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It's hard, but not impossible, to uncover

The auto industry may show signs of recovery, but bankers and other lenders remain cautious. Like elephants, they don't forget and are wary that more dealerships may fail this year. In fact, some banks think more businesses fail during times of *expansion*, especially after a downturn.

As a result, financing isn't expected to return to normal anytime soon, and funding your floor plan, the rest of your operations and future capital expenditures is likely to remain a challenge. But if you consider all your financing options and take the right steps to convince lenders you're a worthy risk, you should be able to secure the funding you need.

Understanding banker mindset

Many banks that previously lent to dealerships downsized their dealership loan portfolios, stiffened loan terms and cut their weakest customers. With the number of defaults on vehicles still high and sales still generally low across the country, bankers continue to see dealerships as a risky sector.

If you've been dropped by your lending source, the first thing you should do is find out why. Do they consider you a bad risk, or



are they simply trimming back on their dealership loan portfolios? If the lender still thinks you're a fit customer, you should be able to secure financing somewhere else.

Next, you need to survey alternative sources of funding. Here are four to consider:

1. Manufacturer financing. Many manufacturers have pulled back because of their own financial troubles. But you can't sell cars if you don't have them in your showroom and on your lots. Some manufacturer-affiliated lenders — Honda Finance Corp., for example — have shown they understand this problem and have announced in recent months that they're providing inventory financing to *more* dealerships, particularly those cut by their lending sources.

2. Small Business Administration (SBA) loans. These could be your best bet until the economy shows more improvement. The 2009 American Recovery & Reinvestment Act (ARRA) set up a pilot program for SBA-backed floor-plan financing under its existing 7(a) loan program. You may be eligible to borrow \$500,000 to \$2 million with a 75% government guarantee and a fee waiver. The program ends in September, but could be renewed.

3. Specialized banks. Experts in these banks that cater to auto dealerships understand the industry, its collateral offerings and floor-plan cycles. Also consult your state, regional or national dealership association for leads to specialized lending sources.

4. Commercial finance companies. Although these lenders generally charge higher interest

rates than banks, they could be a temporary source of quick cash to floor your inventory. You may need to give them a quick education about the dealership industry and your market before they'll commit to a loan. These loans are typically secured by commercial assets, such as service department equipment or a second mortgage on the land, building and improvements.

You also can contact auto finance companies that will buy your receivables in bulk. But, watch out: Their fees are usually steep. And finance companies may ask for a personal guarantee from the owners.

Additionally, don't forget to contact your state's Economic Development Department, especially if the loan you're seeking will allow you to keep employees. You also could connect with your state and federal political representatives to see if they can suggest resources. And if you already have a floor-plan source you're satisfied with, work with them to maintain the relationship.

Presenting yourself

Once you have your eye on a particular lender, sit down with your accountant and develop a presentation that will help convince the lender you're a sound credit risk. You should not only make them realize that you understand the risk, but also suggest two or three ways you plan to repay the loan.

Here are some documents you'll want to present to them:

- A well-conceived business plan,
- Recent financial statements,
- Resumés of key executives and personnel,
- A list of several references, and
- Good marketing information.

Questions to ask the lender

Once you find a lender willing to make a floor-plan loan, scrutinize the loan terms, including any excessive fees that may unfairly drive up the financing cost. Here are some questions to ask:

- What is the daily loan rate per \$1,000 and are there better rates for dealers with quick inventory turnaround?
- How long does it take a qualified car dealer to secure a line of credit?
- Are there floor check or site visit fees?
- In the case of used cars, are there fees for sending titles overnight?
- Is there an administrative fee? If so, is it due before the vehicle is sold or is it removed from your credit line?
- Are there insurance fees?
- Are there fees for unused lines of credit?
- Are there prepayment penalties?

You may find the best avenue to working capital is a relationship with a local bank as you borrow to make your balance sheet ratios more attractive to a floor plan lender. And be aware that lenders may want you to cut your inventory to reduce their risk. Some dealerships, eager to get financing during the current credit crunch, for example, have cut inventories nearly in half from a 150-day to an 80-day supply.

