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Government help for auto industry

TARP to fund GM, Chrysler warranties; bill offers cash for clunkers

The warranties of new domestic vehicles will be backed by the federal government until the carmakers are viable without government help or emerge from a bankruptcy, in a step announced March 30.

Using funds from the government's Troubled Asset Relief Program, the move is designed to signal that it is safe to purchase a U.S.-made auto or truck despite the distress of the industry.

And a bill introduced March 17 called the CARS Act (the Consumer Assistance to Recycle and Save Act of 2009) would provide TARP cash to buyers of new fuel-efficient cars — if they trade in a clunker.

Overseas incentive programs similar to House Resolution 1550 have lifted automobile sales despite the awful economy. In Germany, an offer of about

Senators ask Obama for help to restore liquidity for floorplan lenders. See Page 4.

$3,290 for trade-ins helped to increase February car sales there by 21.5 percent from a year earlier, a 10-year high, according to the German Association of the Automotive Industry.

Both measures add to the economic stimulus bill adopted in February that provides a tax incentive for the purchase of new cars this year.

Domestic vehicles purchased before March 30 are not eligible for a government-backed warranty during the "restructuring period" of General Motors and Chrysler, which the Treasury defined as beginning March 30.

Any U.S. manufacturer is eligible to participate in the Warranty Commitment Program, though Ford Motor Co., which is not seeking government aid, is not expected to do so.

"Ford does not plan to participate in the program as we see no issues honoring warranties for current and future customers," said company spokesman Mark Truby.

The Treasury wouldn't say how much money it's putting up for the program, but it is expected to be in the millions—significantly less than the $17.4 billion that GM and Chrysler have already received.

Some economists say court-ordered bankruptcy for the automakers likely would have a quick turnaround, versus the years of court proceedings often associated with bankruptcy. If so, it is unlikely that taxpayer funds would have

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More customers with FICOs under 670 gaining approval: CNW

The number of customers with a FICO credit score under 670 who get approved for a vehicle sale or lease is climbing upward, according to the latest data from CNW Research.

After plummeting to an average of 6.52 percent of all approved loans last October, the number of approved FICOs under 670 grew to 10.63 percent in February. But that still lags January 2008, when the number was 12.07 percent.

CNW also reported that after reaching an average high of 759.49 in October, the median FICO score for February also declined to 723.69.

"Some of this can be put at the feet of financial institutions willing to ease back on credit requirements," said CNW's Art Spinella. "And an equal amount can be attributed to those people with marginal FICO scores coming back to the market."

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COBRA rules change April 18; new notices now available online

The American Recovery and Reinvestment Act of 2009 (ARRA) materially altered the Consolidated Omnibus Budget Reconciliation Act (COBRA) and imposed new rules that will require employers and plan administrators to take certain actions before April 18, 2009.

By then, plan administrators must notify all individuals who experienced or will experience a qualifying event between Sept. 1, 2008, and Dec. 31, 2009, of these new COBRA rules, even if the individual previously rejected or discontinued COBRA coverage.

The U.S. Department of Labor issued four model notices to be used with the new COBRA rules. The model notices can be found at www.dol.gov/ebsa/COBRAmodelnotice.html.

COBRA Premium Reduction and Tax Credit

The new rules give "assistance-eligible individuals" a 65 percent subsidy toward the cost of their COBRA premiums. The subsidy ultimately will be funded by the federal government through an offset of payroll taxes for the employer, who initially bears the burden of the subsidy.

The 65 percent COBRA premium subsidy provided by the ARRA may be recovered through the employment tax process. The reimbursement mechanism operates in three steps:

1. An assistance eligible individual pays 35 percent of the COBRA premium to the employer;*

2. The employer pays the remaining 65 percent balance of the COBRA premium;

3. The employer claims the reimbursement at the time Form 941 is filed.

* Some employers have asked whether it is possible to recover all or any portion of the COBRA premiums that have been voluntarily paid by the employer on behalf of terminated employees under severance agreements. There is no explicit guidance on the subject of employer-provided COBRA payments; however, the analysis of the ARRA provisions and the DOL and IRS guidance issued thus far indicates that the subsidy is available only for assistance-eligible individuals, and the employer must demonstrate that the 35 percent portion of the premium was paid by the assistance-eligible individual or by individuals other than employer.

The IRS recently published a revised Form 941 to implement the reimbursement mechanism. As part of the revisions, two new lines were added: 12a – where employers must report the total amount of COBRA premiums paid on behalf of assistance eligible individuals (65 percent of the individuals' total COBRA premium); and 12b – for reporting the total number of individuals who received COBRA subsidy.

The IRS also posted a list of Employer Q&As, at www.irs.gov/newsroom/article/0,,id=204708,00.html. One noteworthy Q&A is the guidance on supporting documentation that employers must keep with respect to the credit claimed.

