

THE SBA DEALER FLOOR PLAN PILOT PROGRAM PROCEDURAL GUIDE

SBA's Dealer Floor Plan (DFP) Pilot Program was established in the Small Business Jobs Act of 2010 (Pub. L. 111-240), which was signed into law on September 27, 2010. The DFP Pilot gives SBA the ability to issue 7(a) loan guaranties to revolving lines of credit made by qualified participating lenders that are provided to retail dealers of titleable inventory. Loans made under the DFP Pilot are subject to all provisions of the Small Business Act applicable to the 7(a) loan program. Unless waived or modified by the Federal Register Notice announcing the DFP Pilot ([76 FR 7098](#), February 9, 2011), all regulations applicable to the 7(a) loan program apply to loans made under the DFP Pilot. Further, all standard operating procedures applicable to the 7(a) loan program that are not superseded by any provision of the Federal Register Notice or this procedural guide apply to the DFP Pilot. The Standard Operating Procedures (SOPs) applicable to the 7(a) loan program include 50 10 (Lender and Development Company Loan Programs), 50 50 (Loan Servicing), 50 51 (Loan Liquidation), 50 53 (Lender Supervision and Enforcement), and 51 00 (On-Site Lender Reviews/Examinations), as amended from time to time.

For more information on the program, for questions about procedures and processes, or to receive training on the program for you or your institution, please contact your local SBA District Office. To find your local district office, visit www.sba.gov/local.

I. Lender Eligibility

A. Loan Guaranty Agreement

1. All SBA lenders with an executed Loan Guaranty Agreement (SBA Form 750) may participate in the DFP Pilot. Lenders participating in the DFP Pilot must have designated personnel who are responsible for making and servicing floor plan lines of credit.
2. For those lenders who do not have an executed Loan Guaranty Agreement, information on how to become a participant in SBA's 7(a) loan program, as well as the responsibilities of 7(a) lenders, can be found in SBA's SOP 50 10 5(C), Subpart A, Chapter 1. The SOP can be found at www.sba.gov/about-sba-services/7481.

B. Levels of Authority under the DFP Pilot

1. Non-Delegated Authority:
 - a. If a lender has less than \$1 billion in floor plan lines of credit in its current portfolio, the lender will be treated as a non-delegated lender for purposes of the DFP Pilot. Any delegated authority the lender has as a 7(a) lender, such as Preferred Lender Program (PLP) or SBA Express authority, will not apply to the DFP Pilot.
 - b. Non-delegated lenders must submit the first application for a guaranteed floor plan line of credit under the DFP Pilot to SBA's Loan Guaranty Processing Center (LGPC). After the initial application is submitted to the LGPC, SBA's Office of Credit

Risk Management (OCRM) will request a copy of the lender's policies and procedures specific to floor plan financing, including risk management policies and procedures for review and approval. (The initial application will be processed by the LGPC while OCRM is reviewing the lender's policies and procedures.) After OCRM approves the lender's policies and procedures governing floor plan financing, OCRM will notify the lender and the LGPC, and the lender may begin to submit additional applications under the DFP Pilot to the LGPC.

2. Delegated Authority:

a. If a lender has at least \$1 billion of floor plan lines of credit in its current portfolio, the lender may send a written request for delegated authority under the DFP Pilot to the Associate Administrator for Capital Access. Upon receipt of a written request for delegated authority under the DFP Pilot, OCRM will conduct a site visit to evaluate the lender's floor plan financing program and operations. SBA expects the site visit to last no more than 5 business days. SBA will bear the cost of this initial site visit. (For further discussion of the initial site visit, see paragraph IX.A.2 of this procedural guide.)

b. Within 10 business days of completion of the site visit, OCRM will notify the lender of its decision and, if delegated authority under the DFP Pilot is approved, will send the lender a Supplemental Guaranty Agreement. The lender must sign and return the Supplemental Guaranty Agreement to OCRM prior to its delegated authority being effective. If the Agreement is not signed and returned within 30 business days, a new application for delegated authority will be required.

c. Lenders with delegated authority will be required to submit their first application under the DFP Pilot to the LGPC for approval. (This will provide SBA with an opportunity to assist experienced floor plan lenders who may not be as familiar with SBA lending requirements.) After the LGPC approves the initial application, the lender may submit subsequent applications using its delegated authority.

d. Lenders with delegated authority must have existing policies and procedures governing floor plan financing, including risk management policies and procedures, in place and must administer their SBA-guaranteed floor plan lines of credit in the same manner as they do for their similarly-sized, non-SBA guaranteed floor plan lines.

II. Applicant Eligibility

A. Eligible Dealers

In addition to SBA's standard 7(a) eligibility requirements, applicants for the DFP Pilot must be retail dealers of titleable inventory (new and/or used) that is required to be licensed and/or registered in at least one State after acquisition. These items of inventory do not need to be licensed and/or registered in the state where they are sold but they do need to be a type of inventory that could be licensed and /or registered in at least one state of the United States, as "state" is defined in the Small Business Act. If an item of inventory receiving floor plan

financing and a DFP guaranty is not licensed and/or registered in the state where it is sold, the lender must document that these items of inventory are a type of inventory that could be licensed and /or registered in another state. This documentation, such as a printout from an official State Department of Motor Vehicles website indicating the type of inventory is licensed and/or registered in that state, must be submitted to the LGPC with the application or retained in the lender's file if the application is processed under the lender's delegated authority. Eligible small businesses include, but are not limited to, dealers of both new and used automobiles, motorcycles, boats (including boat trailers), recreational vehicles and manufactured housing (mobile homes).