Making it happen

Everyone knows it's a tough time to secure financing. But if you explore all your options, understand the lender's point of view and present yourself carefully, you should be able to get the funding you need. ■

Accent on foreign accounts

The IRS is putting out a boatload of guidance on how to fill out its annual “Report of Foreign Bank and Financial Accounts” (TD F 90-22.1), commonly known as FBAR, as it gears up for 2009 returns due June 30. Teaming up with the U.S. Department of Justice, the agencies say they’re prepared to assess civil and criminal penalties for violations.

According to the IRS, you may be required to file an FBAR if you own or have authority over a foreign financial account, including a bank account, a unit trust, mutual funds or other types of financial accounts. Even if you’re not a signer on the account, your status as an officer or manager for the entity that controls it could make you responsible for disclosure.

“Mutual funds,” the IRS states, include partnership interests in hedge funds, private equity funds and other investments that are organized under foreign laws. These entities may be owned directly or indirectly through a U.S. fund that has invested in a foreign fund.

Why is it necessary?

Anyone who is a citizen of or resident in the United States, or has a business there, is generally allowed to own a foreign account. But the



FBAR is a tool to help the federal government identify those who may be using foreign financial accounts to circumvent various U.S. laws.

Investigators use FBARs to help identify, or trace, funds used for illicit purposes — or to identify unreported income kept or generated abroad. Here’s an overview of what the form requires.

Who must file — and when?

Specifically, you’re required to file the report if:

1. You or your business has *either* a financial interest in or signature authority (or something comparable) over one or more accounts in a foreign country, and
2. The aggregate value of those accounts exceeds \$10,000 at *any time* during the calendar year.

The law applies to most areas outside the United States, Puerto Rico and U.S. territories and possessions, such as the U.S. Virgin Islands and Guam.

FBAR reports are normally due annually on June 30 and cover the previous calendar year. So, for example, a report for the period of Jan. 1, 2009, to Dec. 31, 2009, is due on June 30, 2010. However, due to confusion over who is required to file, the IRS will accept reports for 2008 and up to six prior years on or before June 30, 2010, without assessing any penalties.

The IRS is responsible for investigating possible civil violations, assessing and collecting civil penalties and issuing administrative rulings. The Department of Justice is responsible for criminal violations.

Penalties vary by severity, but can climb to \$100,000 for willful civil infractions (\$10,000 for nonwillful infractions) and to \$500,000 and 10 years in prison for criminal violations.

Where can I find out more?

IRS information on filing an FBAR is available at irs.gov. Recent publications include

“Report of Foreign Bank and Financial Accounts (FBAR),” issued Sept. 18, 2009; “FAQs Regarding Report of Foreign Bank and Financial Accounts (FBAR) — Filing Requirements,” July 1, 2009; and “Workbook on the Report of Foreign Bank and Financial Accounts (FBAR),” Feb. 19, 2009. Your financial advisor can help you assess your particular situation. ■

AR management

Step up to the plate

Strong accounts receivable (AR) management can help your dealership hit home runs — and stay in the game. Collecting on vehicle accounts receivable, factory receivables and warranty claims is essential to a winning season.

Here are several collection techniques you can put into play before any curve balls fly your way. Knowing your business well will dictate how to use, or change up, these methods.

Vehicle accounts receivable

For vehicle accounts receivable, management should be in the starting line-up, putting policies and procedures in place. For example, set a policy of collecting the amounts due from financing institutions, customer side notes and customer-hold checks within five to 10 days after a sale.

Also, make sure your finance department processes customer applications daily — and you should review the vehicle receivables schedule every three to five days. Set guidelines to control customer-hold checks. Flag any vehicle receivables aged more than seven days to determine the exact status.



Parts and service receivables

Here are some suggestions for getting slow-moving customers to settle up:

- 1. Offer product or service incentives.** Give discounts, such as 1% or 2% off of bills to customers who pay on time. And consider the same perks for businesses that improve their payment histories.
- 2. Make advance payment requests.** For example, in your parts and service department, ask your customers to provide a deposit or services retainer of one-third of

their estimated bill; this is especially important for special orders.

3. Charge late payment penalties. Before you begin this practice, explain to customers that you will charge fees for past-due payments. Consider reducing or removing penalties if customers immediately resolve outstanding balances.

