

June 9, 2006

Kenneth L. Hensler, President & Chief Executive Officer
The County Federal Credit Union
82 Bennett Drive
Caribou, ME 04736

Re: Value of Collateral for Floor Plan Loan.

Dear Mr. Hensler:

You asked for clarification of the word "value" as used in NCUA's member business loans (MBL) rule and applied to collateral for floor plan loans. Specifically, you asked if the retail, loan, or trade-in value of the collateral is "market value" for the purpose of meeting the 80% loan-to-value (LTV) ratio requirement. Our view is that these values do not generally reflect the market value of floor plan collateral for LTV purposes. The wholesale value in a dealer-to-dealer sales context generally best represents the market value of floor plan collateral. We note a credit union may be able to justify use of an alternative value.

Floor plan lending refers to lending used to acquire sales inventory of items, such as vehicles, major appliances, and furniture, where the inventory serves as collateral for the loan. Your questions concern floor plan lending for used car dealers where the collateral is the dealer's used car inventory.

Used car dealers can acquire vehicle inventory at auction, from other dealers, from private individuals, or as trade-ins on the sale of used vehicles. The cost of collateral in each scenario could differ, even for the purchase of the same vehicle, and the turnover rate of the inventory, as well as, the depreciable nature of vehicles also affects the collateral's value.

There are several, industry-recognized, official used car guides, such as the National Automobile Dealers Association Official Used Car Guide, Kelley Blue Book, and National Auto Research Black Book. We understand guidebook values generally represent national or regional averages and assume a vehicle is in average condition. The vehicle's actual condition and local market conditions may warrant a lower or higher value than the average provided.

The publication you use provides three types of market value: retail, loan, and trade-in values. Retail value represents a dealer's asking price; trade-in value represents a dealer's offering price to a consumer for a trade-in vehicle; and loan value represents the amount a lender will finance for the consumer. Each of

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these values is different but all of them contemplate the value of a used vehicle in a consumer transaction.

An MBL's collateral provides a secondary source of repayment if a borrower defaults on a loan and consistent use of a wholesale value in a dealer-to-dealer sales context better captures the market value of this depreciable collateral. In a forced sale of collateral, a credit union likely would sell the collateral wholesale to another dealer.

We recognize there may be circumstances where a credit union could justify using a value other than a wholesale value, but it would have to be able to substantiate the alternative value.

Sincerely,

Sheila A. Albin
Associate General Counsel

OGC/LKD:bhs
06-0346