

# **Dealer Floor Plan Financing**

## **Basic Talking Points**

### **Key Message Points**

- Beginning July 1, SBA will make guarantees available to support floor plan financing for auto, RV and other dealerships, which will make it easier for these small businesses to borrow against their inventory and increase cash flow at this critical time.
- Because of a decrease in the availability of floor plan financing over the last several months, these loans are aimed at helping to keep viable dealerships open.
- SBA's Dealer Floor Plan financing program complements the steps already taken through the Recovery Act and is one of many SBA tools available to help increase access to capital and offer technical assistance to small businesses.

### **Dealer Floor Plan Financing Pilot Program**

- In recent months, the availability of floor plan financing for dealerships has decreased, and as a result, many viable businesses are facing challenges and are at risk of closing their doors.
- As a way to provide critical access to capital for these dealerships, SBA will offer guarantees to support floor plan financing for auto, RV and other dealerships through a pilot program beginning July 1 through Sept. 30, 2010.
- Dealer Floor Plan financing is the latest of many tools that SBA has to offer small businesses during these tough economic times.
- This program complements the steps SBA is taking already as part of the Recovery Act and is aimed specifically at increasing access to capital for small businesses and saving jobs.

#### *Specifics of the program:*

- Under the Dealer Floor Plan (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 has a title and is registered with a state.
- 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 government guarantee of up to 75 percent.
- 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.
- DFP loans are available for qualifying businesses in the retail sector, including auto, RV, manufactured housing, boat and trailer dealerships.
- At the completion of this pilot program (Sept. 30, 2010), the SBA will evaluate whether or not to extend the DFP program.

## **Floor Plan Financing**

- Floor plan financing is a revolving line of credit that allows a dealership to obtain financing for retail goods. These loans are made against a specific piece of collateral, such as an auto, RV, mobile 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 (DFP) 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.

## **SBA and the Auto Industry**

- Just as the Big 3 auto manufacturers are going through a transition, so are small businesses, like dealerships, that are dependent on those companies and are a big part of the auto industry.
- The reality is that as dealerships go through this transition, some will remain new car dealerships, some will become used car dealerships and still others will take on a whole new business plan.
- At SBA, we want to be a partner for these small businesses and help ensure they have the tools necessary to keep their business open, save jobs and navigate this transition.
- Floor plan financing is one tool that SBA is offering – an important one for viable dealerships who've seen a dramatic decrease in lines of credit for financing their inventory.
- Additionally, SBA's traditional 7(a) and 504 loan programs could be utilized by those dealers who are transitioning to become service centers or implementing other business models.
- The SBA offers an array of loan programs, technical assistance and other tools that can help small businesses (not just dealerships) in the auto industry and in affected communities through this transition and these tough economic times.
- Auto dealers have historically used SBA's 7(a) and 504 programs for financial assistance. Over the past eight years SBA has approved more than 4,000 loans to these industries with an original disbursement amount of \$1.125 billion through about 800 lenders. Most of these loans were to automobile and auto parts dealers and distributors.
- Additionally, SBA approved nearly 800 loans totaling over \$270 million to manufacturing businesses related to the auto and auto parts industry.