



Weekly Car Dealers Newsletter

February 25, 2008

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources. For more information please call our Edmonton office.

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DAUGHTER ORDERED TO PAY DAD \$3 MILLION IN DEALERSHIP BUY/SELL DISPUTE
NISSAN CUTS — DETROIT HIRES
CERBERUS' PROBLEMS DEEPEN AMID CHRYSLER, GMAC WOES**

GMAC MAY ANNOUNCE CLOSURE OF MOST LOAN OFFICES IN U.S., CANADA GMAC LLC, the lender partially owned by General Motors Corp., is scheduled to announce today that it will close about 75 percent of its auto-financing offices in the U.S. and Canada after losing \$2.3 billion last year. GMAC plans to reduce the number of offices serving U.S. auto dealers to four and eliminate three of four outlets in Canada, according to a letter from Barbara Stokel, executive vice president of North American operations, set for delivery to dealers today. GMAC had 16 regional auto-lending centers in the U.S., according to a May 17 statement. "Given the recent macro-economic conditions during the past year and anticipated well into 2008, we need to make structural cost reductions to restore our competitive position," said Stokel in the letter. *Source: Bloomberg News*

DAUGHTER ORDERED TO PAY DAD \$3 MILLION IN DEALERSHIP BUY/SELL DISPUTE

The Macomb (MI) Daily reports that a jury ordered the daughter of the founder of the now defunct Jerome Duncan Ford dealership to pay her father slightly more than \$3 million, mainly for opening three competing auto dealerships.

The jury reached a verdict in the nearly two-week long civil trial that pitted Richard Duncan against his daughter, Gail, and her husband. The pair operated Jerome Duncan over its last five years before filing for bankruptcy in 2005, and opened three other dealerships. Despite the award, the attorney for Gail Duncan said he was somewhat pleased with the verdict because the jury and the judge rejected several claims by Richard Duncan regarding alleged pilfering of money and mismanagement at the business.

The jury of seven men and one woman told Gail Duncan to pay \$3 million for violating a non-compete clause that she signed in a contract with her father in 1993 when she took over majority control of Jerome Duncan. In the early 2000s, as president of the dealership she bought two Mazda dealerships - one across the street from Jerome Duncan and a former Mel Farr Hyundai/Kia dealership. The dealership went bankrupt after Ford Credit discovered the dealership was out-of-trust by \$5.4 million.

The entire award is against Gail Duncan as the jury released her husband from any claim.

The bulk of the award was for violating the 1993 written contract, along with the small amount for shareholder oppression. *Source - DealersEdge Daily Headlines*

NISSAN CUTS — DETROIT HIRES Detroit's cutting back, Japan's out hiring. That, it seems, is the conventional wisdom when it comes to the U.S. auto industry. But as is often the case, the conventional wisdom appears to be wrong.

True, there've been a wave of cutbacks at Big Three auto plants, spurred by declining sales and revenues, as well as the latest union contract. And, yes, Toyota's been ramping up production at an assortment of plants, with another assembly line soon to come online. But that's only part of the story. Despite strong sales and earnings, Nissan Motor Co. trimmed the body count at its assembly plant in Smyrna, TN by 750 last year. Now comes word, in Wednesday's [Detroit News](#), that it's going to cut more than 10 percent of the workforce at its Nissan Design America operations, through voluntary attrition. That might come as a surprise, considering NDA has been taking on an increased role in Nissan's global product development process, and has been responsible for such products as the Nissan 350Z sports car, and Armada and Infiniti QX56 full-size SUVs. But, "the process," NDA Vice President Bruce Campbell told the paper, "from the idea to the showroom is becoming shorter," and less manpower intensive. Translation: fewer people, more products in a shorter time. Don't be surprised to see more cuts at Nissan, going forward. On the other hand, as [TheCarConnection.com reported just yesterday](#) we could see a "hiring blitz" by the Big Three, suggests a new study by the Center for Automotive Research, quoted in the Wednesday [Detroit Free Press](#). Over the next four years, 36,000 hourly and salaried jobs will open up in Michigan alone, says the CAR report.

But not everyone is celebrating. Most of those jobs will open up to replace workers that have accepted buyouts from General Motors, Ford and Chrysler. If that sounds like a strange sleight of hand, here's the rest of the story: the new hires will be working for \$14 an hour, or half of what the same jobs were paying previously, thanks to the concessions granted by the United Auto Workers Union, last summer.