SBA's standard 7(a) eligibility requirements are set forth in SOP 50 10 5(C), Subpart B, Chapter 2. The SOP can be found at <http://archive.sba.gov/tools/resourcelibrary/sops/index.html>.

B. SBA Size Standards

In order to be eligible for an SBA-guaranteed loan, the applicant and its affiliates must be small under SBA's size standard requirements.

1. Size Standards

SBA traditionally establishes its size standards based on number of employees or revenue. The employee standard is most often used for manufacturing and wholesale industries while revenue standards are used for the rest, including retail dealers of products eligible for the DFP Pilot. The Size Standards may be found at <http://www.sba.gov/category/navigation-structure/contracting/contracting-officials/size-standards>. For a further explanation of how SBA defines revenue see [13 CFR 121.104](#).

In addition to the size standards described above, lenders may also use SBA's Alternative Size Standard to determine the size eligibility of an applicant. SBA will classify a business as small if it, and its affiliates, have both a tangible net worth that does not exceed \$15 million and an average net income after Federal income taxes (excluding any carry-over losses) for the preceding two completed fiscal years that does not exceed \$5 million.

The applicant can qualify for a DFP line of credit using either the traditional, industry-based size standards (set forth in [13 CFR 121.201](#)) or the alternative size standard described above.

2. Affiliation – An Important Component of Size

If the manufacturer provides a product or service that is critical to the applicant dealer's business operation and/or provides a trademark critical to the applicant dealer's business operation, then the agreement between the manufacturer and dealer (with the exception of new automobile manufacturers) and any related documents must be reviewed to ensure that the agreement does not impose unacceptable control provisions on the small business applicant (the dealer) that will result in affiliation. This applies to all manufacturers (with

the exception of dealer agreements from new automobile manufacturers) and is true even if the dealer sells multiple product lines from different manufacturers.

For purposes of the DFP Pilot, a product line or multiple product lines that generate two-thirds of the applicant dealer's revenues need to be reviewed and approved, if none of these agreements have previously been reviewed and approved by SBA, in order for the application to be eligible for the DFP Pilot.

SBA has agreed to review the dealer agreements for all DFP lenders under the DFP Pilot. SBA legal staff have already reviewed and approved a number of dealer agreements. In order to facilitate the review of these dealer agreements, SBA has created a list of the dealer agreements that have been approved by SBA ("List"), which SBA will continuously update. The List can be found at <http://www.sba.gov/content/dealer-floor-plan-financing-program-0>. If any of the applicant dealer's agreements are on the List, the lender must ensure that the dealer agreement with the loan application is the same version of the dealer agreement on the List.

Lenders must follow the procedures set forth below to determine if the application can be processed under the DFP Pilot:

- a. Lenders must obtain a copy of each dealer agreement applicable to product lines representing at least two-thirds of the dealer's revenues even if all these lines will not be floor planned with a DFP line of credit.
- b. The lender will then check the [List](#) of approved dealer agreements.
 - i. If the dealer agreement(s) with the application is(are) the same as the dealer agreement(s) on the List, the lender must document its file and then may submit the application, relying on the List to determine acceptability of the Agreement(s). If SBA has required an addendum to a dealer agreement, which will be indicated on the List, the lender must obtain an executed addendum to show compliance with the requirement.
 - ii. The lender may submit any dealer agreement that is not on the List to SBA at DFPAgreements@sba.gov for review.

SBA will review the dealer agreement and provide a response within 3 business days of receipt of the dealer agreement. If the dealer agreement is approved, the lender will be notified and the dealer agreement will be added to the List. If the dealer agreement cannot be approved, SBA will work with the manufacturer to negotiate an addendum to the dealer agreement. If an addendum cannot be negotiated, the agreement will not be approved. If a dealer agreement is not approved, the applicant may substitute another agreement for a different product line to meet the two-thirds threshold discussed above. If the applicant cannot provide acceptable agreements covering two-thirds of its revenue, the applicant is not eligible for the DFP Pilot.

Lenders with delegated authority under the DFP Pilot have the option to review a dealer agreement that is not on the List in accordance with the provisions set forth in SOP 50 10 5(C), Subpart B, Chapter 2, Paragraph III.B.8 (review of franchise/license/dealer/jobber or similar agreements), or the lender may submit the dealer agreement to SBA for review.

If the lender reviews and approves the dealer agreement, it must document the loan file. As stated above, if the lender submits the dealer agreement to SBA for review, SBA will notify the lender within 3 business days whether the dealer agreement is approved or requires an amendment. Once the dealer agreement is approved or the appropriate amendment obtained, the lender will be notified and the dealer agreement will be placed on the List. The lender must include the notification of the approval in the loan file. The lender then may process the application for a guaranteed DFP line of credit under its delegated authority.

III. Loan Terms

A. Loan Amount:

The maximum loan amount outstanding to any one dealership, including its affiliates, at any one time is established by law in section 7(a)(34) of the Small Business Act. The maximum dollar amount for a DFP Pilot line of credit is \$5,000,000. SBA recognizes that during a floor plan arrangement because of the terms and conditions of the drafting agreement with the manufacturer, a dealer may experience temporary overline positions, which exceed the dealer's credit limit. SBA does not allow temporary overline positions. An SBA-guaranteed DFP line of credit cannot exceed the gross loan amount stated in the Note. Lenders may include language in their loan agreement with the dealer that any overline amount will be the sole responsibility of the lender and will not be subject to the SBA guaranty.

