



Weekly Car Dealers Newsletter

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Week of May 18, 2009

HOW COULD A GOVERNMENT-RUN GMAC RESHAPE CAR SALES? GM OUTLINES LIKELY BANKRUPTCY PLAN TOYOTA PLANS YARIS-BASED HYBRID

HOW COULD A GOVERNMENT-RUN GMAC RESHAPE CAR SALES?

With the federal government almost certain to take control of GMAC Financial Services, analysts suggest it could become a loan machine that gives General Motors and Chrysler a huge advantage over their competitors. The company was one of 10 financial firms ordered by the government to raise more capital after taking a stress test. In GMAC's case, it needs \$11.5 billion, and the most likely source is the government itself. A government-controlled GMAC would have the power to offer low-cost loans to buyers of GM and Chrysler cars and trucks as a way of steering business to the troubled automakers. "GMAC could become the Freddie Mac and Fannie Mae of auto finance. It would probably help sales of GM and Chrysler cars, but it also increases the risk of taxpayer loss," said Bert Ely, a banking consultant in Alexandria, Va. "A very serious question is being raised about how the government could use a GMAC to advance the fortunes of GM at the expense of other automakers like Ford and Toyota," he said.

The Obama administration already owns 5 million shares of GMAC, which it got in exchange for a \$5 billion bailout loan. And Treasury Secretary Timothy Geithner said Friday his department is poised to offer GMAC more help. "We're going to provide substantial support to GMAC," Geithner said. He said it was "likely" that GMAC will need more money from the government, "and we'll be prepared to provide that." Chrysler LLC is already in bankruptcy, and General Motors Corp. is facing a June 1 deadline to finish a restructuring plan and avoid winding up in bankruptcy as well. U.S. auto sales are already at a 27-year low. The government could lean on GMAC to help stimulate sales with the cash to offer zero-percent financing, or lower credit requirements. "Financing is critical to this process, and that requires that GMAC have the ability to provide loans that Americans need to buy cars," Geithner said.

Turning GMAC into a government-funded finance arm for GM and Chrysler would give them a competitive advantage over Ford Motor Co. and perhaps other automakers, said Kirk Ludtke, senior vice president of CRT Capital Group LLC in Stamford, Conn. "Credit is the lifeblood of the car business, so the more easily accessible credit is, particularly in this environment, the better off you're going to do in the marketplace," he said. The Treasury has said it would promote the

availability of credit to finance car purchase, but neither it or GMAC would disclose specific details on how a promotion would be done, or how terms would compare with other finance companies.

GMAC lost \$675 million in the first quarter because of the bad economy and losses related to older auto and mortgage loans. It says it's increased lending since it received the government loan, but lending is still well below levels of a year ago. The company might be able to justify future losses by saying they are carrying out a government mission, but that could be politically tricky, Ely said. The government has never pushed Americans to buy cars they way it has encouraged homeownership. "There's probably little controversy over the role Freddie and Fannie play, but this quickly becomes a political issue," he said. "It's very different. Whatever arguments can be marshaled with how they're being used now, simply do not apply under a GMAC situation." GMAC, which until recently was GM's financing arm, says it has not come up with a plan to raise the money it needs. "The things that we're doing to strengthen the company we expect will ultimately make us more competitive and help the customers we serve," said GMAC spokeswoman Gina Proia.

Paul Taylor, chief economist with the National Automobile Dealers Association, said car buyers benefited when GMAC converted itself into a bank holding company in January and received government aid. GMAC had stopped lending to anyone with credit scores below 700, but when government funding arrived, it lowered the bar to 621, which is below average, and even did a small amount of lending to people with lower scores, Taylor said. "The result of government assistance so far has been to increase credit availability to consumers," Taylor said. "And that has been helpful in a credit-constrained auto retailing environment." While consumers might benefit from increased access to lower-cost credit, Ford would be hurt the most, Ludtke said. "I think GM, Ford and Chrysler compete for a lot of the same customers," he said. "To the extent that GM and Chrysler are able to offer a more accessible, less-expensive financing, it definitely puts Ford at a disadvantage." Ford Motor Credit Co. spokeswoman Margaret Mellott wouldn't comment on how a government-powered GMAC might affect Ford. "At Ford Motor Credit, we continue to fund our business," she said. "We will certainly welcome the return of more normal credit market activity and appreciate all the global governmental efforts to help make this happen."

Mark Simmons, a spokesman for Toyota Financial Services, said his company continues to view GMAC as a competitor, just as before. It's also possible that GMAC, as a bank holding company, could make loans to buyers of other auto brands beside GM and Chrysler, going outside its normal role as an auto financing unit that is "captive" to its automakers. "The requirements of many of these programs and the change in the overall ownership structure of GMAC would cause it to act less like a captive and more like a financial institution looking for sound growth," Taylor said. – *Source: Associated Press*

GM OUTLINES LIKELY BANKRUPTCY PLAN

(In a government filing, the struggling automaker says it will most likely follow a legal path similar to Chrysler's bankruptcy)

General Motors Corp Thursday said that if it files for bankruptcy it would most likely pursue a quick sale of its best assets to a new operating company similar to the process now reshaping Chrysler LLC. The disclosure, which came in a filing for U.S. securities regulators, marked the

first time that GM said it would most likely pursue the same legal strategy that Chrysler is using under federal oversight to slash its debt and dealerships. GM faces a June 1 deadline to restructure its bond debt and reach a sweeping new deal with its major union.