4. Make phone calls. Before turning to a collections agency, call any customers who aren't paying their bills. This personal approach is an opportunity to improve relations and avoid long waits for payment. Consider offering a 5% or 10% discount for settling the account that day.

Contracts in transit

Strike out problems early in the inning. That is, make sure that all finance contracts are completely, accurately and promptly submitted with all required supporting documentation to the financing institution. Promptly review and resubmit any contracts returned as unacceptable.

Set a maximum amount of days acceptable for a contract to go unpaid — an average of four days or less, for example. Then make sure your finance manager reports all contracts that go uncollected past that period.

Factory receivables

Many factory receivables, like incentives and rebates, are usually paid based on electronic reporting by the dealership through a system such as Retail Delivery Reporting (RDR). As each vehicle is delivered, sales personnel should enter the sale in your online manufacturer computer system. Poor attention to the daily reporting of auto and truck deliveries is a common cause of collection problems.

Most manufacturers set time periods for incentive programs. Periodically review the accuracy of your data to ensure that sales are taking place when reported. If retail sales are audited by the manufacturer, your dealership could be disqualified from participating in future programs, or even be charged back for past monies, if there's any evidence of erroneous reporting.

Review short, clean factory receivable schedules at least twice a week. This will help ensure that all amounts due from the factory are collected in a timely manner.

Warranty claims

Warranty receivables should never cover more than 45 days' worth of warranty sales (parts and service). For example, if your average monthly warranty sales are \$30,000, a red flag should go off in the accounting office if the warranty receivable account exceeds \$20,000.

Your warranty administrator(s) should perform a regular detailed review. Warranty receivables should be scheduled and controlled by the same reference number used by the manufacturer when paying the claim, generally the repair order number. Each control number should be aged independently so that a quick scan of the schedule will identify all warranties not paid in a timely manner.

Bases loaded

Collecting on unpaid bills in this economy is tough, to say the least, and you ultimately may need to hire a collections agency. But don't be afraid of having a designated hitter — the dealership's owner — to make a personal appeal and be willing to compromise. Smart policies and procedures will ready you for All-Star results. ■



DEALER DIGEST

The employee benefits blues

If the cost of employee benefits is high on your dealership's list of financial concerns, you're not alone. More than 800 top U.S. financial officers recently listed employee benefits, including health care and pensions, as their top pricing pressure, according to a national Grant Thornton survey conducted from Sept. 1 to Oct. 2, 2009.

Of the CFOs and senior comptrollers responding, 77% said they're most concerned about the price of employee benefits. Only 2% to 9% indicated they'd improve particular benefits or compensation in the coming year. On the other hand, 33% said they'd be reducing health care benefits, 42% indicated they'd be decreasing salary raises, and 55% said they'd be reducing bonuses.

Asked if they were more or less worried about their organization's ability to continue as a going concern, 45% said they felt about the same as they had at the same time in 2008, 31% said they were less worried, and 24% indicated they were more worried. ■

Using social media wins points

Your dealership can get mileage from social media outlets, such as LinkedIn and Facebook, by posting certain types of information. For example, pinpoint the things your dealership does best to build close relationships with customers — and then post that information online.

You may want to get more personal with customers by posting stories of employees who excel in their work or perhaps win a customer service contest. And be sure to report any work your dealership does through not-for-profit organizations.

Boost your dealership's credibility, for example, by posting manufacturer recalls and safety warnings. And show that you're reliable by providing service tips for work on vehicles that customers can do themselves. ■



Move over, used-car lots!

According to the *J.D. Power and Associates 2009 Used-Vehicle Market Report*SM, Internet shopping combined with visits to dealer lots is now the main method for used-vehicle buyers to find used cars and trucks. The report finds that the percentage of used-vehicle buyers who rely on the Internet to locate vehicles for sale rose from 40% in 2008 to 46% in 2009 — equal to the percentage of buyers who visit dealer lots as their main shopping method.

Moreover, 31% of buyers found the vehicle they ultimately purchased on the Internet, compared with 28% of buyers who found their vehicle by visiting dealerships. Such statistics are good reason to review your Internet sales copy, and make sure that the written descriptions of your vehicles are as alluring as what a customer would see on your lot. ■