CATA dealers can call the association's labor relations counsel, Franczek Radelet & Rose, for more information on the changes. Contact benefits attorneys Andrew Malahowski, Veronica Minin or Michael Richardson at 312-986-0300.

In Memoriam

Abraham Jaffe, the chairman of Currie Motors Group, died March 19 at age 80. He established successful dealerships on three continents, including in the Chicago area, in England and in his native South Africa.

Mr. Jaffe and his father imported U.S.-made vehicles into South Africa beginning about 1950, and they grew their business into the largest General Motors dealer group in the country. In the early '70s, he emigrated to London to take over a group of Ford dealerships.

He established his first U.S. dealership in 1981. Today, Currie Motors USA has Chrysler, Chevy and Ford dealerships in Frankfort and Forest Park and a used car dealership in Olympia Fields.

Survivors include wife Hilary; sons Joe, Anthony and Ian; and daughters Dianne, Roslyn and Michelle.

Congratulations!

Virko Tammaru of Bill Jacobs Volkswagen in Aurora placed third among service consultants at Volkswagen of America's 2008 Service Qualification Championship. Twenty-four technicians, service consultants and shop foremen reached the national finals.

Four area dealers earned Honda's prestigious 2008 President's Award: **Honda on Grand** (Elmhurst), **Muller Honda** (Highland Park), **Rosen Honda** (Gurnee) and **Valley Honda** (Aurora).

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Review past editions dating to 1998 or search by subject at http://cata.drivechicago.com.

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7 steps for dealers to take to weather the economic storm

By Ronald Sompels, CPA
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To address the challenges of the current market, dealers nationwide need to determine the path that will allow them to get the most out of their dealerships. Here are seven steps dealers can take to help protect their businesses and reputations from today's difficult economic environment.

1. Build a plan for the worst-case scenario and make the proper adjustments now.

Be realistic and honest with yourself. All indications are that the current crisis is not going to end soon. Even the most optimistic forecasts predict no rebound until late 2009 or early 2010.

At the National Automobile Dealers Association Convention and Expo in New Orleans in January, a panel of experts reached a consensus that the seasonally adjusted annualized sales rate (SAAR) would be about 9.5 million units in 2009. Dealers need to evaluate what this SAAR means to their dealerships and work with their accountants or other advisers to build an all-inclusive forecast to help determine the best options going forward.

For some dealerships, the best decision will be to discontinue operations. Although deciding to close down the business could be hard, doing so can prevent personal wealth losses beyond what already has been lost. Use caution before providing personal guarantees for debt and risking personal assets.

2. Understand your options in the worst-case scenario.

Understanding state franchise laws, including inventory buyback provisions, is key. Get legal counsel to ensure that you completely understand all the options available per your franchise agreement. Domestic franchises in particular need to understand the impact a manufacturer's bankruptcy filing would have on their dealerships and the enforceability of the franchise agreements.

3. Make sure your financing and credit relationships are secure.

One disturbing recent trend is creditors looking for any excuse to exit a credit relationship. Today more than ever it is extremely difficult to find lenders willing to enter into new agreements, so maintaining a secure relationship with your existing lender is essential. To do so:

• Do not go out of trust.

• Do not violate any covenants of the agreement. If you have already violated a covenant or cannot avoid violating a covenant in the future, work out a solution with your creditor as soon as possible. Do not expect covenants to be waived as they might have been in the past.

• Remove the element of surprise from your relationship. Keep your lender informed about any foreseeable problems.

4. Manage your balance sheet – particularly inventory – at optimum levels.

Businesses have enjoyed extremely low interest rates for several months. A sharp increase in these rates could prove disastrous to some dealers. Keep inventories at a reasonable-days' supply by declining manufacturer allocations when appropriate. Resist the incentives that entice you to take on more inventory than you can sell.

5. Cut expenses as much as possible and focus on the two largest expense categories: employee compensation and advertising.

Critically evaluate every position in your operation and make the tough termination decisions where necessary. If possible, save costs by reducing paid benefits like healthcare, time off, and retirement contributions.

Shift your advertising mix as much as possible toward more targeted electronic media. Web advertising and e-mail messaging can be more cost-effective for both ad creation and placement. Focus on marketing to existing customers and re-evaluate all advertising campaigns.

6. Consider consolidating your operations and other acquisition alternatives.

Determine the savings to be derived from consolidating administrative and management functions into one area. In addition, analyze what additional gross revenues might be purchased through an attractively priced acquisition that could be added to existing facilities to take advantage of excess capacity in your dealership.

7. Be a leader.

Become more engaged in your operations and lead by example in terms of your time commitment to the dealership, compensation, and attitude. Everyone is going through tough times, and empathy and understanding go a long way and can only benefit your organization.

