger guarantees on the funds, banks can exclude the guaranteed/insured portion of the funds from their reserve calculation. This allows the bank to earn a larger return on assets. Several hurdles such as title administration, underwriting, inventory checks, and SBA compliance are daunting at first, but it doesn't have to be that way. Potter & Company along with several of our strategic partners can help manage the process of getting your lending program running.

If you have any questions regarding any aspect of the SBA floor plan lending program, or any other topic, please feel free to contact us.

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