



Interactive Audio Conference

On

Inventory Financing Solutions

Working with Local Lenders For Your Retail Inventory Financing Needs

Wednesday, January 21, 2009

3:00 PM - 4:00 PM Eastern

2:00 PM - 3:00 PM Central

1:00 PM - 2:00 PM Mountain

12:00 PM - 1:00 PM Pacific

Speakers:

Gail Cardwell, Manufactured Housing Institute
Mike Kelley, Community BancService Corporation, Inc.
Brenda Winter, Pilot Bank
Steve Brown, The Home Shows
Leo Poggione, Craftsman Homes



MHI Response to Floor Plan Lending Crisis

- Outlined immediate course of action on Officers call on Nov. 14
- Contacted Independent Community Bankers Association (ICBA) and SBA to explore inventory lending programs
- Distributed a *Housing Alert* to all MHI members on Nov. 17 that: 1. provided a list of community bank lenders; 2. furnished information on SBA's 7(A) inventory loan guaranty program
- Conducted conference call with state execs to outline course of action and provide link to state-based community bank associations
- Petitioned US Treasury Secretary Paulson in a formal letter sent on Nov. 21, calling on him to require non-bank lending institutions offering MH inventory financing who receive TARP funds to dedicate a portion of those funds to maintain this financing
- Sent a letter to Federal Reserve Chairman Bernanke emphasizing that their Commercial Paper Funding Facility (CPFF) restricted to the highest rated issuers should go beyond the top-rated issuers, as lower-rated issuers have suspended inventory lending to retailers
- Participating in a coalition with large, 2nd tier issuers on CPFF, e.g. Nissan, Textron, to coordinate strategy with FRB
- Ongoing conversations with Federal Reserve staff who are evaluating extending the CPFF to lower-rated issuers
- Met with the Equipment Leasing & Finance Association whose members have business lines that include inventory financing
- Distributed survey to manufacturers to assess impact of national floor plan lending on the industry's structure and production
- Conducting interactive audio conference on January 21 with community bank lenders to brief MHI-member retailers & members on lending criteria and inventory lending programs
- Drafted prototype presentation for retailers to use when approaching their local banks for inventory financing
- Working with media to get the story out
- As a result of concerns raised by MHI, HR 384 includes language that gives the Secretary of the Treasury the authority to take any action to support the availability of loans to small businesses, including "dealer floor plan financing," directly or through the Federal Reserve Board or any Federal Reserve Bank. HR 384 would provide guidance to the Obama Administration on how it should spend the second \$350 billion of TARP funds. The House views this as a marker for the Obama Administration to recognize as it allocates the remaining TARP funds.

Building a Successful Partnership with Community Banks

**Mike Kelley, President and CEO
Community BancService Corporation, Inc. (CBSC)
Community Bankers Association of Illinois
901 Community Drive
Springfield, IL 62703-5184
217-529-2265**

Community banks have money to lend!

What are community banks?

- Independent often locally owned and operated
- Assets ranging from less than \$10 million to multi-billion dollar institutions
- Community banking is “relationship finance”
- Accessible officers and CEOs
- Nimble decision making ability

Tips to securing a successful relationship

- Be very prepared!
- Educate the banker about your industry
- Set realistic expectations
- Present additional banking opportunities
- Communicate, communicate, communicate

Mike Kelley is President and CEO of Community BancService Corporation, Inc., the for-profit subsidiary of the Community Bankers Association of Illinois. CBAI is a professional trade association representing nearly 500 Illinois commercial banks and thrifts. Its members have nearly \$75 billion in assets and employ approximately 18,000 individuals. He began his banking career in the loan department of Sangamon Bank & Trust, located in Springfield Illinois in 1976. In 1980 he became vice president of branch operations for Germania Federal Savings Bank in St. Louis, Missouri. In 1988, he was promoted to senior vice president of mortgage lending and was responsible for managing nearly \$400 million in mortgage loans originated annually through 10 offices in two states.

Tools for Building a Successful Partnership with your local Community Bank

**Brenda A. Winter, Vice President
Pilot Bank
12471 W. Linebaugh Avenue
Tampa, FL 33626
(813) 496-2609**

A. Typical Financial Package:

- 3 years business tax returns and corresponding Income Statement and Balance Sheet. Include the existing terms for all present outstanding liabilities.
- Interim Income Statement and Balance Sheet (less than 90 days).
- 2-3 years personal tax returns.
- Completed Personal Financial Statement (less than 90 days and required for all shareholders owning > 20%)
- Inventory and Payables Aging.
- 3 months current bank statement (operating and reserves if applicable)
- Business Plan or present financial objective (Decreasing or negative trends should be directly addressed with strategic measures outlined for overcoming them in the future.