The minimum loan amount which SBA can guaranty under the DFP Pilot also is established by law in section 7(a)(34) of the Small Business Act. The minimum loan amount for a DFP line of credit is \$500,000.

If a dealer needs multiple DFP lines of credit for different types of inventory, as long as the applications are submitted at the same time, the loan amounts will be combined to meet the \$500,000 minimum. For example, a dealer could apply for a \$300,000 floor plan line of credit to support New Inventory and a \$200,000 floor plan line of credit to support Used Inventory.

B. Maximum Guaranty Percentage and Advance Rates:

SBA will guarantee 75% on floor plan lines of credit and the lender may advance no more than 100% of the cost (invoiced) for new inventory and 100% of the cost or industry based wholesale book value, whichever is less, for used inventory. As discussed more fully in section IV below, the lender must identify the source of the valuation in its credit memo for each DFP line of credit.

C. Maturity:

The minimum maturity on a DFP line of credit will be 1 year. The maximum maturity of a revolving floor plan line of credit that SBA can guarantee through its DFP Pilot is 5 years. The DFP Pilot is scheduled to expire on September 30, 2013. The expiration of the Pilot will have no effect on any DFP line of credit approved by SBA on or before September 30, 2013.

A maturity date must be established in the note. For example, a line of credit could state that it is payable upon demand under certain conditions, but in no case later than a certain date. In addition, revolving loans may be established as renewable each year, provided they do not exceed the maximum 5 year term. Lender may not charge renewal fees. If a one year loan is renewed, Lender must pay the guaranty fee for loans with a maturity in excess of 12 months. (See SOP 50 10 5(C), Subpart B, Chapter 3, Paragraph V.G. for further discussion of guaranty fees on renewals of short-term loans.)

Non-financial default provisions, which are defined as loan conditions that, if violated, would cause the loan to be in default even though the borrower has made all payments as agreed, are allowed under the DFP Pilot under the following conditions:

1. Non-financial default provisions must be substantive and must be agreed to by the borrower in writing at loan closing;
2. The provisions must be consistent with those used by the lender on its similarly-sized non-SBA guaranteed commercial loans; and
3. A lender may not request purchase of the guaranty solely based on a violation of a non-financial default provision (see 13 CFR 120.520).

D. Use of Proceeds and Repayment:

The proceeds may be used for the acquisition of titleable inventory for retail sales, to refinance existing floor plan lines of credit with another lender or to replace existing floor plan lines of credit with the participating lender. Proceeds also may be used to pay the guaranty fee to SBA. (See paragraph G.1. below for further discussion.) Proceeds may not be used for any other purpose. Any application that includes the refinancing of existing floor plan lines of credit or the replacement of same institution floor plan lines must meet SBA's policy concerning debt refinancing set forth in SOP 50 10 5(C), Subpart B, Chapter 2, Paragraph IV.E., with the exception of the 10% cash flow improvement requirement found in Paragraph IV.E.3. If an application includes the replacement of same institution floor plan lines, the application must be submitted to the LGPC for processing; such applications may not be processed under delegated authority. In addition, if an application includes the replacement of a same institution floor plan line of credit and the applicant dealer defaults on the SBA-guaranteed DFP line of credit within 90 days of initial disbursement, SBA may deny liability on its guaranty of the line.

For applications that include the replacement of same institution floor plan debt, the existing floor plan debt must have been current (i.e., no payment more than 29 days past due) for at least the prior 12 months and cannot include any loan classification below that of Special Mention. When a lender transfers existing units of inventory from its existing floor plan line to an SBA-guaranteed DFP line, each unit's original flooring date must correlate to the lender's existing liquidation policies, curtailments, model year and mileage/hours in use restrictions, and length of time the unit can remain on the floor plan line. For example, if the lender's policy only allows units to be floorplanned for one year and the unit was floored on the lender's existing line for 6 months, then it can only be allowed to remain floorplanned on the SBA-guaranteed DFP line of credit for another 6 months.

Under the DFP Pilot the payment of principal is required each time an item of floor planned inventory is sold. The amount of principal the lender receives and uses to reduce the outstanding balance on the line must be no less than the amount the lender advanced so the dealer could acquire that item of inventory that was sold. If the dealership takes an item in trade and receives less from the customer than the amount the lender advanced so the dealer could acquire that item of inventory, then the dealer will need to make up the difference from other sources.

Repayment of DFP lines of credit will occur as the acquired inventory is sold. The payment of interest is due monthly. It can either be paid separately from any sale of floor planned inventory or it can be included as an additional amount from each sale and accompany the principal payment in order to keep interest current up to the date of the sale.

E. Interest Rates:

DFP lines of credit may have either a fixed or variable interest rate. The maximum interest rates a lender may charge on revolving lines of credit under the DFP Pilot are the same as those allowed under SBA regulations at 13 CFR 120.213 and 120.214 for the standard 7(a) loan program. SBA's interest rate policy is set forth in SOP 50 10 5(C), Subpart B, Chapter 3, Paragraph IV. The SOP may be found at <http://archive.sba.gov/tools/resourcelibrary/sops/index.html>.

