



THE WANADA BULLETIN

NEWS AND INFORMATION FOR AND ABOUT FRANCHISED NEW CAR DEALERS IN THE WASHINGTON AREA

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INSIDE THE BELTWAY

The Spectre of GM and Chrysler Reorganizing Under Bankruptcy Enters the National Conversation

Though they had both been moving mightily in the past years to restructure themselves in the face of a dramatically changing sales environment, General Motors and Chrysler LLC got the word from the Obama administration this week that they weren't moving fast enough and their underlying assumptions about their future prospects were unrealistic. Respectively, they were given 60 days and 30 days each to come up with new plans that dealt directly with their most pressing circumstances or face the prospect of Chapter 11 bankruptcy, or worse. For GM and Chrysler dealers that means more days of uncertainty, slow new vehicle sales and questions from would-be customers about service and warranty coverage on any vehicle they might buy.

administration's Auto Task Force said the company was being unrealistic in believing it could fund the \$6 billion in health and pension benefits it will owe in 2013 by selling an additional 900,000 new vehicles. It also said more had to be done to cut labor costs and wrench concessions from its bondholders. GM has some \$177 billion in liabilities, including \$29 billion in unsecured bond debt, not to mention hundreds of thousands of employees and retirees and multibillion-dollar obligations for retiree health care.

"It is not realistic for GM to think it can sell 900,000 more vehicles to cover its \$6 billion pension and health benefit liability."
Auto Task Force Report

wherein the Italian automaker would take a 20% interest in Chrysler and labor and other debt holders, along with the government would own the company. Cerberus Capital Management LP, which acquired its stake in Chrysler in 2007, would give up its 80% equity stake (which is functionally worthless already), but retain its interest in Chrysler Financial. "Chrysler has in excess of \$9 billion in secured debt it must eliminate if the plan is to succeed," said a spokesman for the Auto Task Force.

As the dust settled from the Auto Task Force pronouncements, the Obama administration and GM and Chrysler quickly moved to reassure consumers and various stakeholders that the companies would be viable, that consumers should feel confident in buying their products and that stronger companies would emerge at the end of the process.

New GM CEO Frederick "Fritz" Henderson, publicly assured the government that the company would comply with its reorganization directive, even if bankruptcy protection had to be

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The Auto Task Force on GM

In the case of GM, the Obama

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The Auto Task Force on Chrysler

The Auto Task Force was as blunt in its assessment of Chrysler LLC, which it said "could not survive as a stand-alone automaker." Effectively, it gave the company 30 days to secure a partnership it has been working on with Fiat SpA,

INSIDE THE BELTWAY

utilized. He said GM would de-emphasize its reliance on trucks and SUVs and that, from now on, nearly every vehicle it produced will be required to "pay rent" and be a profitable venture. He said the company will not go beyond eliminating the divisions it has previously announced (HUMMER, Saturn and Pontiac) and that it also intended to maintain a "leading market share" in the U.S. GM also announced a "GM Total Confidence," program that would provide buyers of its vehicles with at least 9 months of payment protection (up to \$500 per month) on their vehicle should they lose their job and "equity protection," should they trade it in on another GM vehicle after 24 months. GM buyers will also receive a 5-year/100,000 mile powertrain warranty coverage and a free year of OnStar emergency assistance. GM's Henderson said the Total Confidence Program is about "providing a full range of protection" to GM's customers and that the program was more expansive than competitive measures launched by competitors like Hyundai and Ford.

At Chrysler LLC, the company began immediate discussions with Fiat SpA CEO Sergio Marchionne and his team, who had flown




2010 Fiat Panda 500 Concept

in at the beginning of the week. Marchionne told reporters he thought the Auto Task Force had been "tough but fair," and

that he expected the two companies would arrive at a result that will establish "a credible future for this crucial industrial sector."

Fiat is expected to provide Chrysler with a range of as many as seven small to medium size vehicles like the new Panda 500 as well as some smaller sized engines, all markets where it is not now competitive. Sheldon Stone, a partner at Amherst Partners LLC, a Michigan-based restructuring consultant, told *Bloomberg News*, however, that the two companies have a huge hill to climb. "It is an impossible goal. The likelihood is that the 30-day period is going to allow Chrysler to get their house in order for a bankruptcy," he said.



2009 Green Vehicle Showcase

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- Ride and drive in some of the nation's most innovative energy-efficient vehicles
- Light refreshments served

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University of Maryland Dean to Oversee Impact of Auto Task Force Restructuring Efforts

President Barack Obama has appointed Edward Montgomery, a top labor economist and former deputy secretary of the U.S. Labor Department as director of Recovery for Auto Workers and Communities.

In making the announcement, the Obama administration said Dr. Montgomery "will work to leverage all resources of government to support the workers, communities and regions that rely on the American auto industry."



Montgomery received his Ph.D. in economics from Harvard University. Montgomery has served as dean of the College of Behavioral and Social Sciences at the University of Maryland and been a professor at Michigan State University and Carnegie Mellon University. He also has held various economic posts and advisory roles with the government, including the U.S. Department of Labor and Federal Reserve.

