Auto suppliers to get $5 billion in aid

by KEN THOMAS,
Associated Press

WASHINGTON—The Treasury Department, trying to stabilize the battered auto industry, said Thursday it will provide up to $5 billion in financing to troubled auto parts suppliers who are linked to Detroit's carmakers.

The funds would be made available from the government's Troubled Assets Relief Program, or TARP, said members of the Obama administration's auto task force. It would create a financial entity similar to a revolving credit to provide financing for auto parts that large suppliers have shipped to the Big Three automakers but have not yet been paid for.

US automakers — General Motors Corp., Chrysler LLC and Ford Motor Co. — would have the option of using the program and would be required to pay a 5 percent fee of up to $250 million to join. The car makers would designate the parts suppliers who need financing and the suppliers would have to agree to terms of the government-backed protection and pay a small fee for the right to participate.

GM and Chrysler, which have received $17.4 billion in government loans, said they would use the program. Ford, which has not sought the government aid, said in a statement it would not participate "as we remain viable and expect no issue with continued payments to our suppliers."

Members of the auto task force, who spoke on condition of anonymity because their discussions have been private, said the financing was a first step in restructuring the auto industry. The panel is expected to provide a framework for the revamping of GM and Chrysler by March 31.

The move was intended to help with the cash flow needs and stability of distressed auto suppliers, whose collapse could lead to the disruption of car production by the Big Three and lead to significant job losses.

"The program will provide supply companies with much needed access to liquidity to assist them in meeting payrolls and covering their expenses, while giving the domestic auto companies reliable access to the parts they need," Treasury Secretary Timothy Geithner said in a statement.

Officials said foreign automakers with US operations would not be eligible to use the so-called "supplier support program."

Auto suppliers have sought up to $25 billion to stabilize the beleaguered US auto industry and have met with members of Obama's auto industry task force, which is trying to restructure GM and Chrysler, which have sought an additional $21.6 billion in aid.

In a statement, General Motors said the program could "reduce the risk of vehicle production disruptions that would occur if auto suppliers were unable to produce due to lack of access to working capital liquidity." Chrysler spokeswoman Shawn Morgan declined to comment.

Suppliers who ship parts to car companies typically receive payment for those shipments about 45 to 60 days later. Under normal credit conditions, suppliers sell or borrow against those commitments to pay their workers and fund their operations.

But banks have been unwilling to extend credit to suppliers because of the uncertainty of the auto companies, so the government entity will help suppliers access financing unavailable to them.

Under the program, suppliers will be able to sell parts that they have not yet been paid for into the government program at a modest discount.

Many of the nation's roughly 5,000 auto parts suppliers have been cash-strapped for several years as GM, Chrysler and Ford have reduced production of cars and trucks because of falling sales. Their outlook has deteriorated with the economic downturn, a steep decline in auto sales and prolonged car plant shutdowns in December, January and part of February.

Auto suppliers have said that more than 40 major suppliers have filed for Chapter 11 bankruptcy protection and more could collapse if the government does not act. Parts makers employ about 600,000 people nationwide.

Parts suppliers told Treasury that the estimated March 2009 payments to suppliers from the Big Three automakers are $2.4 billion compared to an average of $8.4 billion per month in the fourth quarter of 2008, threatening their industry.

"This aid comes at a critical time for this vital industry and I am pleased the program will be able to keep the doors open and lines operating at many US auto suppliers," said Rep. John Dingell, D-Mich.

Some suppliers who make key parts for top-selling vehicle models could stop producing, forcing automakers to stop making those vehicles and undermining the ability of the car makers to restructure.

News of the aid sent supplier shares soaring in midday trading. Over the past year, their stock prices tumbled to fractions of what they once were amid the tough automotive and economic environments.

American Axle & Manufacturing Holdings Inc., Visteon Corp. and Lear Corp. have all warned in recent weeks that they could be forced to file for bankruptcy protection if business didn't pick up soon.

Meanwhile, Delphi Corp., GM's former parts division, is still trying to restructure itself after more than three years under Chapter 11 bankruptcy protection.

American Axle shares jumped 71 cents, or 46 percent, to $2.26, while Lear shares surged 56 cents, or 78 percent, to $1.28. In over-the-counter trading, Visteon shares rose 12 cents, or 75 percent, to 28 cents and Delphi rose by 2 cents, or 46 percent, to 6 cents. ■

Rethinking the math around buying a used car

by KIMBERLEY S. JOHNSON,
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DETROIT—For cash-strapped consumers shopping for a car, used would seem like the place to start. Not necessarily. A new one might actually be cheaper.

Consider this: The average cost of a used 2008 Honda Accord EX sedan, certified by the dealership, was $21,544 earlier this month, according to Edmunds.com, a car-buying Web site. A new 2009 model cost $80 less.

It's simple supply and demand. With new car sales at a 27-year low and desperate dealers piling on rebates and incentives, prices are plummeting. At the same time, demand is up for used cars and their values are rising.

"The intuitive logic has been that a used car buy is a better buy," said Edmunds CEO Jeremy Anwyl. "But consumers need to check reality. It's very contradictory."

Used cars still generally cost less than new ones, but a mix of drastic price cuts, rebates and financing incentives is narrowing the gap.

Automakers are subsidizing zero-percent or low-interest loans on new cars, while the average rate on a three-year used car loan is about 7.5 percent, according to Bankrate.com. Factor in the lower cost of financing and the total cost of the new car can be less.

For example, a $30,000 car with an annual percentage rate of 2.9 percent would cost $662.70 a month over four years. By comparison, a used car with an APR of 7 percent would cost $718.38, a total of $2,673 more over the same period.

Automakers like Ford Motor Co. are banking on the phenomenon to drive consumers back to new car showrooms.

"There is an equilibrium level which we believe we are getting back to between the value of used vehicles and the transactional price of new," said Ken Czubay, Ford's sales and marketing vice president, when the company announced its February sales fell 48 percent from a year earlier. "This also portends, we believe, a favorable future for the new business."

Even with the best of terms, however, the monthly payments for a new car are out of some people's reach. That's why leasing became so popular. But many auto finance companies have stopped offering that option because it became unprofitable, and where it is available it may still be out of reach to many consumers.

That's the case with Tom Kostora and his wife, Melanie. They've leased trucks for more than 10 years, but were shopping for a used car this month after turning in their fifth Ford F-150 pickup.

"I want lower payments with my mortgage and tuition for my son's private preschool," the Ford plant worker said while browsing at Law Auto Sales in Wayne, Mich. "My job could be gone."

Zero-percent financing also can be hard to get without excellent credit, and it's unclear whether the Treasury Department's cash infusions to GMAC and Chrysler Financial have loosened lending. So despite great new car deals, consumer might be relegated to buying used.

"Banks may not finance a $30,000 car, but they may finance something less, say a $10,000 to $15,000 vehicle," said Vach Anderson, used car manager at Bob Maxey Ford in Detroit. "People are looking to buy less. They have the fear they won't get financing for a new car if they don't have perfect credit."

The make and model of the car also makes a big difference. Used cars from model lines that don't retain as much of their value — like big SUVs from U.S. brands — may be more appealing to people seeking cheap wheels than value-gripping choices like late-model fuel-sippers from Asian brands. ■