



Most dealerships eligible for PPP loans, lawyers say

A number of large corporations and organizations — including Shake Shack and the Los Angeles Lakers, which both returned their loans — have come under fire for receiving cash from the Paycheck Protection Program. But new-vehicle dealerships mostly are eligible borrowers under the program.

“Each dealer has to perform his own good faith analysis based on the facts and circumstances relevant to his business at the time he applies,” said Dennis O’Keefe, the CATA’s general counsel. “Unfortunately, the new May 7 deadline for ineligible borrowers to repay PPP funds suggests that the Interim Final Rule might have somehow modified the analysis in place when the loan application was filed.”

Andrew Koblenz, the NADA’s executive vice president of legal and regulatory affairs, said that the fact that the CARES Act specifically replaced the traditional “no credit elsewhere” Small Business Administration loan test in favor of a “current economic uncertainty makes the loan request necessary to support the ongoing operations” test.

O’Keefe said: “So while the SBA and the Treasury Department might be backpedaling somewhat with their Interim Final Rule and FAQ, the FAQ specifically refers to ‘business owned by large companies’ who have adequate sources of liquidity, and goes on to provide an example of ‘public companies.’”

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NADA offers tips for dealers to navigate pandemic

An NADA webinar which debuted in April, “Managing Service Operations: Making it Through the COVID-19 Pandemic,” examined some of the changes that have occurred in service departments under the current conditions

Pick-up and delivery services are important to protect the health of dealership staff as well as cus-

tomers, NADA Academy instructors Bob Atwood and Larry Hourcle said. “We all want to get out of the house, but the dealership is nowhere to be for your entertainment,” Hourcle said.

“Use this opportunity to step up and wow your customers by expanding operation hours with multiple shifts,” Atwood added. Multiple shifts

also helps provide spacing among technicians. Also, state law permits service to be performed seven days a week.

Use email to send repair orders to customers. If a signature cannot be applied to the RO, ask them to indicate permission to proceed with repairs in another way.

The speakers advised spending time in

the current situation devoting marketing messages to a dealership’s service department, emphasizing that they are open to help customers.

“For years,” Atwood said, “we have been preaching to the manufacturers to do a one-minute commercial about dealership service. And every time you turned on

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2020 BBQ for Troops postponed

The annual Barbecue for the Troops, a CATA fundraiser normally held each July for the USO of Illinois, will be delayed this year because of the coronavirus pandemic.

Over the last seven years, CATA dealers have raised nearly \$900,000 for the USO, a non-profit, non-political organization. The funds raised by the barbecues enable the USO of Illinois to lend support to more than 326,000 service members and their families annually.

The CATA board of directors said an October dateline with a tailgating theme could be attempted for this year’s Barbecue for the Troops.

CATA to reduce the size of its board of directors from 15 to 13

The CATA board of directors voted in April to reduce the board's head count from 15 to 13 over a two-year period.

Directors said they reasoned that most dealers would prefer to focus on their business concerns in the current climate rather than mount a campaign to get elected to

the board. The board contracted from 18 directors following the Great Recession in the 2000s.

"The first reduction to 14 members takes place this year. That means that this year we have no incumbent directors ineligible for reelection," CATA President David Sloan wrote in an April 29

letter to member dealers.

"With that in mind, and due to the unique conditions brought on by the pandemic, the Nominating Committee determined that it will not present additional nominations for Director. (There is, however, an additional process for any interested dealer

to gather petition signatures to be placed on the ballot, so please contact me if you are interested.)

"Next year, when the Board further reduces to 13 members, and there are only three incumbents, we plan to return to the practice of nominating five or more candidates for four

vacancies, assuming business conditions have returned to normal."

A director can serve up to three three-year terms on the board.

"A smaller Board will bring cost savings to the CATA, and it better reflects the current size of our dealer body," Sloan said in the letter.

Lusk lauds actors pulling together 'so we can live to fight another day'

Cody Lusk, president and chief executive of the American International Automobile Dealers Association, reflected April 28 during his Beltway Talk podcast on how the industry is weathering the storm by pulling together.

"This industry is so competitive. It's one of the most competitive and cutthroat industries from a day-to-day standpoint," he said. "But when the industry is threatened, it really pulls together.

"And it's been fantastic to see what the dealers do in their communities, how they've rallied around their

first responders, the workers, the hospital nurses and doctors. They are sending food, providing cars.

"I think you've seen the state and metro associations, the national associations all coming together; the manufacturers doing their part; the other partners in the industry doing what they can because we all know we have to pull together to save this industry, to keep it moving forward so that we can live to fight another day."

Lusk pointed to how the industry's actors united in advance of the Paycheck

Protection Program rollout to help dealers. The economic relief is administered through the Small Business Administration, and a number of dealers did not have a SBA code number.

