COMMERCIAL PLAYBOOK

COMMERCIAL FINANCING: HOW UNDERSTANDING LENDERS CAN HELP YOU AND YOUR CUSTOMER

CHAPTER 4

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HOW UNDERSTANDING LENDERS CAN HELP YOU AND YOUR CUSTOMER

TOPICS COVERED:

- Types of Lenders
- Heavy, Medium, and Light-Duty Differentiations and Considerations
- Know Your Customer
- What to Look for in a Lender

Regularly updated as the market evolves

TYPES OF LENDERS: CLARIFYING THE CONFUSION

Understanding basic differences between independent, captive, and bank lenders can help dealers select the right one(s) for their needs.

Independent

A non-bank lender that can make decisions "in house" on borrowers and types of programs it wants to offer. They can finance vehicles and equipment from any manufacturer and develop individualized, flexible programs for customers.

Advantages:

- Flexible
- Simple, streamlined approval process
- Custom financing solution
- High level of dealer and end-user customer service

Captive

A captive lender is the financing arm of a manufacturer. Captive lenders can typically finance only that manufacturer's equipment. Manufacturer subsidies enable them to provide low interest rates or other incentives but can have strings attached. Examples may include financing restrictions that do not allow room for flexibility in meeting customers' needs.

Advantages:

- OEM subsidies
- Ability to adapt lending guidelines quickly for franchise OEMs

Traditional Bank Financing

Banks are not restricted to any one manufacturer and may offer relatively low rates. It also can be more difficult to get a loan approved with a bank lender because they may ask for additional documents such as business financial statements and tax returns before making their decision.

Advantages:

- Low rates
- Ability to finance vehicles and equipment from any manufacturer

KNOW YOUR CUSTOMER.

Ask your customer these questions to help you better understand their financial needs to determine the best financing partner:

How long have you been in business?

- How many trucks do you own?
- What type of trucks are you looking to finance?
- Are you a first-time buyer?
- Have you financed a truck in the past? If so, with whom?
- What is your personal credit like?
- Are you looking to put money down?

Typical buyer personas that emerge from using the above questions:

- Have cash on hand for a large down payment.
- Sensitive to payment amount.
- TRAC lease.
- Rate focused.
- Poor credit, need sub-prime lending.

Consider these points as well:

- Not all lenders will finance all vehicles.
- Ask prospective lenders about experience and expertise with what you sell.

FINANCING BY SEGMENT

Strong, dependable vehicles are key to your customers' business, as are experienced and reliable financing partners. Before choosing which lender to suggest to your customers, take the time to learn about their financial needs and wants. Creating a loyal customer goes beyond matching them with the best equipment, but also guiding them towards the best financial solution for their business.

Heavy-duty/ Over the Road (OTR)

Types of Vehicles Financed. Many vendors that work with OTR vehicles exclusively focus in that area. If you sell vehicles in several segments, verify which lenders specialize in specific segments.

Source of Funds. Heavy-duty truck dealers can expect to be contacted by many lenders seeking their business. While this may signal a robust lender market, realize that many of these companies may simply be brokers. Be sure to find out if a lender has access to its own funds, or if it's a broker.

Fleet Size. Lenders have varying appetites for fleet business, whether it's small, medium, or large. Know your customers' fleet sizes up front and ask if a prospective finance partner can meet those needs.

Medium Duty

Knowledge of the sector. In the medium-duty space, upfitting is common. A lender that understands the sector, the specific equipment, and the values of each type of vehicle will be able to work more quickly and accurately in providing financing.

Captive lenders typically offer subsidy programs for dealers of medium-duty (as well as light-duty) trucks. Take time to really understand the programs and their trade-offs. Captive-lending programs may sound good on the surface but determine if they meet your customers' needs in the way of price, service, flexibility, and speed.

Tradeoff example 1:

A manufacturer offers retail assistance money and/or a subsidized interest rate, which may or may not be better than what you could receive from an independent lender.