F. Collateral:

1. Required Lien Position

Collateral must be secured by a first lien on all titleable inventory acquired with the proceeds of the DFP line of credit. This lien may be perfected by obtaining either (i) the title to the inventory reflecting no prior liens, or (ii) a first perfected security interest in all titleable inventory acquired with any portion of the proceeds from the SBA-guaranteed floor plan line of credit. The floor plan line of credit which SBA guarantees does not have to be the sole floor plan line. However, if more than one floor plan line exists to any one dealer, then the inventory supported by each line is to be separately accounted for by the lender and the dealer and the sale proceeds of any inventory acquired with any portion of the floor plan line guaranteed by SBA must be used to directly reduce the balance on that line. In addition, dealers with multiple floor plan lines for multiple product lines (manufacturers or new/used) with multiple floor plan creditors will be required to have appropriate delineated inter-creditor agreements to enable proper security interest perfection. The lender may take additional collateral in accordance with its policies and procedures governing its similarly-sized, non-SBA guaranteed floor plan lines of credit.

2. Collateral Inspections

Inspections of collateral should occur monthly, or more frequently as necessary, and be thoroughly documented by the lender to ensure compliance with the floor plan

agreement. Inspections should be conducted on a surprise basis. Floor-plan inspection reports should be reviewed and retained by the lender. Where practical, inspection duties should be rotated among the lender's staff. Lenders should verify the floor-planned inventory by comparing serial numbers with manufacturers' certificates of origin or titles and with the bank's records, and the inspection reports should reflect whether the floor-planned inventory is available for sale. Lenders should also reconcile the floor plan inspection reports with the financial statements provided by the dealer. Any missing inventory or other exceptions revealed by the inspection, and the dealer's explanation, should be noted in the inspection report.

G. Allowable Fees:

1. SBA Guaranty Fee:

Lenders are required to pay SBA a one-time fee in consideration for the Agency providing its guaranty on loans the lender proposes to provide its qualified applicants. This fee is referred to as the guaranty fee. The schedule of how the fees are to be computed is detailed on the following chart:

Gross Loan Size	FEES	NOTES
\$150,001 to \$700,000	3% of guaranteed portion	Maturities that exceed 12 months.
\$700,001 to \$5,000,000 (See Example 1)	3.5% of guaranteed portion up to \$1,000,000 PLUS 3.75% of the guaranteed portion over \$1,000,000	

Example One: The guaranty fee on a \$2,000,000 loan with a 75% guaranty (\$1.5 million guaranteed portion) would be 3.5% of \$1,000,000 (\$35,000) PLUS 3.75% of \$500,000 (\$18,750), or \$53,750.

The lender is obligated to pay the guaranty fee to SBA. The lender may be reimbursed from the borrower but only after the lender has paid the fee and the loan has been at least initially disbursed. The proceeds of a DFP line of credit may be used to pay the guaranty fee to SBA but the initial disbursement cannot be solely to pay the guaranty fee. The lender must pay the guaranty fee to SBA within 90 days of the date of loan approval. (See [13 CFR 120.220\(b\)](#).)

Lenders are strongly encouraged to use www.pay.gov. The guaranty will be cancelled for loans or lines of credit with a maturity exceeding 12 months if the guaranty fee is not paid within 90 days of the date SBA approved the guaranty. (See SOP 50 10 5(C), Subpart B, Chapter 3, Paragraph V for further information on SBA's guaranty fee policy, including the policy governing fees to be paid on loans with a maturity of 12 months or less.)

2. SBA On-Going Guaranty Fee:

SBA also charges lenders an On-Going Guaranty Fee which is also referred to as the Lender's Annual Service Fee. This fee is set at the time of loan approval and based on

the outstanding principal balance of the guaranteed portion of each loan. SBA specifies the amount of the fee each fiscal year for all loans approved during that year. This fee cannot be charged to the borrower. Lenders pay this fee on a monthly basis when reporting the status of the loans on SBA Form 1502. SBA may charge the lender a late fee if the on-going guaranty fee is not paid timely.

For the Federal Government's Fiscal Year 2011 commencing October 1, 2010, the on-going guaranty fee due from Lenders to SBA will be 0.55 percent (55 basis points) of the guaranteed portion of the outstanding balance on the 7(a) loan.

The SBA's DFP Pilot Program fee calculation for the On-Going Guaranty Fee is:
Guaranteed Portion Interest / Interest Rate x .0055.

3. Other Allowable Fees:

For loans approved under this pilot, lenders may charge the borrower the same fees allowed under SBA's 7(a) loan program with the exception of the extraordinary servicing fee. For loans approved under this pilot, SBA will allow lenders to charge an extraordinary servicing fee that is higher than the 2 percent allowed by Agency regulations at 13 CFR 120.221(b) provided that the fee charged is reasonable and prudent based on the level of extraordinary effort required to adequately service the floor plan line. 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. SBA's guaranty does not extend to extraordinary servicing fees and, at time of guaranty purchase, SBA will not pay any portion of such fees.

H. Secondary Market and Participating Lender Financings and Other Conveyances:

To date, an SBA secondary market does not exist for revolving lines of credit which the Agency guarantees due to the inconsistent patterns and requirements for repayment. Because all DFP Pilot lines of credit must revolve, they cannot be sold into the SBA secondary market under Agency regulations at 13 CFR Part 120, Subpart F – Secondary Market.

SBA loan guaranties approved under this pilot initiative may be included in any participating lender financings or other conveyances, including securitizations, participations and pledges, provided the lender complies with Agency regulations at 13 CFR 120.420 through 120.435.

IV. How to Apply for a DFP Guaranteed Line of Credit

A. Initial Application:

Under the DFP Pilot, all lenders (regardless of status or authority) must submit their first application for guaranty to SBA's Standard 7(a) Loan Guaranty Processing Center (LGPC).

