

LOAN WORKSHEET #3 – FLOOR PLAN INVENTORY FINANCING

Floor plan financing is a specialized segment of lending where banks provide working capital support for retailers of consumer goods such as automobiles, recreational vehicles, boats, and big-ticket appliances. Generally, the large investment and/or slow cash conversion cycle limits a retailer's ability to internally finance its inventory. The bank provides funding for the purchase of inventory and normal operating expenses until the inventory is sold. Risks associated with this segment of lending stem from a bank's failure to control collateral; understand the borrower's cash conversion cycle; or monitor the borrower's financial condition. Most often losses occur as a result of the borrower selling inventory out of trust and/or an over-reliance upon stale or outdated inventory which has diminished sale prospects.

Evaluate	Comments
<p>_____ 1. Does written policy contain the following criteria pertinent to floor plan lending?</p> <p style="margin-left: 40px;">A. Periodic receipt and analysis of the dealer's financial information.</p> <p style="margin-left: 40px;">B. Procedures for inventory inspections, to prevent the borrower from selling inventory "out of trust."</p> <p style="margin-left: 40px;">C. A cap on advance rates of not more than 100% of dealer's cost as evidenced by invoice, bill of sale or draft. Advance rates used on inventory should be comparable with wholesale values.</p> <p style="margin-left: 40px;">D. Procedures for monitoring advance rates, to prevent the borrower from obtaining advances in excess of wholesale value.</p>	

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FINANCING (continued)**

Evaluate	Comments
<p>E. Procedures for monitoring payoffs, especially for used inventory floor plans, to ensure that the bank does not accept a payoff which is less than the original advance.</p> <p>F. Procedures for curtailment payments to amortize advances ahead of declining collateral value, and shift the risk of slow moving inventory to the borrower.</p> <ul style="list-style-type: none"> • Suggested guidelines for a conservative curtailment program are: curtailments at 90 day intervals, 5% reduction per period, and payout after 12 months. <p>_____ 2. Evaluate the controls relating to each of the dealers selling to the bank.</p> <p>A. Have on-site inspections of inventory (floor plan checks) been conducted at least monthly and on a surprise basis?</p> <ul style="list-style-type: none"> • Are inspection duties performed by someone other than the lending officer? 	

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Evaluate	Comments
<ul style="list-style-type: none"> • Is missing inventory reconciled immediately? B. Are inventory listings of sufficient detail to determine date floored, serial number, and condition? C. Are trust receipts executed when title documents are released to dealers? D. Are titles out on trust receipt returned, or is the respective advance paid in full within ten days? E. Are collateral documents and original inspections maintained by someone other than the lending officer? F. Evaluate the procedures for monitoring advance rates, curtailment payments and payoffs. _____ 3. Evaluate the financial statements of each dealer selling to the bank. A. Spread interim and last 3 year end statements. (Obtain dealer statements submitted to the manufacturer, if available.) 	

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FINANCING (continued)**

Evaluate	Comments
<p>B. Analyze trends in significant ratios.</p> <ul style="list-style-type: none"> • Current ratio. • Quick ratio. • Inventory turn-days. • Accounts Receivable turn-days. • Accounts Payable turn-days. • Interest coverage. <p>C. Analyze sources and uses, and changes in financial position. Evaluate the degree to which dealer may be converting unsecured vendor debt to bank debt.</p>	

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Evaluate	Comments
<p>_____ 4. Does the bank perform “relationship” lending, where the bank provides inventory floor plan financing, warehouses “tote-the-note” loans, and purchases indirect paper from the same dealer? In these situations, the bank is vulnerable to unscrupulous dealers who rotate inventory from one loan facility to another. This activity effectively defers the dealer’s loss in inventory, distorts the borrower’s financial condition and, more importantly, dilutes the bank’s collateral position. Therefore, relationship lending must be tightly controlled through effective policy and procedures to avoid undue risk of loss.</p> <p style="margin-left: 40px;">A. Are there procedures which clearly segregate and track collateral between the different loan facilities?</p> <p style="margin-left: 40px;">B. Are dealer agreements faithfully followed, or are deviations routinely accepted?</p>	