Dealer Floor Plan Lending Pilot Initiative

A pilot program to complement Recovery Act economic stimulus and credit market revival

Effective Date: July 1, 2009

What is Dealer Floor Plan (DFP) Lending?

- A specialized niche of asset based lending
- DFP is a form of retail goods inventory financing in which an advance is made against the wholesale price of a specific piece of collateral
- As each piece of collateral is sold by the dealer, the loan advance against that piece of collateral is repaid.
- A new draw down can be made to purchase the next piece of inventory, up to the level of the DFP line

Why SBA did not offer Dealer Floor Planning (DFP) before now?

SBA:

- Specialized in term lending until recently
- Never had the servicing or liquidation resources to monitor revolving lines of credit, especially a highly specialized, labor intensive facility like floor planning
- Assistance not appropriate when credit was readily available elsewhere (DFP needs readily met by private sector)

Why now?

- CAPLine & SBA Express experience– SBA *can do* revolving credit

- Servicing issues are now moot – delegated to lenders
  - ✓SBA buys guarantees post-liquidation

- Economic conditions – credit less available to auto dealers/similar businesses
  - ✓Secondary market dislocation
  - ✓Captive lenders scaling back, some large bank lenders exiting

Why new DFP financing demand?

Dealers affected by:

- Recession
- Reduction in authorized dealers
- Increase in age of fleet
- Transition to new business models

What is this initiative?

- A pilot 7(a) loan program
- As pilot, must be less than 10% of loan volume
- Expires 9-30-2010 with Recovery Act provisions
- All 7(a) policies apply, except specific waivers & limitations

Waivers of present regulations:

- §120.130 now precludes floor planning
- §120.390 to allow revolving credit outside CAPLines
- §120.221(b) to increase servicing fee limit

SBA max. of 2% servicing fee waived

- Floor plans cost more to service
- Fees limited to lenders usual/customary fees for floor plans
- SBA borrowers pay no more than others

Lender qualifications:

- Any SBA participant lender may participate
- Lender must have:
  - Internal policy on DFP
  - Dedicated staff for DFP loans and 5 other requirements
  - SBA DFP lines – same policies as non-SBA except for credit elsewhere
- First loan submitted to LGPC
- Lender must make policies available to OCRM after first loan

Special requirements for less experienced floor plan lenders

- Definition: Under $15 million or < 5 years in DFP lines
  - Limited to DFP lines for its own customers
  - Must send all loans through LGPC (even PLP)

- OCC Handbook can be a guide

www.occ.treas.gov/handbook/floorplan1.pdf

- Are allowed (encouraged) to consider use of contractors
  - Collateral monitoring and verification

All Lender’s DFP policies to OCRM at first loan!

Lender DFP policies must address six areas:

1. Specific personnel responsible for DFP, especially servicing
2. Monthly and random collateral monitoring procedures
3. Monthly manufacturer's dealership financial statements or monthly financial statements w/in 7 days
4. Procedures to ensure prompt payment of lien upon sale
5. Liquidation policies and procedures that are unique to floor plan financing
6. DFP fee policy

Use of proceeds?

- Retail inventory for resale
  - **“titleable”** assets only, such as:
    - ✓ Automobiles
    - ✓ Motorcycles
    - ✓ Boats
    - ✓ Recreational Vehicles
    - ✓ Mobile homes
- If inventory is titleable in some states, but not all, it qualifies (lender must document)
- First disbursement may replace another lenders DFP line w/full assignment of collateral

Advance Rates and Guarantee Percentage

- Loans come with a 60% -75% government guarantee, depending on the type of collateral and the lenders advance rate
- DFP guarantees are between 20% and 50% higher than for our typical revolving loans
- Advance rates for calculating allowable guarantee
  - 90% new cars
  - 80% all other inventory
  - Different classes of inventory cannot be on the same line.
- Higher advances allowable at lender’s option
  - Must accept lower SBA guarantee percentage
    - ✓ SBA keeps same pro rata risk on the inventory
    - ✓ (see examples next slide)

Allowable SBA guaranty examples

ADV. RATE / ASSET TYPE	80% advance	90% advance	100% advance
New cars	75% guarantee	75% guarantee	67.5% guarantee
Other	75% guarantee	66.6% guarantee	60% guarantee

Repayment of lines

- Monthly interest
- Each sale of inventory, full advance repaid
- Curtailment allowed
  - Pay down line as unsold inventory ages
  - Origination ***'allowable guaranty rate'*** applies to outstanding principal

Reporting

- Total disbursements and repayments will need to be reported, most likely quarterly (details to follow)
- Monthly inventory report and lender floor check
- Monthly borrower financial statement
- Inventory report at each disbursement
  - Pay down line as inventory ages, if provided for

Repurchase by SBA

- Standard for 7(a), plus:
  - – Lender must provide, for last 12 months
    - ✓ Monthly borrower financial statement
    - ✓ Monthly inventory report and lender floor check
    - ✓ Evidence of additional extraordinary measures to secure collateral as called for in the lender's policies