All lenders are required to submit the standard 7(a) loan application documents to the LGPC as set forth in SOP 50 10 5(C), Subpart B, Chapter 6, Paragraph I.A and retain the documents in the loan file. The provisions below provide clarification on how to complete the loan application documents to specifically address floor plan financing:

1. SBA Form 4: under Inventory Purchase on page 1, state that it is **floor plan inventory**;
2. SBA Form 4-I: in Conditions of Lender box- whether the floor plan is for New or Used inventory;
3. SBA Form 4 Schedule A, page 2: If this sheet is not sufficient to delineate the inventory collateral, indicate 'see attached' on the form and attach copies of lender's normal floor plan inventory sheets.
4. Lender's Credit Memo, including specific comments on the following:
 - a. what the advance rate will be and what the source of valuation is, such as Manufacturer's Invoice, Kelly Blue Book Wholesale, NADA, etc., as well as Advance Schedule: Advance Rate (AR): Formula **(SBA allowable AR x .75) / AR used by lender = Allowable Guaranty %** Example: $(100\% \times .75) / 100\% = 75\%$. See page 5 of this procedural guide;
 - b. all lines of credit (lender's and other creditors who make lines available to the borrower), including applicable analysis and whether appropriate Inter-Creditor Agreements have been (or will be) obtained;
 - c. lien positions that will be required to secure the line and the manner in which the titles or other ownership documentation will be secured;
 - d. the fees the lender will charge to administer the line;
 - e. payment terms to ensure prompt payment upon the sale of inventory, including the number of days allowed from report of sale date on specific units and the number of days from receipt of funds;
 - f. requirements specific to inventory liquidation, such as curtailments (length of time and percentage of amount floored), maximum length of time a unit can remain on the DFP line (SBA will allow units to be floorplanned up to 3 years for new inventory and up to 2 years for used inventory; determination will be dependent on current industry standards and the lender's existing policies on its non-SBA guaranteed floor plan lines of credit), inventory valuation methods used which includes advance Loan to Value % and a comment as to where the additional working capital will be derived from if the lender is limiting the advance to less than invoice cost and/or current wholesale book, any model year and/or mileage/hours in use restrictions; and
 - g. an explanation of any Sold Out of Trust (SOT) situation associated with an existing floor plan line.
5. Business Financial Statements (Dealership/Manufacturer-Based Financial Statements, where applicable); and
6. A list of all manufacturers who make the products the dealership floor plans/sells.

B. Where to send the application:

Applications may be sent to the Standard 7(a) Loan Guaranty Processing Center electronically or through the mail.

1. Email: 7aloanprogram@sba.gov if attachments are under 9 megabytes in size.
2. Website: <http://www.sba.gov/aboutsba/sbaprograms/elending/lGPC/index.html> click on “Submit 7(a) Document Here.”
3. Mail to either of the following locations:
U. S. Small Business Administration
6501 Sylvan Road
Citrus Heights, CA 95610 or
or
U.S. Small Business Administration
262 Black Gold Blvd.
Hazard, KY 41701

C. Subsequent Applications

1. Non-delegated Lenders:

Non-delegated lenders must continue to submit applications for guaranty under the DFP Pilot Program to the LGPC for the life of the pilot. The applications must be submitted in accordance with paragraph A.1. above.

2. Lenders with Delegated Authority:

Application packages from lenders with delegated authority must include the forms and information the lender requires in order to make an informed eligibility and credit decision. The lender's application must be certified by the applicant as true and complete. In order to submit an application for guaranty under the DFP Pilot using delegated authority, these lenders must ensure that the application for a floor plan line of credit meets the requirements for delegated processing as well as the requirements specified in the Federal Register notice announcing the DFP Pilot ([76 FR 7098](#), February 9, 2011). Lenders may not process the following loans using delegated processing: (1) loans involving the replacement of a same institution floor plan line of credit; (2) reconsiderations of previously declined loans; (3) loans where the applicant business previously defaulted on a Federal loan or a federally assisted financing that resulted in the Federal Government or any of its agencies or departments sustaining a loss in any of its programs; (4) loans previously submitted under any other SBA program; or (5) loans that may result in an appearance of a conflict of interest as described in Agency regulations at [13 CFR Part 105](#).

a. Required Form

For delegated loans processed under the DFP Pilot, the applicant must complete [SBA Form 1919](#), “SBA Express, Export Express and Pilot Loan Programs (Community Express, Patriot Express and Dealer Floor Plan) Borrower Information Form.” Depending on the answers provided on SBA Form 1919, additional forms may be necessary, for example, SBA Form 159(7a) if the

applicant has paid or will pay anyone for assistance with the loan application or any related materials and/or referring the loan to the lender. For guidance on the completion and execution of SBA Form 1919, see SOP 50 10 5(C), Subpart B, Chapter 6, Paragraph I.E.

b. Forms to be submitted to request an SBA DFP Loan Number:

- i. Copy of SBA Form [1920SX \(Part A\)](#) “SBA Express, Export Express and Pilot Loan Programs (Community Express, Patriot Express and Dealer Floor Plan) Guaranty Request;
- ii. Copy of SBA Form [1920SX \(Part B\)](#) “Supplemental Information for SBA Express, Export Express, Pilot Loan Programs and PLP Processing”; and
- iii. Copy of SBA Form [1920SX \(Part C\)](#) “Eligibility Information Required for SBA Express, Export Express and Pilot Loan Programs (Community Express, Patriot Express and Dealer Floor Plan) Submission.”

