

What Are These Banks Thinking?

The most important, and very disturbing, thing I see happening in the automotive industry right now is the lack of lenders willing and or able to loan funds to dealers to capitalize their operations, finance a dealership purchase or new equipment, or just loan money on existing collateral.

Forget about it! It just isn't going to happen in the near future or maybe even in 2009.

I have talked to many banks in the past few months, and guess what, they don't seem to be in the business of loaning money anymore. Seems strange, as they should have a hard time making a profit if they pay depositors, and or the Federal Reserve, for the cost of funds they never loan out. The automotive industry has been labeled as having a fatal disease. It sure seems strange that dealerships, which have very healthy, strong balance sheets, have always paid their monthly payments on time, the interest due on lines of credit, etc. and are now being treated as if they have been exposed to a plague. The banks are requesting stricter loan covenants, higher interest rates, personal guaranties, additional collateral, etc. These requests, and or demands, are being made without any regard for the dealer's past payment performance, profitability, cash flow, etc.

I read a recent article in the newspaper interviewing some of the bankers who have received part of the \$700 billion bailout offered by the government. Most have no intention of lending the money to anyone. They are more interested in increasing their loan reserves, buying other troubled banks, or just holding on to the funds until they see what the economy is going to do. Well it is not going to do anything without a cash injection. Hello, are you bankers listening to this? Bankers I have talked to recently feel if they loan money now to anyone, especially a car dealer, it would only increase their risk of future losses. Forget about the dealer's past profitability. Forget about the dealership and dealer's net worth. Forget about past loan and payment history. It doesn't count for anything at this point.

Some banks have told dealers they are exiting the automotive market altogether. They then go on to name other industries they are withdrawing from. I am still trying to figure out what industry qualifies as healthy enough for them to think about loaning monies to. They can't really name an industry worthy enough for loans at the moment. Remember when your bank was courting you and told you they are in this automotive market to stay? Amnesia and or Alzheimer's have set in. They have no knowledge of ever saying that to you. The word has come down from "above" or "higher-ups" they are withdrawing from the automotive lending marketplace due to the sub prime meltdown. Well, if you survive all this nonsense, remember the banks who did not stick with you. Think twice about giving them your business a few years from now when they fall back in love with the automotive market and come calling with money to lend.



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WHAT CAN DEALERS DO? You are short of cash, you will get even shorter on cash in the next three to six months, incur more losses, and if you are lucky, and have enough family money or wealthy investors, to survive all of this madness.

Review what assets you have in which you have some equity in, preferably hard assets such as real estate, CD's, etc. See what excess inventories and or receivables you can turn into cash quickly. Is there enough equity to borrow some money on it? Review your current assets to see if they are really liquid, can be liquidated in a short period of time and are valued at what they are worth (fair market value). Luckily, in the early to mid January 2009, as I am writing this article, used trucks and SUV wholesale prices have risen significantly from "too cheap" prices late last year. Sometimes customers go into a panic mode, such as the high gas prices last year, and do things such as trading in their truck or SUV for a cheaper gas model, knowingly taking a "bath" on the value of what they are currently driving. Most customers are already upside down, and are only increasing their negative equity position. They haven't stopped to think and figure out just how long it will take them to make up that trade loss in additional gas mileage.

If you have equity in assets, put together a loan request and approach your bank. List multiple banks you want to approach with your proposal. Be ready to get turned down. No matter how solid you are and how well you operate your business, they are just not ready to loan car dealers anything. Do you feel like a sub prime customer yet? You are being branded as an unhealthy loan risk just because you are an automotive dealer. Keep applying at each bank. Don't give up. Maybe one of them will come to their senses.

If you have an existing loan, and your banker has appeared at your doorstep informing you they want you to find other financing, and have given you a deadline which appears unreasonable, you may want to contact your state association's legal counsel or your local attorney to find out what alternatives are available to you. You may or may not have options, based upon your state laws. Don't waste time.

At this point in the economy, with what we have already seen, it doesn't seem very likely we the people, and the government, are going to turn this nightmare around very quickly. With this thought, review your expenses again for any future reductions you may be forced to make. Write down what the drop dead date is when you can't survive without additional cash, and prepare an emergency plan as if your banker or floor plan source walked in today with the bad news that it is your turn to pay them off. What is the first thing you would do? Start there and keep going. You need to have a definitive survival plan and be able to implement it quickly. Review it with your accountant and legal counsel and know your options,



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I don't want to sound negative about everything in this article, but am just expressing my views of what is happening at this time with our clients and the financial institutions they are involved with. Most of you will survive because you have planned properly for what is currently happening and have been saving cash.

Final note: Will the last financial institution leaving the automotive market please make sure all the keys are out of the cars, turn off the lights, and lock the doors?

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