HOW TO IMPRESS (OR RETAIN) YOUR BANKER

Bankers cannot (and in current economic conditions do not have the resources) provide funds to every (or even the top five) applicant that request or want to renew a loan. Therefore, **you** must develop an edge to obtain or retain that loan. That edge can be provided by a well -designed presentation. Follow these guidelines and you will find that this presentation is a lot easier to prepare than you think.

A good presentation contains at least five elements:

1. A brief description of the company.
2. A description of the key people.
3. An industry update.
4. Your operating plan.
5. A plan for how you will use or continue to utilize the financing

Despite perceptions, banks and other lenders do not lend money solely based on collateral. They like to see a good business presentation to enable them to lend on something more including sufficient cash flow to cover debt service.

The Company. Describe what the company does. In your description ensure that you discuss the following:

- Objectives of the company.
- Strategies for the next year and beyond.
- Summary of the past year's successes and an honest assessment of why any of last year's goals were not met.

Key People. A company is as good as its management. Describe the key people, providing details on their background including skills each of them bring to their departments and the management team itself. Share your past year successes with your management team members.

Industry Update. The general public hears about the automotive industry almost daily. Local, national and industry media outlets rarely go a day with some story about the industry. Your banker will know a lot about the industry and will probably retain more of the bad news media than the good. To offset this, and create a strong image of your company you have to:

- Provide him or his credit team with information about your manufacturer's future plans and how those plans (products or imaging) will affect your near and mid-term operations.
- Tell him why your local performance differs from regional and national statistics.
- Update your banker on your relationship with your manufacturer.

Operating Plan. Tell your banker what your outlook for the coming year is. He will already have heard the national projections, he will have heard snippets of the news from NADA and his team will be collecting information daily. In your proposal tell him why:

- Your plans differ from other local dealerships.
- Your plans are different from what he has heard from the media.
- Why your company is a good investment and will actually use the money the bank is setting aside for you. The days of "just-in-case" lines of credit are long past .

Financing. This element is often the only one presented. While financing is the key element of the presentation, you have seen there are many other important parts. Here are some of the important components of **financing**:

- Income statement and balance sheet.
- Cash flow projections.
- The expenses should relate to penetrating a new market if that is what you planned.
- Discuss breakeven point.
- Discuss pay back.
- Beware of debt-to-equity ratio and debt service coverage ratio.
- Explain mandatory factory equity and performance standards. Specifically describe your request for loans as to amount, timing and repayment terms.

And finally, make sure your financial statements are easy to read and assess. To do this try to eliminate:

- Multiple inter-company

How to Impress on page 2

How to Impress cont. from page 1

transactions

- Clear up inter-company balances prior to the year end.
- If you own multiple companies make it your objective to have each company secure its own financing.
- Simplify your shareholder loan transactions, and try not to use the account like a personal bank account.

Your presentation should consider at least two years each of the above categories.

When you are finished with your presentation, your banker will know you better and will know you know where you are going.

WHAT MAKES GEN Y TICK

Abstract: Dealers who understand Generation Y and customize their marketing and sales strategies stand to profit. This brief article examines not only the kinds of cars Gen Yers want, but also the most effective ways to market to them.

What makes Gen Y tick?

Generation Y — adults born after 1979 — is 77 million people strong, according to the U.S. Census Bureau. But they're wound a little differently than the rest of us. Dealers who understand Gen Y and customize their marketing and sales strategies accordingly stand to profit.

Understanding preferences

Gen Y is buying vehicles just as much as Gen X and baby boomers, according to a Deloitte-sponsored study of university students. But Gen Y has less disposable income and doesn't see cars as a status symbol as much as its predecessors do.

So, many Gen Y buyers select used over new cars. This is good news for not only used car sales but also for service departments — if you can convince Gen Yers to return to your dealership for repairs and maintenance.

Gen Y also wants technology and connectivity. Vehicles equipped with mobile messaging, MP3/ WMA playback capability, and hands-free cell phone options win over Gen Y.

Finally, Gen Y wants a vehicle that stands out. For example, MINI and Toyota's Scion allow buyers to customize a base vehicle with, say, decals, stylized mirrors and stereo equipment. Customization represents a huge opportunity for selling parts and accessories.

