



## **SBA/NADA/NAMAD MOTOR VEHICLE DEALER LOAN GUARANTY CAMPAIGN**

The retail motor vehicle industry, so vital to this nation's economic well-being, is experiencing a temporary, but serious, downturn. Accordingly, the Small Business Administration (SBA), the National Automobile Dealers Association (NADA) and the National Association of Minority Automobile Dealers (NAMAD) have developed a joint Motor Vehicle Dealer Loan Guaranty Campaign targeting small new car and truck dealers (NAICS 441110 and 423110).

### **WHAT IS THE CAMPAIGN?**

The Campaign is designed to educate new small car and truck dealers regarding their eligibility for SBA 7(a) guaranteed loans. Small dealers detrimentally impacted by recent economic conditions particularly may benefit from the SBA 7(a) loan guaranty program. The SBA guarantees loans made by local lenders for those applicants that cannot obtain credit on a conventional basis.

### **AM I ELIGIBLE FOR AN SBA GUARANTEED LOAN?**

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

1. Have a need for SBA loan guarantee assistance, e.g., must be unable to secure conventional commercial financing on reasonable terms; and
2. Be a "small business." As defined by SBA, an automobile dealer of cars and light trucks (NAICS 441110) is a "small business" if its total annual receipts are less than \$29.0 million. The size standard for medium and heavy-duty truck dealers (NAICS 423110) is 100 employees. Size standards may be increased by 25% (\$36.25 million or 125 employees) if the applicant is located in or will use loan proceeds in an area of substantial unemployment, as designated by the U.S. Department of Labor

Approval of an SBA 7(a) guaranteed loan application will depend upon the availability of funds, an applicant's particulars, and the financial decisions of the participating lender and of SBA.

*Eligibility does not mean automatic application approval.*

## **HOW MAY SBA GUARANTEED LOAN PROCEEDS BE USED?**

SBA 7(a) guaranteed loan proceeds may be used for any worthwhile purpose, including working capital and the refinancing of existing indebtedness. Proceeds may also be used to pay the guaranty fee. SBA guaranteed loan proceeds may not be used for inventory floor planning. Financing a dealership total change in ownership is permissible if the aim is to preserve the dealership, promote its development, or contribute to the economy by making it easier for economically and socially disadvantaged persons to own dealerships.

## **WHAT ARE THE LOAN AMOUNTS, TERMS, AND INTEREST RATES?**

SBA's 7(a) loan guaranty may not exceed the lesser of \$1.5 million or 75% of the total loan. Generally, the maximum repayment period is 7 years for working capital and 25 years for real estate and equipment. Interest rates are negotiated between the lender and the borrower, up to the applicable maximum allowable SBA interest rate and may be fixed or variable. Repayment terms may be arranged to suit the borrower..

## **WHAT COLLATERAL MAY BE REQUIRED?**

Although no collateral or security is required by law, a borrower should expect to pledge whatever collateral is reasonably requested and to give such personal guaranties as may be required. The SBA provides guidance to lenders on collateral adequacy.

## **WHAT FINANCIAL STATEMENTS MAY BE REQUIRED?**

The standardized, comprehensive financial statements used by motor vehicle dealers along with balance sheets, income and retained earnings statements, and subsidiary accounting reports generally used by the industry, are generally acceptable to SBA participating lenders. In certain situations lenders may require other financial statements. A discussion of a dealer's operations and a plan that demonstrates an ability to repay the loan must be included in the application. While three years of successful business is a general measure of sound prior operations, dealers with less than three year's experience may still demonstrate a reasonable repayment ability.

## **HOW ARE FUNDS FROM OTHER SOURCES CONSIDERED AND DO FRANCHISOR WORKING CAPITAL GUIDELINES PLAY A ROLE?**

Personal and/or business assets must be used to the fullest extent possible. Private credit must be used if obtainable at reasonable rates and on reasonable terms. Motor vehicle manufacturers often impose working capital standards on dealers. Formulae that compute the minimum acceptable net working capital should be completed by the dealer and may be used to guide loan amounts.

## **HOW AND WHERE DO I APPLY FOR AN SBA GUARANTEED LOAN?**

The application process begins with a commercial lender. Dealers may apply to any financial institution that handles SBA 7(a) guaranteed loans and can get a list of participating lenders from SBA field offices located around the country. A list of lenders participating in SBA's Preferred Lenders Program can be found on SBA's web site at <http://www.sba.gov/services/financialassistance/7alenderprograms/plp/index.html>. SBA is committed to processing loan guaranty applications for small automobile dealers expeditiously. To prevent unnecessary delays, please be sure to fully complete all loan application documents as requested by the lender.

## **HOW DO I GET MANAGEMENT AND APPLICATION ASSISTANCE?**

Various SBA resource partners provide management assistance and counseling upon request. To find a resource near you, visit: [www.sba.gov/localresources/index.html](http://www.sba.gov/localresources/index.html). You may also call the NADA Hotline at 1-888-672-5147 between 8:30 a.m. and 4:30 p.m., Eastern, Monday through Friday. When calling the NADA Hotline, please indicate that you are seeking assistance with applying for or obtaining an SBA guaranteed loan. Please note: *NADA will not be involved in any loan application processing and will be unable to answer questions on specific loan applications.*

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