DEALER FLOOR PLAN OPTIONS

One of the largest expenses to a dealership is the interest paid on the floor plan. Strategies for lowering this expense include reducing the number of vehicles and indentifying ways to turn them more quickly. Another "controllable" is to manage the absolute cost charged by the flooring institution.

A structured evaluation of all variables that make up the equation must be done regardless of the source of floor plan funding. Keeping the cost of the floor low is a major concern for the total cost of operation.

It is important that the dealer be in a position of strength when negotiating the final terms of the floor plan agreement. In order to achieve this position, the dealer should obtain a number of floor plan proposals and compare each of the material factors needed to arrive at net annual floor plan cost before making a final decision.

The ATA firms have developed a software package that takes into account these material variables. It was designed to simplify the evaluation process and produce the effective cost of the floor plan proposal. It works well for dealers who are switching floor plan lines or are contemplating switching.

Some of the more important factors to consider when comparing floor plan agreements include:

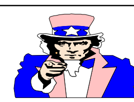
1. Interest Rate
Obviously, this is one of the most important factors in determining net annual floor plan cost. The dealer should identify the basis for the lending institution's interest rate. For instance, is the interest based on three month LIBOR or the prime rate?

In many instances, there is a "bank adjustment" to this rate that will be defined in the floor plan agreement. The base rates should be modified to account for this adjustment.

Lastly, some lending institutions calculate interest on a 360 day year, while others use a 365 day year. Convert the interest rates under each of the proposals in order to achieve an "apples to apples" comparison.

2. Insurance
Every floor plan line requires insurance coverage on the inventory. Information regarding rates for comprehensive and collision coverage should be obtained and analyzed. In many cases, these rates vary depending on the amount of outstanding floor plan dollars or the number of units in inventory.

Insurance coverage may be available through the creditor, or through an independent third party. This is another significant factor that needs to be scrutinized in order to arrive at the lowest possible floor



Tax Tip

Employee Benefits At Little Or No Cost

Reduce income, social security, and medicare taxes by implementing a 125 Employee Benefit Plan. Employees contribute pretax dollars which are used to pay for their medical, dental and child care expenses. Administration is simple and costs are nominal. Contact your CPA to see if your company qualifies and for an explanation of all benefits. Your employees will appreciate it.

plan cost.

3. Fees
Many floor plan arrangements require that certain fees be paid for administering the floor plan line. These fees could be in the form of commitment fees to be paid at the inception of the line or in handling fees to be paid over the course of the loan. These handling fees are usually based on the number of units in stock, as well as the length of time the units remain in inventory.

4. Floor Plan Assistance
Initially, it is important to determine if the proposals allow for floor plan assistance. This will have a material effect on the ultimate decision of which floor plan line to choose. There are many forms of assistance that may be offered, whether it be assistance based on dollars or units outstanding or some type of in-transit assistance. In most cases, this type of assistance is offered by a factory's lending arm. This gives the factory related lending institutions a substantial advantage over traditional bank financing.

5. Interest Income
There are a number of floor plan sources that allow for investments or offset privileges within the floor plan account. Often, the rate of return on an investment within the floor plan line will be higher than an equivalent safe investment outside the line. Lending institutions may limit the maximum investment in the floor plan line. This limitation is usually computed as a percentage of total floor plan outstanding. Therefore, the higher the outstanding floor plan, the higher the allowable investment. The ability to earn additional income from one floor plan source over another is an important factor in determining the lowest net annual floor plan cost.

A further consideration is the advantage of having the floor plan institution act as your banker as well. By having this relationship, the switching of idle balances from the general bank account to an offset with the floor plan obligation, becomes an automatic and effective technique that is not available through separate institutions.

6. Pay Off Protocols
Institutions have various limits on the size of the window allowed before a sold vehicle has to be paid off. Although this is not an interest rate variance, it does have an attraction for a poorly capitalized dealership.

A factor that does enter the equation is how quickly the funds are transferred from the dealership to the flooring institution. Most flooring institutions use EFT's (Electronic Funds Transfer) to quickly consummate this transaction. It is important to know if there is there a charge levied for this transaction.

Factors referred to in this article represent important aspects to compare in completing a floor plan evaluation. Proposals from various lending institutions may contain additional factors that need to be taken into account. A determination must be made to assess if these options are significant to include for comparison.

In conclusion, floor plan expense stands as a substantial expense for a dealership. It is advisable that a number of proposals be obtained and then compared side-by-side. Negotiations with the lending institution move toward the dealer's advantage after obtaining such information. The dealer will have the advantage when negotiating with the lending institution, if it can be shown that he's done his homework.

Call your local ATA firm for assistance in ascertaining which floor plan option is best for your dealership.

✓Quick Check

Leveraged Charitable Giving

If you make substantial annual charitable gifts, there is an opportunity to accelerate your deduction and enhance the value of your annual contributions.

Many financial services firms have donor advised charitable gift funds. You make an irrevocable contribution that qualifies of a full and immediate income tax deduction. Your donation is placed in a program account through which you recommend which charities will receive grants over the coming years. This type of gifting allows for an immediate tax deduction, while providing you time to determine which charities will benefit from your gift.

Mark Your Calendar!

Auto Team America, a consortium of 13 CPA firms, in conjunction with Comerica Bank, invites you to attend its

7th Annual CFO/CEO Forum

prior to the NADA Convention in Las Vegas.

Friday, February 2, 2001, in Las Vegas
Where: Bellagio Hotel
When: 12:30pm - 5:30pm

The Forum will begin at 12:30pm and will feature futurist speaker Edie Weiner of Weiner, Edrich, Brown, Inc. (WEB), Jim Ziegler of Ziegler Supersystems, Inc. and Jeff Sacks of Jeff Sacks & Associates. The forum will conclude at 5:30pm with a cocktail reception sponsored by Comerica Dealership Services.

For more information, please contact Sue VanTornhout toll-free at 866-233-9053 or by email at svantorn@aol.com.

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