B. Rates and typical Structure (Tampa Bay market):

- Rates and structure are predominantly driven by potential collateral and strength of the business and principal(s). The longer in business, with satisfactory trends (i.e. increasing sales/revenues/profitability) the ease with which finding a new or replacement lending source will be.
- Negative trends are expected for 2007 and 2008, it is how the business has addressed those changes that are critical. Stale inventory/unpaid curtailments should be explained in detail. Will be difficult to move stale inventory from existing floor plan and may need to consider an amortizing term loan if Textron or GE have called their lines.
- Floor plan pricing average locally from Prime + 1.00% to 2.50% on new units and Prime + 2.50% to 4.00% for used units. New units funded typically at 100% of invoice and used units at 75-80% of wholesale value, including re-hab costs.
- Expect floors to be built into the loan. We are presently placing 6-9% floors in all revolving lines due to the high cost of funds presently being experienced in banking. Floors are also indicative of the overall strength of the credit.
- Curtailments typically of 1-3% after 6 mo.; 3-5% at 12 mo; and either 8-10% at 18 months or full pay off. Be sure to communicate any manufacture buybacks into your package for lender to “adjust” your potential curtailment schedule.

C. Underwriting Ratios:

- RMA (Robert Morris Associates) is a national association for bank loan and credit officers with more than 15,000 associate members. Each year RMA requests limited detail spread sheets by SIC/NAICS codes to include sales and asset sizes for companies to which banks lend. RMA common sizes the financials into six categories by calculating the averages by asset and sales which banks will utilize to compare their prospective borrower.
- Analysis of basic ratios to include current and quick ratios; debt to worth; and ROE and ROA.
- Analyze inventory turnover which is calculated as: $365 \text{ divided by } \text{COGS/Current Inventory}$.
- Borrower's Debt Service Coverage ("DSC") which is calculated as: $\text{Net Income} + \text{depreciation} + \text{Interest Expense} + \text{Amortization} / \text{All existing and proposed debt service}$. Minimum DSC is generally 1.25x-1.30x or a 25-30% cushion above your expenditures.
- Global Debt Service Coverage ("GDSC") All Sub-chapter S companies are further tested on the GDSC to ensure that globally there is an acceptable debt service. This is calculated by taking the above figure and adding in the principal's net cash available and their personal debts. Acceptable GDSC would be slightly higher than the above to provide a "cushion".
- Analysis of liquidity of the retained earnings and principal's personal liquidity.
- Contingent liabilities – the less leveraged a business and/or principal is; the easier it should be for the business to seek a new lending partner.
- Credit scores of both the business and the principal(s) play a role in the credit process, however, only represents one piece of the puzzle. Low scores or previous credit issues will not keep you from securing a new loan, but the initial credit request should address those credit issues immediately.

D. Relationships/Out of the Box Opportunities:

- Establishing a depository relationship with the bank will be a requirement with a potential reserve account also a possibly depending on expected line usage and strength of above credit analysis.
- If business has struggled financially, it may be possible to utilize equity in real estate to "secure" a guaranty or add as additional collateral or incorporate a CD in the loan's collateral to improve the strength and potential approval of the credit until such time as the business improves and the relationship can stand on it's own.
- Establish recourse Guidance Line to approve "deals" that do not fit the bank's retail consumer loan underwriting criteria that you and/or your company "guarantee" payment to increase your sales in today's economy. Terms of the guarantee may include collections or buy back provisions.

- Partner with the local Mobile Home parks that you do business with to create a total “relationship” package to offer the bank. If the bank has a convenient branch, discounted bank products and services can be “bundled” as well.

Brenda A. Winter is the Vice President/Commercial Loan Officer of Pilot Bank. Pilot Bank has been in operation more than 21 years and consists of 6 branches operating in Hillsborough County, Florida serving predominantly the Hillsborough, Pasco, Pinellas, and Polk counties. In addition, we offer aircraft financing through NAFCO that has been in operation for more than 30 years offering one stop financing for various aircraft in the continental U.S.

Brenda began her banking career in 1986 in residential lending, later migrating to commercial lending in 1990 initially in operations preparing commercial loan documentation. In 1997 she was promoted to AVP and Manager of Citizen’s Bank and Trust’s loan department, responsible for the centralized document preparation for their 6 branch offices. With their recent bank merger, she was promoted in 1998 to a Portfolio Relationship Manager and began her lending career which includes predominantly commercial real estate lending, equipment financing, working capital lines of credit, floor plans, residential and consumer lending.

Retailer Check List

Preparing for a Meeting with a Local Bank

One key to successfully working with your local community bank for inventory financing is providing bank personnel with information that can help them evaluate your business. Local community bank criteria differ and therefore, we would encourage you to contact each bank to determine the precise information they may require prior to meeting with them. The following list suggests some of the information retailers should consider preparing before meeting with bank officers.

- **A five year history of operating expense to income ratio figures.**
- **Inventory to sales ratio**
- **Monthly inventory turnover**
- **Average amount of home invoice and/or price ranges of homes available at the sales center**
- **Information on repurchase agreements with manufacturers if they exist**
- **Information on any real estate or other assets owned and their value**
- **A marketing plan for your sales center(s) that outlines strategies for increased sales growth**
- **In preparation for your meeting, know exactly what you are going to ask for, and what your expectations are of the bank**