



National Automobile Dealers Association



ACCESS TO CAPITAL FOR LIGHT DUTY VEHICLE DEALERS: HOW SBA CAN HELP

The nation's 19,000 franchised automobile dealers which significantly contribute to our national, state, and local economic well-being, are experiencing a temporary, serious downturn, as new auto sales have reached their lowest sales rate in over 25 years. Thousands of dealers, typically independent family-owned businesses, are in dire need of working capital loans and credit for new and used vehicle inventory.

Accordingly, the Small Business Administration (SBA) should use its existing authority to help meet the credit needs of auto retailers. With 20 percent of the nation's retail economy connected to the sale of new cars and trucks, assistance for dealers will enhance the nation's broader recovery and preserve an economic mainstay of communities nationwide.

MAY FRANCHISED NEW CAR DEALERS NOW APPLY FOR 7a LOANS?

To be eligible to apply for an SBA 7(a) guaranteed loan, car dealers typically must:

1. Have a need for SBA loan guarantee assistance, e.g., must be unable to secure conventional commercial financing on the same terms; and
2. Be a "small business." As defined by SBA, a light-duty dealer generally is a "small business" if its total annual sales are less than \$29.0 million. NADA estimates that less than 25% of dealers potentially fall under this standard, simply because of the large dollar value of the high-ticket items they sell – motor vehicles.

WHAT SIZE STANDARD WOULD BE MORE APPROPRIATE FOR DEALERS?

1. SBA could apply the 504 loan program standards, i.e., no tangible net worth in excess of \$8.5 million *and* an average net income of less than \$3.0 million after taxes.
2. SBA could set an employee-based size standard. Dealers have 53 employees, on average. A 200 employee standard (such as adopted by DOT in 2007) would capture the majority of small dealerships currently in need of access to SBA 7(a) guaranteed loans.
3. SBA could set a temporary unit sales standard. In 1980, during a period of similar economic distress, a temporary standard of 950 or less new units sold annually was set.

MAY 7(a) LOAN PROCEEDS BE USED FOR INVENTORY FLOOR PLANS?

The proceeds of SBA 7(a) guaranteed loans may be used for any worthwhile purpose, including for working capital and the refinancing of existing indebtedness, *but not for inventory floor planning*. This regulatory restriction, dating back to when SBA made and managed loans directly, no longer makes sense since today all 7(a) loans are made and administered by independent commercial lenders. This unnecessary constraint on the use of loan proceeds for dealers to purchase new and used inventory should be eliminated.

March 25, 2009