Marketing and sales — the right way

The first generation to grow up with home computers, music downloads and cell phones, Gen Y has been inundated with technology their entire lives.

If you want to catch a Gen Y shopper's attention, your website needs a searchable online inventory listing, and you should advertise at sites like Cars.com (http://www.cars.com) and Facebook. Texts and e-mail blasts are the ideal way to reach this segment about sales and service promotions. Some manufacturers even offer smart phone apps for online bill payment.

Once you get Gen Yers into your showroom, remember that, because they're often significantly younger than their salespeople, they worry they won't be taken seriously. Dealers who create a positive showroom experience with a friendly, low-pressure sales approach build brand loyalty.

Quick Check

Start out 2012 on the right foot. Randomly audit your Information Security Program for any risks of exposing confidential customer information. Check the copier & fax areas, printers, trash cans, & desks. What types of customer information do you see?
Contact your local ATA firm for assistance.

TAX TIP

SHAREHOLDER LOAN DOCUMENTATION

The Tax Court reminds taxpayers of the importance of details and following document terms for shareholder loans in *Todd*, T.C. Memo. 2011-123. The court determined that an amount borrowed by the sole shareholder of a corporation from its welfare benefit fund was a taxable distribution to the shareholder and not a loan.

The sole shareholder of the corporation was also its president and director. All employees were covered under a collective bargaining agreement. The corporation, under the terms of the union contract, provided a death-benefit-only plan funded by life insurance through a welfare benefit fund. The taxpayer applied for and obtained a $6 million insurance policy on his life on behalf of the welfare fund. The welfare fund owned the policy, and the corporation paid the annual premiums.

The welfare fund agreement provided that the employer and trustees of the plan had discretion to make loans to participants on a nondiscriminatory basis. The taxpayer applied for a loan, and obtained a $400,000 loan from the welfare fund.

The welfare fund issued a note to the taxpayer that was not signed until six months after the loan was issued. The note provided for interest at market rates; however, the taxpayer was charged only 1% interest. The taxpayer had not made any payments on the note.

The Tax Court held that "the distinguishing characteristic of a loan is the intention of the parties that the money advanced be repaid." Factors considered by courts in finding a bona fide loan are whether:

The promise to repay was evidenced by a note or other instrument;

Interest was charged;

A fixed schedule for repayment was established;

Collateral was given to secure payment;

Repayments were made;

The borrower had a reasonable prospect of repaying the loan and the lender had sufficient funds to advance the loan; and

The parties conducted themselves as if the transaction was a loan.

The court concluded that the $400,000 disbursement from the welfare fund to the taxpayer was taxable income and not a bona fide loan. It analyzed the seven factors listed above and found that five of them were not met, indicating that the parties did not establish a debtor-creditor relationship at the time the funds were advanced.

Presence of a note: The parties did not memorialize the debt at the time the welfare fund disbursed the funds. They also did not execute the note until almost four months after the first repayment date. In addition, the parties did not adhere to the terms of the welfare fund agreement and the note. The fund did not charge market rate interest, and the taxpayer did not make quarterly payments.

Interest rate: The welfare fund charged the taxpayer 1% interest, not market rate as provided for in the note. By comparison, the insurance company would have charged 4.76% on a similar loan.

Repayment schedule: The welfare fund did not provide the taxpayer with a repayment schedule reflecting the quarterly payments until three months after the first payment was due.

Collateral: The court found sufficient collateral in the alternate repayment provisions allowing the fund to reduce the death benefit to the taxpayer's beneficiaries.

Repayments: The taxpayer did not make any repayments on the note.

Prospect of repayment: The court found a reasonable prospect of repayment because the taxpayer earned a substantial income.

Parties' conduct: Neither party acted in a manner indicating that the disbursement was a loan. Neither party strictly abided by the note's terms. The interest rate was below market, and the taxpayer made no quarterly payments. The welfare fund made no attempt to collect the debt when the taxpayer did not remit the scheduled repayments.

This case points out the importance of details in a loan transaction, especially when it involves related parties. In the case of a loan between a corporation and a shareholder, failure to follow terms and provisions will likely result in a loan being treated as a taxable distribution. Consult with your ATA tax advisor when making loans between yourself and your related entities.