Maintain a positive attitude. Develop a plan based on research and insight from experts and be optimistic about working toward achieving the goals set forth in the plan.

There is no arguing that these are tough times and budgets everywhere are being cut to improve results, but there is a silver lining: When the market turns around, there likely will be fewer dealers in business. The survivors will be lean, enjoy a higher level of throughput for their franchise than ever before, and able to employ the best and brightest in the industry.

By taking the steps discussed above, you increase your chances of having a dealership among those left standing when the current crisis is over. Then you will be in a position to reap the rewards of having survived during the toughest of times.

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Credit

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to pay for warranty repairs.

The move intends to stanch consumer worries about buying a new vehicle from automakers teetering on the brink of bankruptcy. Foreign automakers are not eligible to participate.

"The government's main responsibility here is to restore consumer confidence—that their job, home, and investments are secure. Whether or not that's going to make a difference remains to be seen," said Aaron Bragman of HIS Global Insight in Troy, Mich.

The government would finance the companies' cost to repair covered vehicles at the dealership or through a third party. The funds will be set aside in a separate federal account. The companies will provide 15 percent of their expected warranty costs, with the government covering the rest.

The CARS Act would offer incentives to owners who replace cars built before the 2001 model year — a $4,000 voucher if the new vehicle is assembled in the U.S. and gets 27 mpg, or if it is assembled elsewhere in North America and gets 30 mpg; or $5,000 if the vehicle is both assembled in the U.S. and is rated at 30 mpg.

A similar bill in the Senate would provide slightly less generous subsidies, and is aimed more at protecting the environment than spurring car sales.

The Senate measure would offer up to $4,500 for the trade-in of gas guzzlers up to seven years old, $3,000 for cars that are eight to 10 years old and $2,500 for cars older than that. The Senate bill is not limited to cars assembled in North America.

"Such fleet modernization programs, which provide a generous credit to consumers who turn in old, less fuel-efficient cars and purchase cleaner cars, have been successful in boosting auto sales in a number of European countries," President Obama said March 30.

"I want to work with Congress to identify parts of the Recovery Act that could be trimmed to fund such a program and make it retroactive starting today."

But Obama called for using money already allocated in the $787 billion economic recovery legislation, meaning that other programs would have to be cut to provide the new vouchers to car buyers, a process that could face political opposition.

Limiting the program to cars built or assembled in North America also could draw protests from trading partners, who may contend that the rules violate international trade agreements.

Nearly a dozen European countries have adopted programs offering cash to drivers who trade old cars for more energy-efficient models. Those programs are not limited to vehicles manufactured in Europe or any specific country.

American auto dealerships, which have been going out of business steadily in the last six months, were generally supportive of the trade-in incentives.

"The Germans started this a few months ago, and it did help stimulate their auto business," noted Annette Sykora, a past chairwoman of the National Automobile Dealers Association and owner of two dealerships outside Lubbock, Tex.

Sykora added, however, "The No. 1 thing dealers need is a freeing up of credit, and I didn't see that in the (March 30) announcement."

FICO

Continued from Page 1

In another analysis, CNW found that closing ratios have dipped for dealers.

Spinella said: "It may sound weird, but the industry is showing some signs of life because of closing ratios coming down. Fewer people in showrooms are buying. How can that be good news?

"One of the reasons the closing ratios reached nose-bleed heights in the final quarter of last year can be traced to the fact a larger percentage of people buying cars were in need of a new set of wheels. The lookers, who turn into buyers some months hence, were staying home."

Those types of buyers are "beginning to come alive," Spinella said.

CNW's Floor Traffic Index showed some life after being down much of 2008.

"The trend line is barely perceptibly up, but up nonetheless," said Spinella. "And with that comes the concurrent decline in closing ratios. When will this be seen as solid sales gains?

"Considering the average new-car shopper takes six months from initial consideration of buying a car or truck until actual acquisition, don't expect too much before the third quarter of this year."

Senators ask Obama help to restore liquidity of floorplan lenders

Sen. Jeanne Shaheen (D-N.H.), a member of the Senate Small Business Committee, is enlisting fellow senators to sign a letter urging President Obama to restore all types of credit—retail loans, working capital loans, and wholesale inventory (or "floorplan") loans—to help the nation's auto dealers.

The letter cited floorplan credit as the most critical to dealers. "A dealer losing access to floorplanning will close within a matter of days," the letter states. "This problem is not limited to dealers with domestic nameplates and is not limited to any one region of the country."

The letter calls on Obama to expand access to Small Business Administration lending capacity for dealers, and to work with the Fed to see that the Term Asset-backed Securities Loan Facility (TALF) injects essential liquidity for floorplan loans.

The NADA urges Illinois dealers to ask Sen. Dick Durbin to sign the letter. His Chicago office is 312-353-4952.