CERBERUS' PROBLEMS DEEPEN AMID CHRYSLER, GMAC WOES By Jonathan Stempel

NEW YORK (Reuters) - Cerberus Capital Management LP, the brash private equity firm named for a demonic dog, has been humbled in recent weeks by woes at two of its larger investments, automaker Chrysler LLC and auto and mortgage lender GMAC LLC. Those companies' problems are merely among the most prominent in a series of bumps affecting one of the giants in private equity. Cerberus is run and founded by the reclusive Stephen Feinberg, and named for the three-headed canine that guarded the gates of the underworld in Greek mythology. At the height of the private-equity boom, Cerberus made big returns for investors by investing in

companies such as Vanguard Car Rental Group Inc, the parent of Alamo and National, which it sold to Enterprise Rent-A-Car in 2007. Other good bets it has made have been on investments in AerCap Holdings N.V. (AER) based in the Netherlands, and Montreal-based Teleglobe International. But it has made some contrarian bets such as Chrysler, whose salvation confounded Germany's Daimler AG (DAIGn.DE), causing some to wonder if Cerberus' Midas touch is fading.

The latest hits came on Friday.

GMAC and its Residential Capital LLC mortgage unit suffered large credit downgrades from Standard & Poor's. Cerberus bought a majority stake in GMAC from General Motors Corp (GM.N), the largest U.S. automaker, in 2006. Also, Scottish Re Group Ltd (SCT.N), a reinsurer into which Cerberus injected \$300 million last May, said it would try to sell some units and cut costs to preserve capital and liquidity. The reason: its business plan does not work. "Cerberus has among the smartest, most connected people the private equity business has ever seen," said Michael Holland, a money manager who runs Holland & Co, and is a former partner at private equity firm Blackstone Group LP (BX.N). "But it shows you the enormous challenges facing private equity right now." A Cerberus spokesman said the firm remains "enthusiastic" about Chrysler, which he said is on track to exceed its long-term targets "on all key metrics." He also called GMAC "a resilient business platform with strong long-term growth prospects." The spokesman declined to discuss Scottish Re.

Last month, the Wall Street Journal quoted Cerberus' No. 2 executive, Mark Neporent, as saying the firm never commits more than 5 percent of its \$26 billion under management to any one investment. That would limit risk.

INVESTMENTS FACE STRUGGLES

But much of the attention has focused on investments that look unwell, went sour -- or never happened. Chrysler is a key focus, after Cerberus last August acquired an 80.1 percent stake from Daimler in a \$7.4 billion transaction, taking on an estimated \$18 billion of pension and health-care liabilities. It installed former [Home Depot Inc](#) (HD.N) chief Robert Nardelli to run the automaker. The Wall Street Journal in December said Nardelli confirmed he told employees in a meeting that month that Chrysler, which is cutting thousands of jobs, was "operationally" bankrupt. In January, Chrysler sales declined 12 percent as demand fell for pickup trucks and SUVs. On Feb 8, Chrysler President Jim Press said the automaker plans to shrink its dealer network and eliminate slow-selling models.

GMAC, which was once a profit center at GM's otherwise troubled operations, is another area of concern. Cerberus led a group that bought 51 percent of the company, which provided auto loans and mortgages.

But the U.S. housing crisis led to a \$2.33 billion loss at GMAC in 2007, including a \$4.35 billion loss at ResCap. Standard & Poor's on Friday slashed GMAC's and ResCap's credit ratings to medium "junk" status, to the same levels assigned by Moody's Investors Service. S&P said ResCap might need more capital to avoid tripping its own loan covenants. Feinberg acknowledged problems in his January 22 letter. "GMAC is an investment about which we have significant concerns," he wrote. "If the credit markets continue to decline and we find ourselves in a prolonged environment of capital market shutdown, GMAC could run into substantial difficulty." Cerberus has stumbled before on mortgages. Last August, its Aegis Mortgage Corp

unit went bankrupt, becoming one of dozens of home loan providers to exit the industry since 2006.

ACQUISITIONS FALL THROUGH

Some deals have fallen apart altogether.

Cerberus' \$1 billion agreement last year to buy H&R Block Inc's (HRB.N) Option One Mortgage Corp subprime unit as demand for risky home loans collapsed.

And in a bigger blowup, Cerberus backed out of a \$4 billion agreement to buy equipment renter United Rentals Inc (URI.N), a decision a Delaware court said it was within its rights to do.

"Walking away from the transaction was very difficult for us because we knew we would get criticized and there would be significant reputational fallout," Feinberg wrote. "We stuck to our guns, and the truth prevailed."

In the last six months, Blackstone, Goldman Sachs Group Inc (GS.N) private equity arm, J.C. Flowers & Co. and Kohlberg Kravis Roberts & Co are among private equity firms to also back out of mergers.

As a result, planned buyouts of such companies as student lender Sallie Mae (SLM.N), mortgage and vehicle fleet company PHH Corp (PHH.N) and audio equipment maker Harman International Industries Inc (HAR.N) never closed.

It's not just shareholders of such companies that get hurt. Investors who bought Blackstone partnership units when the firm went public last June have lost about half their investment.

But it is Cerberus that is now associated with more higher-profile, troubled acquisitions.

"You simply don't see the problems other people face because they're not as big and not as obvious, but it is throughout the industry," Holland said. "But I don't think (Cerberus is) distinguishing itself by bad choices."