All SBA Express and Pilot Loan Program forms above can be found at <http://archive.sba.gov/tools/Forms/smallbusinessforms/fsforms/index.html>.

c. Where to submit delegated applications:

Requests for a DFP loan number may be sent to the LGPC electronically, through the mail, by fax or E-Tran.

- i. Electronically or through the mail: See paragraph B immediately above.
- ii. Fax: (916) 735-1975.
- iii. E-Tran: A secure web site where lenders can enter loan information for a single loan or send multiple applications simultaneously via an XML (Extensible Markup Language) file transfer. Several software developers have E-Tran functionality built into their SBA loan software. For E-Tran information go to:
<http://archive.sba.gov/aboutsba/sbaprograms/elending/etran/index.html>.

V. Closing and Disbursement

A. Non-Delegated Lenders

Non-delegated lenders must follow standard 7(a) loan closing and disbursement requirements as set forth in SOP 50 10 5(C), Subpart B, Chapter 7.

B. Lenders with Delegated Authority

Lenders with delegated authority must use the same closing and disbursement procedures and documentation as it uses for its similarly sized non-SBA guaranteed floor plan lines of credit. Lenders with delegated authority may use their own note and guaranty agreements rather than SBA's versions (SBA Forms 147, 148 or 148L). There must be a promissory note that is legally enforceable and assignable, in the event that it would ever have to be assigned to SBA. (See section III.C. of this guide for further discussion of the notes used in the DFP Pilot.)

Lenders with delegated authority prepare the Authorization governing each loan and such lenders may use the Standard 7(a) Authorization Boilerplate or the Authorization for SBA Express and Patriot Express loans. SBA has incorporated into the Standard 7(a) Authorization Boilerplate applicable provisions related to floor plan financing. If the delegated lender chooses to use the Authorization for SBA Express and Patriot Express loans, the lender is responsible for ensuring all applicable provisions related to floor plan financing are included in the Authorization for each DFP line of credit.

The lender must obtain all required collateral and must meet all other required conditions before loan disbursement, including obtaining valid and enforceable security interests in any loan collateral. These conditions include requirements identified in the loan write-up, such as standby agreements, appraisals, business licenses, and cash/equity injections. With the exception of SBA Form 159(7a) (which is discussed in detail in the next section), the lender should not send any closing documentation to SBA after closing a DFP line of credit but should retain all documents in the loan file. For further guidance on loan closing and disbursement requirements, see SOP 50 10 5(C), Subpart B, Chapter 7, Paragraph III.F. (SBA Express and Pilot Loan Programs).

VI. Lender Reporting Requirements

A. SBA Form 1502, "Guaranty Loans Status & Lender Remittance Form"

All lenders with at least one 7(a) guaranteed loan in their portfolio are required to complete an SBA Form 1502 on a monthly basis for as long as the loan has an outstanding balance and the guaranty remains in place. Lenders are required to submit the monthly SBA Form 1502 to Colson Services Corp., SBA's Fiscal Transfer Agent (FTA). Lenders must submit SBA Form 1502 to the FTA monthly for all loans approved under the DFP Pilot.

According to SBA's loan servicing guidelines set forth in SOP 50-50, a revolving loan may temporarily have a zero balance. If a revolving loan reflects a zero balance, on SBA Form 1502, the lender is supposed to leave the status code blank. If the lender fills in the status code as a PIF by mistake, SBA's records will then show the loan as PIF and the guaranty will be cancelled.

The FTA will review the reports for completeness and submit an electronic report to SBA Headquarters with all data received.

Lenders are also required to submit an SBA Form 159 7(a) on loans that involve payment of fees to a loan agent(s). This submission is only required once at the time of initial loan disbursement and should be submitted in conjunction with a lender's 1502 report for the month.

The information may be submitted to Colson either by facsimile or by electronic document imaging utilizing either the Portable Document Format (.pdf) or the Tagged Information Format (.tif). Lenders may either fax the document to Colson at (718) 315-5170 or e-mail the pdf/tif file to Form159@colsonservices.com. Submission of the information by overnight mail and postal service delivery is discouraged. Lenders are required to retain an original signature version of the form in their files for compliance review purposes.

B. SBA Form 1502R, "Lender Disbursement/Collection Report for SBA Guaranteed Revolving Lines of Credit"

In addition to SBA Form 1502, SBA requires that lenders complete SBA Form 1502R for all DFP lines of credit. This form was designed for use on all DFP lines of credit in order to report the complete disbursement and repayment activity associated with these special types of revolving lines of credit. The Form 1502R collects information on all disbursement and repayment activity that occurred on the DFP line during the month. While the form is submitted quarterly, the information reported on the form is for each month within the quarter. With this data SBA will know the total amount disbursed and collected rather than just a month-end balance as is available from the Form 1502. The month end balance on the form would be the same month end balance reported on SBA's regular Form 1502.

Lenders with a disbursed SBA-guaranteed DFP line of credit in their portfolio (whether the line had activity or not) must complete SBA Form 1502R with monthly disbursement and collection activity (draw downs, repayments and fees) for that line of credit. Lenders must submit SBA Form 1502R to SBA for each calendar quarter ending March 31, June 30, September 30 and December 31. Monthly activity shall be included in each quarterly report (from the first business day to the last business day of each month.) Lenders must submit SBA Form 1502R by the last day of the month immediately following the end of each calendar quarter. For example, for the quarter ending March 31 the Form is due to SBA by April 30.