"The AIADA worked with the National Automobile Dealers Association to get codes to enable our members to access this capital when it became available, because we knew there was not going to be near enough, the supply was not going to meet the demand. And it didn't."

Lusk said that, in fairness to the SBA, the agency was faced with processing about 20 years' worth of loan applications in just two weeks.

To help jump start the industry, Lusk ruminated about a sequel to the Cash for Clunkers program. But whereas the 2009 version incentivized consumers to trade in older vehicles that obtained poor mpg, a follow-up in 2020 might try to motivate consumers with older vehicles to trade for a model with more safety features.

"We'll be supportive of that, but we want the industry to work together," he said. "We all need to coalesce around one thing that we're pushing for that we can all support.

"We're one step closer to the other side, and we're going to get through this together."

Tracking expenses for PPP forgiveness

Selden Fox, a CPA firm and a CATA allied member, has published a news article on the best practices for using the funds received from the Paycheck Protection Program in order to be eligible for the loan forgiveness. Of utmost importance for the loan forgiveness is the documentation you collect on the expenses incurred during the eight-week period following receipt of the loan.

Also, Selden Fox created a set of PPP Forgiveness Planning worksheets to estimate a company's loan forgiveness and to track expenses incurred, and a checklist of the information you will need to provide to present to the bank for loan forgiveness. In using the worksheets, consult with your professional advisors.

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Hard-hit wholesale vehicle market begins recovery

The wholesale vehicle market effectively shut down from the economic effects of the COVID-19 virus and is only beginning to recover, said Jonathan Banks, J.D. Power's vice president and general manager-vehicle valuations.

Used-vehicle wholesale auction volumes were down 80% for the week ending April 12.

One reason? Dealers are selling down their used-vehicle retail inventory, much of which was purchased before March 15. "They are reluctant to add replacement vehicles to their inventory," Banks said during a J.D. Power webinar.

Wholesale prices fell 16% for the week ending April 12. Physical auction facilities are closed. The only wholesale dealer auction action is online because of public-health restrictions.

Wholesale auction activity likely "has reached an inflection point" and will begin to recover, Banks said. But of late, "there have been

quite a few no-sales."

Used-vehicle sales at franchised dealerships declined 61% vs. the pre-virus forecast. That's 7 percentage points worse than new-vehicle sales. However, pre-owned vehicle retail prices remain relatively strong for now. Prices consumers are paying resemble pre-virus levels. But cash flow issues may drive prices down as dealerships look to maintain liquidity, Banks said.

"Dealers control that retail price," notes Patrick Janes, director-wholesale management solutions at vAuto an inventory-management software provider. It's a matter of when and if dealers lower prices under slow-sales circumstances.

"As (vAuto founder) Dale Pollak says, "Dealers will take a haircut, but we want to prevent them from getting a buzz cut," Janes said.

A de-escalation in used prices will put profit pressures on retailers, drive OEM losses on lease returns and decrease consumers' purchasing power as trade-in equity drops, Banks added.

Used retail sales at franchise dealerships are down, but not to the same extent as wholesale auction sales. Retail sales totaled just under 400,000 units in four weeks, while wholesale auction sales reached just 93,000 units.

Pre-virus, there were roughly two used retail sales at franchise dealers for every auction sale. At the end of March, the ratio averaged more than four used retail sales per auction sale.

Banks foresees wholesale prices declining 8%-16% through June "before improving dramatically as the country opens up." Until then, "we'll have a rough couple of months."

He expects an ultimate increased demand for used vehicles, in part because many consumers who availed themselves of ride- and car-sharing services pre-virus are expected to opt instead to buy their own vehicles because of health concerns.

CATA wants to promote your coronavirus community stories

The commitment of local dealerships to their communities remains unprecedented during the coronavirus pandemic. As the globe endures COVID-19, dealer philanthropic efforts have been a bright spot in how the country is banning together to ride the wave into calmer waters.

Local dealerships have supported their communities in a variety of ways,

such as offering the loan of cars and trucks for the delivery of groceries, medical supplies and prescriptions; donating and delivering meals to medical professionals at local hospitals; offering free oil changes and select services to first responders; and sanitizing vehicles for any local resident at no charge.

The CATA wants to highlight what

dealers are doing to support their local communities, including first responders, charitable organizations and families, during this difficult time. Tell us about your experience and your staff, community and store.

Stories and any video links should be sent to Jennifer Morand, the CATA's director of public relations and social media, at jmorand@drivechicago.com.

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"The majority of dealerships are neither businesses owned by large companies nor public companies, which would suggest that, for those dealerships, neither the FAQ nor the Interim Final Rule would modify the test originally set out in the CARES Act."