The automaker repeated in its filing with the U.S. Securities and Exchange Commission that it expected to file for bankruptcy if not enough of its bonds are tendered in exchange for shares by that deadline. As part of its restructuring now headed by Chief Executive Fritz Henderson, GM has had legal advisers mapping out a strategy if it is forced to file for bankruptcy. GM has said that those options could include a sale of its profitable assets under "Section 363" of the bankruptcy code. "We are considering ... alternatives in consultation with the U.S. Department of the Treasury, our largest lender," GM said in its SEC filing. "We currently believe that if we pursue one of these (bankruptcy) alternatives, a 363(b) sale would be the most likely."

Chrysler, which filed for bankruptcy protection April 30 after failing to win a deal with secured lenders to cut its debt, aims to use that provision of the bankruptcy code to complete a sale of most of its operations to Italy's Fiat SpA later this month.

It was not immediately clear what entity would buy GM assets out of bankruptcy, but analysts have said an entity backed by the U.S. government was one likely alternative. U.S. officials with the Obama administration's autos task force have described Chrysler's strategy as a "quick rinse" or a "surgical" bankruptcy intended to allow the automaker to resume operations quickly and minimize uncertainty for consumers. But the process has also proved controversial because of the administration's insistence that the United Auto Workers union have its unsecured claims against Chrysler paid out at a higher rate than the recovery for the higher-ranking secured debt. Analysts have said similar disputes between creditors could complicate any GM restructuring under court protection.

GM has offered to swap \$27.1 billion in its bond debt for a 10-percent stake in a restructured company under the majority ownership of the U.S. Treasury. The automaker has said it needs to bondholders to swap out of 90 percent of the value of the debt they are owed in order to avoid a bankruptcy filing. GM also remains in talks with the United Auto Workers on a new contract and new payment terms for the \$20 billion it owes the union for retiree health care. The union, which could own almost 40 percent of the restructured GM through a retiree trust fund, has objected to the automaker's plans to import more vehicles into the U.S. market at the same time it is looking to cut about 21,000 additional U.S. factory jobs. – *Source: Reuters*

TOYOTA PLANS YARIS-BASED HYBRID

The green car race between Toyota and Honda is heating up. Toyota Motor Corp. plans a new small hybrid car to take on the Insight, the inexpensive Honda hybrid that just reached the United States. The small gasoline-electric car being planned will be a low-priced spinoff of the Toyota Yaris, said Akihiko Otsuka, chief engineer of the redesigned, third-generation Toyota Prius. "We are developing a low-priced hybrid vehicle like Honda's Insight," Otsuka said. "We are going to compete by expanding our hybrid-vehicle lineup to smaller hybrids, in the class of the Vitz [sold in Japan] and Yaris." He did not say when the small hybrid would debut, but it could arrive as early as 2011, according to Japan's *Nikkei* business newspaper.

Toyota's plan is the clearest sign yet that it is worried about the inroads that its domestic arch rival is making into small, low-priced hybrid vehicles. The Honda Insight, which starts at around \$20,000, is selling briskly in Japan and will be followed by a hybrid version of the Fit compact.

Cheaper than a Prius

By contrast, Toyota's third-generation Prius has a bigger engine and many options common to premium cars. The current, second-generation Prius, at around \$22,000, already is more expensive than the Insight. The updated model is expected to be even pricier when it arrives in May in U.S. showrooms. Otsuka said the small hybrid being developed will be cheaper than the Prius. Toyota's hybrid strategy calls for bringing the core technologies in-house, he added. The electric motor and inverter for the Prius currently are manufactured by Toyota.



The company also is developing its own lithium ion batteries so it won't be overly reliant on its joint venture with Panasonic for power packs, Otsuka said. The Prius uses nickel-metal hydride batteries supplied by Panasonic EV Energy Co. But future green cars are seen switching to lithium ion because they are lighter and more powerful. Honda is teaming with Japanese battery maker GS Yuasa Corp. to develop its lithium ion power packs. The Insight uses nickel-metal hydride batteries from Sanyo.

Better aerodynamics

Otsuka said the top priority in developing the new Prius was to boost fuel efficiency, not reduce the price. Through countless overhauls, he achieved a preliminary EPA fuel economy rating to 51 mpg city/48 highway, up from 48/45 mpg for the 2009 Prius.

Foremost among the improvements is better aerodynamics. The new Prius has a drag coefficient of 0.25, the slickest in Toyota's lineup. That compares with 0.26 for the current Prius. That difference alone delivers a 1 percent increase in overall mileage, Otsuka said.

The latest Prius also gets a 1.8-liter gasoline engine, up from the current generation's 1.5 liters, so it can get better fuel efficiency at higher speeds.

While the new Prius shares the same name as its predecessor, it has a new platform it shares with the Auris, which replaced the Toyota Corolla hatchback in Europe. The new Prius also shares more parts with the Auris than with the second-generation Prius.

"The Auris platform was designed so it could also carry a hybrid system," Otsuka said. "By making it flexible, it can accommodate future overseas production and reduce costs." – *Source: Automotive News*