The completed forms must be sent to the address or fax number referenced in the Loan Authorization. SBA Form 1502R can be found at http://archive.sba.gov/idc/groups/public/documents/sba_homepage/lender_creditresol_form1502.pdf. OCRM will review these reports as part of its regular oversight of lenders participating in the DFP Pilot.

VII. Loan Servicing:

A. Loan Servicing Requirements

SBA requirements for post disbursement loan servicing are specified in SBA's SOP 50 50, Loan Servicing. This SOP goes into detail about the requirements lenders must follow and the guidelines they can follow when servicing loans guaranteed by SBA.

In addition, lenders' responsibilities with regard to servicing also are set forth at [13 CFR 120.535](#) and [120.536](#).

Lenders participating in the DFP Pilot must have specific, documented servicing and liquidation policies, procedures and internal controls and must comply with those policies, procedures and internal controls.

B. Third Party Service Providers and Other Agents

SBA allows participants to hire third party service providers and other agents to carry out lender functions. SBA defines "Lender Service Providers" as Agents who carry out lender functions in originating, disbursing, servicing, or liquidating a specific SBA business loan or loan portfolio for compensation from the lender. ([13 CFR 103.1\(d\)](#)) It is important to note, however, that when a lender hires a third party service provider and turns any portion of its operation over to that service provider, SBA considers the lender fully responsible for all phases of the lender's functions for any loan the lender funds (disburses) and which SBA guarantees.

SBA's regulations at [13 CFR 103.5](#) require each Lender Service Provider (LSP) to enter into a written agreement with each lender for whom it acts in that capacity. Further information on LSP agreements and SBA approval of such agreements may be found in SOP 50 10 5(C), Subpart B, Chapter 3, Paragraph X.D.

Lenders may contract with service providers and/or use third party software programs to assist with the monitoring and tracking of collateral and sales activity and lenders may pass the cost on to the borrower. However, SBA expects the fees of the provider or developer to be specified within the written floor plan financing policies of the lender.

VIII. Loan Liquidation & Guaranty Purchase:

A. Loan Liquidation

SBA requirements for loan liquidation are specified in SBA's SOP 50 51 3, Loan Liquidation. This SOP goes into detail about the requirements lenders must follow and the recommended rules they can follow when liquidating loans guaranteed by SBA.

In addition, lenders' responsibilities with regard to liquidation are set forth at [13 CFR 120.535](#) and [120.536](#).

Lenders participating in the DFP Pilot must have specific, documented servicing and liquidation policies, procedures and internal controls and must comply with those policies, procedures and internal controls.

The liquidation of DFP lines of credit, regardless of whether the application was processed under delegated or non-delegated authority, will be handled through SBA's National Guaranty Purchase Center (NGPC) in Herndon, VA.

B. Guaranty Purchase

Agency regulations at [13 CFR 120.520](#) state that a lender may demand in writing that SBA honor its guaranty if the borrower is in default on any installment for more than 60 calendar days (or less if SBA agrees) and the default has not been cured, provided all business personal property securing the defaulted SBA loan has been liquidated. For purposes of the DFP Pilot, SBA has modified this regulation ([76 FR 7098](#), February 9, 2011) and will allow the lender to make demand on SBA to honor its guaranty if the borrower is in default of any financial covenant for more than 30 calendar days and the default has not been cured.

Also, under the DFP Pilot, if a lender discovers that the borrower is in a sold out of trust (SOT) situation, the lender may request that SBA honor its guaranty 30 calendar days after discovery of an SOT situation that has not been cured during the 30 day period.

In addition, under the DFP Pilot, if a lender discovers an adverse change in the financial condition, organization, management, operation, or assets of the Borrower, the lender may request that SBA honor its guaranty 30 calendar days after discovery of the adverse change if it has not been remedied during the 30 day period.

While non-compliance with any non-financial loan covenant other than SOT situations could trigger the lender discontinuing disbursements and placing the account into a payment only status, non-compliance with such non-financial covenants will not trigger SBA's obligation to purchase the guaranteed portion.

As noted previously in this guide, DFP lines of credit must be secured by a first lien on all titleable inventory purchased with the proceeds of the DFP line of credit. SBA recognizes that, from time to time, lenders will obtain additional collateral to strengthen their collateral position on the loan. Such additional collateral may consist of real estate, furniture and fixtures, etc. In order to be consistent with industry practice, liquidation of all business personal property, while preferred, will not be required prior to the lender making demand on SBA to honor its guaranty. Prior to making demand on SBA to honor its guaranty, the titleable inventory securing the DFP line of credit must be fully accounted for and liquidated, with all net proceeds applied to the balance of the loan as provided in SOP 50 51 3. If any additional collateral has been taken to secure the DFP line, the lender will not necessarily have to fully liquidate such collateral prior to making demand on SBA, but the lender will be required to obtain all necessary valuations and make a determination as to whether the additional collateral will be liquidated or, with proper justification, abandoned. The lender's decisions with regard to the liquidation of all collateral securing the DFP line must be fully documented in the lender's file and copies of such documentation will be required with any request for purchase of the guaranty.

As stated in the Federal Register notice announcing the DFP Pilot ([76 FR 7098](#), February 9, 2011), the lender will be required to provide additional documentation concerning the administration of the DFP line of credit with any guaranty purchase request. All DFP guaranty purchase requests will be processed by the NGPC. Lenders will use the existing standardized

format to request guaranty purchase (known as “the 10-tab system”), plus copies of the floor check reports, the monthly manufacturer’s dealership financial statements (for dealers of new inventory) or monthly financial statements (for dealers of used inventory), and the monthly reconciliations of lender’s floor plan inspection reports with the dealer’s financials for the twelve (12) months prior to default. Delegated lenders also will need to provide a copy of the lender’s credit memo with any purchase request.