His research has focused on the effects of economic and social policy on labor market behavior

NADA Pressing Floor Plan Assistance With Lawmakers

Suggests Auto Industry Turnaround Cannot Happen Without It

NADA leaders and dealer members have been hard at work on multiple fronts to unlock credit markets for floor-plan loans as well as loans to otherwise credit worthy new vehicle intenders, warning the Obama administration that without such relief, “efforts to stabilize the U.S. auto industry will fail.”

Association executives and board members have spoken extensively with the Auto Task Force about releasing TALF funds (Term Asset-backed securities Loan Facility) for floor plan-

“Call your senators and urge them to sign the ‘Shaheen Auto Credit’ letter.”

David Regan,
NADA VP legislative affairs.

ning and/or easing Small Business Administration requirements on Section (7) loan guarantees. They have noted that the average floorplan loan is approximately \$4.9 million for the average dealership and that nationwide dealers are collectively at risk for approximately \$100 billion in inventory financing.

“Dealers cannot buy what they cannot finance, and if we cannot buy, this economic recovery is at risk,” the NADA said in a March 2 letter to the President. NADA has now enlisted Senator Jeanne Shaheen, D-N.H., a member of the Senate Small Business Committee to sign a letter to expand availability for auto credit and provide specific policy recommendations.

The association has also been

speaking with the various credit rating industries to have them reconsider how dealer credit is being rated. NADA believes the agencies are not giving dealerships credit for the underlying value of assets securing floor-plan loans, including the personal grantees given by many dealerships. “There is no real risk to the U.S. Treasury with these loans,” the association says.

There were approximately 2.9 million units of inventory on dealer lots at the end of March, somewhat less than the 3.5 million units of a year ago. That inventory, however, represents a 101-day supply at the current rate of sales. A 60-day supply is considered ideal.

NADA Applauds GMAC On Credit Crises Moves

NADA praised GMAC last week for the finance company’s moves to review credit applications for customers with credit scores below 620 and several other steps it took to reduce dealer cash flow problems related to floorplan financing.

NADA believes that without access floor plan funding the current efforts to revitalize auto sales are doomed to failure because dealers cannot purchase vehicles for resale. To address that concern in part, GMAC is eliminating certain curtailment payments, waiving fees to post aged vehicles on its

SmartAuction website through June and allowing many dealers to defer up to two months of wholesale interest charges over the next four months.



Yes, It Is a *Great* Time To Buy a New Car!

We couldn’t help notice, but given all the inducements on the plate these days, This truly may be THE time to buy a new vehicle.

Consider the following:

1. Average manufacturer incentive \$3,169 (Edmunds.com).
2. Deduction for state & local sales and excise taxes.
3. Possibly “Cash for Clunkers” incentive up to \$7,500.
4. Free extended powertrain warranties from many automakers.
5. Government backing of warranties for some automakers.
6. Car Payment guarantees if you lose your job by a number of automakers.
7. Easier access to credit (FICO score can be less than 620) from GMAC.



The WANADA Open May 18

Mark your calendar and send in your registration for this always fun event. A great golf course, beautiful scenery, lots of fun and plenty of prizes. Attendance is limited to the first 128 registrants. Register online at www.wanada.org

We're Going Electronic!

The Bulletin will become an e-mail publication beginning in June of this year. It's all part of our effort to enhance communication with you, our members. You can still receive a printed version if you like, just let us know which you prefer. Call the office at 202-237-7200, or better yet, send your e-mail address to jk@wanada.org and we will put you on the list to receive the electronic *Bulletin* come June.

VA Governor Signs Franchise Enhancement Provisions into Law

Franchise Bill in MD a Work in Progress

Virginia dealers benefited by enhancements in the state franchise law that were passed by the 2009 General Assembly and approved by Gov. Tim Kaine this week. The measures, which go into effect immediately, were developed and advocated by VADA, and are highlighted below:

1. More clarity in a dealer's option to add a franchise in an existing facility.
2. More definitive rules of engagement and limits on franchisor sanctions when a dealer sells a vehicle to a consumer who subsequently exports it.
3. Limits on franchisors unilaterally setting terms and conditions on a vehicle sale.
4. Limits on franchisor denial of warranty payments for repairs prescribed by the dealer.
5. A requirement that franchisors compensate dealers the value of the franchise and as much as three years rent support when a franchise is terminated.
6. A requirement that the franchisor buy back all vehicles purchased by the dealer in the 18 months prior to termination

A teleconference and webinar on the changes in the law will be hosted by VAD on May 1 from 1:30 to 3:30 pm

In Maryland where the 2009 General Assembly is still in session, SB 668, which contains a variety of franchise relations measures, has passed out of the Senate and is being taken up by the House of Delegates. Action is expected on this legislation imminently and will be reported here.

Really?

George Washington was first inaugurated as president on Wall Street in New York.

Enclosure

2009 WANADA Open registration