12th Annual CFO/CEO Forum

LET THE COUNTDOWN BEGIN: THE 12TH ANNUAL CFO/CEO FORUM

Auto Team America will hold their 12th annual CFO/CEO forum on Friday, February 10, 2006, preceding the start of the NADA convention in Orlando, Florida. The forum will be held from 2:00-5:00 p.m. at the Peabody Hotel, with a cocktail reception immediately following sponsored by Comerica.

This year's theme is *Let the Countdown Begin: Driving Leadership and Innovation in the Automotive Industry.* The forum takes a turn in the road this year as there is a fabulous selection of keynote speakers to cover motivational leadership and innovations in the automotive industry.

Speakers for this year's event include **Lou Holtz,** Legendary College Football Coach, **Malcolm Bricklin,** Automotive Entrepreneur, and **Michael Bruynesteyn**, Automotive Analyst. ATA is excited to have nationally renowned speakers this year to discuss guiding leadership and current issues of the automotive retailing industry.

Any list of great coaches in the history of sports would certainly be incomplete without the name of perhaps the most outstanding among all who have ever coached college football: **Lou Holtz**. His extraordinary accomplishments and incredible talent have long since earned him this distinction. Yet, Coach Holtz does not measure his life's accomplishments or define his *personal success* according to yardage gained, winning seasons, championships, titles

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USE OF SWAP TRANSACTION AVOIDS HIGHER INTEREST RATES

For those of us who were in the world of business in the early 80's, the fear factor of high interest rates remains in the forefront of our mind. For some, the thought of rates returning to 21% is a concern For others it is a fear.

So how do dealers today address the concern of higher interest rates that most all agree are a foregone conclusion? Consider a swap transaction.

Banks today prefer to loan funds with interest rates tied to prime or more recently LIBOR (London Inter-Bank Offering Rate). Financial institutions normally offer fixed rates for up to five years, and occasionally seven years. Does this alleviate the fear of higher rates for the dealer that is getting ready to invest two to ten million dollars in a new dealership facility? Probably not. When the dealer desires to have a fixed rate and a fixed monthly payment for extended terms, i.e. 10-20 years, then the swap instrument could be the answer.

A *swap rate*, as it is commonly referred to, is a combination of a variable rate loan provided by a bank and a separate swap transaction that fixes the rate on the floating rate loan. The bank facilitates the transaction by shorting a strip of LIBOR futures to protect the bank against the interest rate risk that it inherits when the fixed swap rate is locked. Together, the

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or any other accolades. Instead, he perceives professional success as the driver to one's character and integrity. Coach Holtz will share some of the experiences and knowledge that have steered his understanding of great leadership.

Malcolm Bricklin is back in the highlights of the automotive industry. He has returned once again to the roots of his success: Asian automobile imports. Seeking to break new ground, Mr. Bricklin went to China to find a new automotive vision. Over the next few years, Malcolm Bricklin's Visionary Vehicles will pioneer the Chinese auto-import industry through a deal with Chery Motors.

Michael Bruynesteyn is an automotive analyst for Prudential Securities. Since launching coverage of the auto group at the Prudential Equity Group in late 1999, Michael has made a significant impact on the sector. Timely stock calls and proprietary research have contributed to his recognition as Fortune Magazine's first three-time *All-Star Analyst* and to his being cited as a member of the *Next-Generation All-America Research Team* by Institutional Investor magazine three times.

Attendees of the forum will include CFO's/CEO's of dealership groups, dealers and general managers, controllers and office managers, and related industry associates involved in dealership business management. To request an invitation to attend, please contact your local Auto Team America member firm.

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variable rate loan and the swap contract results in the dealer or borrower having a fixed monthly payment for the life of the loan. While this might seem a little cumbersome, in reality it is quite simple if your bank offers this interest rate option. In general, the process works like this:

- The bank loans the dealer the funds on a variable rate basis.
- The borrower enters into a short LIBOR futures position referred to as a swap .
- Each month, the borrower receives two payment notices. The first loan statement is for the variable rate loan with the bank. The second is either a payment notice or a check for the swap contract. Together, these two transactions equal your agreed to monthly payment.

So why wouldn't a borrower want to enter into a swap contract? There are certain criteria that have to be met to allow for a successful transaction:

- *Interest rate risk* – Remember, in a swap contract, there is another party on the other side of the table betting against you and if the markets are efficient, the transaction has the same chance of costing the borrower extra interest, as it does of saving interest cost.
- *Cost* – Typically, a swap contract is designed for transactions in excess of a million dollars. While there are exceptions to every rule, the cost of a smaller swap contract does not result in an attractive rate.
- *Early payoff* – If the loan is called or the borrower otherwise pays off the loan early, then in most cases the swap contract will have to be settled or unwound. This settlement of the contract will result in either a payment to or from the borrower. If longer-term interest rates have risen more than implied in the contract, then the borrower will receive a payment. However, if longer-term interest rates have remained lower than expected, the borrower will have to make a payment to settle the contract. Be advised—these payments either to or from the borrower could be significant.

This may seem cumbersome and somewhat complex to the average borrower, but in reality it provides the borrower with the opportunity to have a fixed monthly payment practically as it relates to real estate loans. However, if the dealer desires, this same transaction can be used in conjunction with floorplan debt to manage interest rate risk.

While this article has outlined the general structure of a loan using a swap contract, to gain a more comprehensive understanding, please contact your local Auto Team America firm to further discuss this type of transaction.

TAX TIP

HYBRID MOTOR VEHICLE CREDIT CHANGES IN 2006

The deduction for the purchase of a hybrid vehicle expired on December 31, 2005. This deduction has been replaced by a tax credit found in Section 1341 of the Alternative Motor Vehicle Credit of the Energy Act of 2005.

For new hybrid vehicles purchased beginning January 1, 2006, the purchaser is allowed a tax credit from $400 to $3,400—depending on the model. A credit is usually more advantageous than a deduction because a tax credit is subtracted dollar-for-dollar off the bottom line of your federal tax bill, while a deduction simply reduces taxable income.

The credit is allowed to the vehicle owner, including the lessor of a vehicle subject to a lease, with the following guidelines:

- The credit is allowed in the year the vehicle is placed in service
- The vehicle must be used predominantly in the U.S.
- The credit is not allowed if the hybrid is purchased for resale
- No credit is allowed for the portion of the cost of any property taken into account under Sec. 179, the expensing election provision
- The credit is not allowed against AMT and may be reduced even if you are not subject to AMT.

The amount of the credit depends on the fuel efficiency of the vehicle. The more gas it saves, the higher the credit. However, calculating the credit is a bit complicated. The exact amount of your customer's credit depending on three separate factors: the weight of the vehicle, its fuel economy, and its lifetime fuel savings.

The motor vehicle credit available in 2006 on hybrid vehicles may be promoted by dealers to their customers.

QUICK FACT

Business meals, entertainment and travel expenses may be fully, partially or totally non-deductible.

Call your Auto Team America firm to ask for a deductibility checklist.