IX. Lender Oversight

As part of its ongoing lender oversight activities, OCRM is charged with the responsibility to review, evaluate and approve the floor plan lending policies and procedures of each lender participating in the DFP Pilot. At a minimum, the policies and procedures of all lenders participating in the DFP Pilot must include the following: (1) the personnel who will be responsible for making, servicing and liquidating floor plan lines of credit to demonstrate to SBA’s satisfaction that the lines will be underwritten, supervised and liquidated by trained and/or experienced personnel who are appropriately supervised; (2) the collateral monitoring procedures, which must include floor checks (physical inventories) and the frequency of conducting such floor checks; (3) a requirement that the borrower provide to the lender copies of its monthly manufacturer’s dealership financial statement (for dealers of new inventory) or monthly financial statements (for dealers of used inventory) after the end of the previous month; (4) the procedures in place to ensure prompt payment on the line upon the sale of inventory; (5) all policies and procedures specific to liquidation that are unique to floor plan financing; (6) any policies concerning curtailment, which should be similar to generally accepted industry standards; (7) the fees the lender will charge to service these loans; and (8) internal controls in place to make, service and liquidate DFP loans. Lenders may use contracted services and/or available software programs to assist with monitoring and tracking the collateral.

OCRM will review all of the lender’s policies and procedures governing floor plan financing, including their risk management components, to ensure that the lender will be operating a commercially reasonable and prudent floor plan lending operation. The lender’s compliance with its policies and procedures governing floor plan financing also will be reviewed in connection with any guaranty purchase request.

A. Initial Oversight

1. Non-Delegated Lenders

If a lender has less than \$1 billion in floor plan lines of credit in its current portfolio, upon receipt of a lender’s initial application for guaranty of a DFP line of credit, the LGPC will notify OCRM. OCRM will request that the lender provide them with a copy of the lender’s policies and procedures governing floor plan financing. OCRM will complete its review of the lender’s policies and procedures within 30 days. (The initial application will be processed by the LGPC while OCRM is reviewing the lender’s policies and procedures.) After OCRM approves the lender’s floor plan policies and

procedures, OCRM will notify the lender and the lender may begin to submit additional applications for guaranty of a DFP line of credit under the pilot.

2. Delegated Lenders

If a lender has at least \$1 billion in floor plan lines of credit in its current portfolio, after the lender requests delegated authority, OCRM will review the lender's policies and procedures governing floor plan financing during a site visit as explained in paragraph I.B.2 of this guide. This initial site visit will include, but is not limited to, a review of the lender's: (1) organizational structure and management expertise; (2) policies, procedures, and internal controls governing dealer floor plan operations; (3) business plans addressing existing and projected lines of business (new/used autos, boats, recreational vehicles, etc.), level of volume anticipated for the DFP Pilot, any plans for expansion/consolidation of types of floor plan financing offered, and strategies for achieving business plan goals; (4) performance of existing floor plans lines, including classifications, lender risk ratings, refinanced and rebooked loans, loans in workout and special assets and charge-offs; (5) floor plan inspection procedures and reports, including reconciliation to dealer financial reports; and (6) monitoring and servicing of existing floor plan lines, including line advances and payments, curtailment policies, records and billings, collateral administration practices, Trust Receipts, and any outside DFP services utilized by the lender. The initial site visit may also include a review of a sample of loan files.

B. Additional Oversight Activities

For lenders participating in the DFP Pilot, OCRM will follow its typical oversight practices utilizing a combination of off-site monitoring and on-site reviews depending on the size and risk assessment of the lender's DFP portfolio. OCRM also will monitor the usage and performance of lender DFP loan portfolios which may include reviews of lender loan files and reports provided to SBA by the lender on its dealer floor plan activities to monitor and assess how lenders are managing their DFP portfolios.

Reviews of 7(a) lenders with approved DFP lines of credit typically will receive risk-based reviews that assess both the traditional 7(a) loan portfolio and the DFP loan portfolio in the same review. However, for lenders with approved DFP lines of credit above \$50 million, OCRM may, at its discretion and in addition to its regularly scheduled Risk-Based Review of the traditional 7(a) loan portfolio, conduct a separate on-site risk-based review of the lender's DFP portfolio. Oversight activities may be adjusted based on OCRM's assessment of lender portfolio risk, and, at its discretion, may elect to conduct additional on-site reviews.

C. Costs of Lender Oversight Reviews

In accordance with [13 CFR 120.1070](#), the lender will be responsible for the costs associated with examinations, reviews, and on-going monitoring and, if assessed by SBA, other lender oversight activities. SBA also assesses an annual charge for off-site monitoring based on the lender's percentage of the total dollar amount of SBA guaranties in the lender's portfolio. (As stated in

paragraph I.B.2.a of this guide, SBA will bear the cost of the initial site visit to determine delegated authority under the DFP Pilot.)

D. Supervision and Enforcement

An integral part of overseeing the 7(a) loan program is SBA's authority to supervise and take enforcement actions as necessary. The regulations at [13 CFR 120.1400 through 120.1600](#) and the provisions of SOP 50 53 apply. If the lender does not comply with the requirements of the DFP Pilot, it may form the basis of a supervisory or enforcement action as described in the regulations or the SOP.