

Memo 1995-24 Vehicle Titles related to dealer inventory/floor plan loans.

To: All Examination Staff / State Chartered Banks
Fr: Kevin Glendening, Assistant Deputy Commissioner
Dt: September 15, 1995

Re: **Vehicle titles related to dealer inventory / floor plan loans**

QUESTION: Must the bank take physical possession of titles on vehicles in a dealer's inventory when making floor plan loans?

ANSWER: No, while this is always an option to the bank, it may not be practical in those situations involving dealerships with a moderate to high volume of activity.

Generally, for examination purposes, it will suffice for the bank to file a UCC-1 on the dealer's inventory supplemented by periodic inspections to verify sales and vehicles on hand. The frequency of inspections will, to a large extent, be dictated by the sales volume of the dealership. The department believes the maximum interval between inspections should not exceed 90 days, however, depending upon the activity of the dealership, monthly or even weekly inspections may be appropriate.

All licensed dealers in Kansas are required by statute to file a monthly report with the Department of Revenue's Division of Vehicles listing all sales and transfers of new or used vehicles, including the date of sale and vehicle identification number. Banks presently engaged in, or contemplating, floor plan lending would be prudent in requesting copies of these monthly sales reports from the dealer to supplement their regular inspection cycle.

When analyzing loans of this type, examiners will look for adequate structuring and the appropriate use of written floor plan and curtailment agreements to establish a well-defined repayment plan. The examiner will also consider the bank's diligence in conducting timely inspections when making an overall determination of loan quality.