However, O'Keefe further notes that Treasury Secretary Steve Mnuchin appeared to move the goalposts again with his April 28 comments that the government would undertake

a "full review" of all loans that exceed \$2 million. Part of this warning is likely meant to encourage large companies to return the funds (it apparently worked with Potbelly, Auto Nation, and Harvard, to name just a few); but these comments also further distance Treasury from the original intent of the PPP program, which was to quickly and without red tape get cash into the hands of as many small businesses as possible.

"Hard to tell day today if the goalposts are in their final position," O'Keefe said. "The bottom line is that each dealer needs to consult with his own financial and legal advisors as to how to proceed."

Tips

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the TV, what do you see? A one-minute commercial about a brand-new car that they wanted the customer to buy.

“Well now, all of a sudden, what do you see? There’re no new-car ads. Everything is about ‘Oh, our service departments are open, they’re essential businesses, we’ll come and pick up and deliver your car.’

“Why did it take getting to this point for the manufacturers to realize that this is what they need to be doing? And I hope when this is over that they occasionally run these ads, to keep the service department in front of the dealerships.

“ ‘Cause remember, sales sells the first vehicle; service sells the second and third vehicles.”

Subprime borrowers skipping loan payments

Credit Acceptance Corporation, the lender to car buyers with subprime credit scores, warned in April that it is seeing a sharp drop-off in payments as people shift their financial priorities to get through the coronavirus pandemic.

As unemployment soars, borrowers are putting off payments or “reallocating resources,” Credit Acceptance said April 20 in a regulatory filing, explaining that it needs more time to publish a quarterly report. New lending also is slowing as dealerships in 26 states are forced to shutter their lots, the company said.

“A continued disruption in our workforce, decrease in collections from our consumers or decline in consumer loan assignments could cause a material adverse effect on our financial position,

liquidity and results of operations,” Credit Acceptance wrote.

The firm is among the first to report an uptick in delinquencies as some lenders offer forbearance, hoping that what consumers need is time to get through the pandemic so they can resume payments. Ally Financial Inc. said April 20 that about 25% of its auto-loan customers have taken advantage of its payment-deferral program.

Offering forbearance can make it harder for shareholders and analysts to gauge the degree to which borrowers are unable to pay. The filing by Credit Acceptance shows some consumers already can’t keep up — evidence of more trouble ahead for auto lenders. Its shares fell 9% to \$268 in late trading April 20 in New York.

Pandemic underscores dealers’ need for digital retailing tools

Dealers across the country have been making strides to implement digital retailing at their dealerships for years, concurrently catering to customers who favor a traditional sales experience. While the coronavirus pandemic accelerated the implementation of digital retailing tools, dealers are focused on aligning with their customers’ wants and needs.

“Technology is not what disrupts industries; not being customer-centric disrupts industries,” said NADA Academy instructor Michael Lucki, who led an NADA webinar in April with fellow Academy instructors Georgia Munson and Matthew Vollmers.

The webinar, “Digital Retailing Disruption: The Dealer Perspective,” provided an overview of the results from the NADA’s digital retailing dealer survey and examples of shifts in the sales process to digital that put customers and employees first. The NADA defines digital retailing as the flexibility for customers to select a vehicle, get an accurate trade appraisal and secure bank financing approval with a precise payment information — all without having an in-person interaction with a dealership employee.

The survey, completed April 10-17 by NADA Academy students, alumni, 20 Group members and Professional Series graduates, found that 91% of respondents will use or continue to use digital retailing as part of their retailing solutions after COVID-19.

“The dealers who have already adopted and implemented a completely virtual, digital retail sales process pre-COVID-19

are reaping the rewards during this pandemic,” said Munson. “For dealers who aren’t adopting digital sales, why wait?”

The webinar presenters underscored that now is the time to offer customers a digital sales process with all of the tools available; but not at the expense of maintaining conventional sales tactics to meet the demand of customers who prefer the traditional sales process.

The webinar also provided best practices for sales in a completely virtual environment, including the write-up, trade evaluation, demonstration, test drive and time in the business office. There are a number of ways to offer customers test drives in an online sales environment, such as pre-recorded virtual 360 degree tours posted online, live webcam, or FaceTime vehicle walkarounds and test drives at customers’ home with proper sanitation.

From a communications standpoint, “invest in the technology for your sales people and managers to communicate and interact virtually so no sales opportunity gets missed,” said Munson. In particular, she highlighted the use of text messaging as a communications channel with a strong likelihood for consumers to read and respond in a timely manner.

“Going digital is not as complicated or time consuming as you may think,” Munson added. “But, it will take manpower to create virtual test drive videos, galleries of pictures, create new processes, and train sales people to the new processes, etc.”