Tradeoff example 2:

Your customer is at the high end of the LTV range your captive lender is comfortable lending against. The result could require your customer to make a down payment that another lender would not request or need. A captive lender might also require a shorter amortization period, resulting in a higher payment that may not meet your customer's financial needs.

FINANCING BY SEGMENT

Light-Duty

Merit of "corp-only" financing. Many dealers prefer not to ask their commercial customers to guaranty the loan with a personal guaranty or co-signer. In the light-duty space, where there are many companies with good credit and payment history but are relatively young, this can be a critical consideration. Not all finance providers will do corp-only financing; make sure the one you are evaluating does.

Credit assessment. Search for a lender that works with PayNet®, which provides private company credit assessments. PayNet benefits your customer by separating business finance from personal finance in terms of credit reporting. Business lending activity and debt can show up on a customer's personal credit history versus their business credit history, thereby restricting the customer's ability to borrow due to lack of time in business or inflated personal debt. While important across the board, some lenders in the light-duty space do not work with the service.

Loan to Value Limits. Lenders have different loan to value (LTV) limits. Your customer may have to provide more down payment to meet the lender's LTV limit and be approved.

Customer service. For you and your customer - consider the type and amount of service you will need.

- Will the lender be able to provide service to you over a weekend? In the evening?
- Will they return calls promptly?
- Are they willing to work with your customer if hardships occur?

Pre-payment penalties. Does the lender have pre-payment penalties for light-duty vehicles?

Ease of application process. You may prefer to work with a lender that uses RouteOne or DealerTrack, which is a main application integration and exchange system. While these services do provide a simple way to submit applications to multiple lenders, the dealer's finance manager should still take time to pinpoint appropriate lenders through the system that meet their customers', and their, needs.

Risk. The size and age of the customer's business can impact down payments and interest rates. New businesses tend to present a higher risk profile due to lack of credit history. To mitigate this risk, lenders ask for higher down payments and rates.

WHAT TO LOOK FOR IN A FINANCE PROVIDER

While interest rates are certainly part of any financing equation, they are just one part. In fact, for a dealer looking at operating and growing its business, other factors can easily surpass rates in importance. It all starts with finding the right lender. So, when evaluating lenders, keep the following overarching points in mind.

- **Value of a partner rather than a vendor.** Partners seek a shared vision and shared success. Because they are looking for a long-term relationship, they will take time to learn about your business, your processes, and your goals. Using a consultative approach, a partner will work with you and recommend programs that work for your customers and you today, as well as in the future.

- **Respect for your customers.** A good partner will get to know your customers and understand that they are your most important resource. They will provide exceptional service, be available when needed, and focus on the priorities you and your customers set.

- **Flexible programs.** Tailored programs will drive more units to you, faster. Maybe it's a special program for new or used equipment or a special on terms or rates. Development of tailored programs for your customers will ensure they get financing that works for them in the time they need it.

- **Speed in execution.** Some finance providers, working amidst regulations and policies, can be slow to respond. A responsive partner with flexibility will have greater ability to develop customized programs quickly and efficiently, resulting in a better overall experience for everyone. For dealers, getting quick-turn credit decisions and expedited funding can be challenging. An experienced, customer-centric finance partner can make things happen fast, often even providing same-day funding.

- **One-stop shop.** To make life easier, look for a partner that can handle as many of your needs as possible. You'll save time, eliminate stress, and develop valuable long-term business relationships.

- **Technology needs.** Dealers will find it pays to make a realistic assessment of their technology needs. How and in what ways will automation benefit your customers and you? What kind of customer service will you need? Will you be looking for a live person to pick up a call? Make sure to evaluate the human factor in a decision on a financing partner.

The Winning Combination

Financing can be complicated, but it doesn't have to be. Dealers – whether working with heavy-duty, medium-duty or light-duty vehicles – will benefit by taking time up front to select a lender that can meet their customers', and their, needs, both in the short-term and long-term. Getting a finance partner in place can not only save time and frustration, but they can also help secure and grow business over the long haul. The bottom-line is that you will need relationships with all three types of lenders to best support the dealership and your customers.

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