

*“Auto Dealers and the National Economic Crisis”*

Remarks by  
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to the  
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The world changed two weeks ago when [Treasury Secretary Henry] Paulson and [Federal Reserve Board Chairman Ben] Bernanke went to Capitol Hill and warned Congress of an economic meltdown. A lot has happened since. The rescue plan passed and so did the \$25 billion loan for automakers.

The rescue plan is the most complex piece of legislation in recent history, and it was considered and passed in the shortest timeframe imaginable. Congress was obviously convinced that inaction would have dire consequences.

The rescue package is designed to free up credit markets. But it's too early to know whether the fix will work. One thing is certain—this action is better than no action.

NADA supports stability in credit markets. Therefore, we supported the rescue plan. And we made our position known on Capitol Hill. This was critical because the House initially rejected the plan as simply a bailout of Wall Street.

We provided Congress with real-life stories from Main Street that brought to life the fact that the crisis was not restricted to Wall Street.

We specifically asked our dealer members to call their member of Congress if there was a problem with access to credit for themselves or their customers. They did—and in great numbers. The goal was to send a clear message, that businesses and consumers all over America are really hurting. In turn, this helped Congress become more comfortable voting in support of the rescue plan.

We now need government to implement the recovery plan as quickly as possible, so that national financial markets can break the credit freeze. Credit remains frozen. And consumer buying is frozen. That's why we are urging prompt action by government—the credit crunch on Main Street is real. If the country can break the credit freeze on Wall Street, then we can help revive the economy on Main Street.

Dealers who have been in this business for decades say they have never seen anything like this before.

We've heard about dealers who couldn't get financing for buyers with credit scores in the upper-700s. That's just unprecedented.

The problem is huge. Ninety-four percent of buyers finance their vehicle.

Credit is the lifeblood of our industry. Dealerships need it to finance inventory from the manufacturers. Consumers need it to buy cars.

But I want to emphasize—it's becoming increasingly difficult both for dealers and consumers—even for those with good credit. And this situation contributes to shaky consumer confidence. Restore access to credit, and ultimately you restore consumer confidence.

It's important to note that auto financing has never been part of the current economic problem. In other words, the auto financing model is not broken. That's because the assumption behind auto financing is that a vehicle is a depreciating asset. Lenders and consumers know this and it is always factored into the decision to extend credit. However, mortgages were assumed to be a non-depreciating asset. And that's where the trouble started.

Our chief economist Paul Taylor is often asked whether the problems with mortgage financing would spill over into the auto sector. And that's exactly what's happened.

When the housing bubble burst, home prices began declining, and they still are in many regions of the country.

Real estate prices are expected to continue to fall in 22 states, including California, Nevada, Arizona, Florida, and right here in Michigan. And these falling prices will continue to drag down new-car sales next year.

Dealers can't move product. And they're facing higher rates themselves. So the products they can't move are costing them more money in floorplan.

The credit crisis has already forced some dealers to close their doors.

We're likely to lose up to 700 dealerships this year. Some of these stem from the challenges faced by the Detroit Three. Before the financial crisis set in, some profitable dealers closed because the value of their land was so high. But many other closings are being driven by the real-estate meltdown.

In the current environment, dealers are looking at every possible way to cut costs.

That's part of what NADA's Green Campaign does...it shows dealers what other dealers are doing to save energy. Saving energy means saving money.

Dealers are still in the process of investing in their business. In the past few years, dealers around the country have invested close to a billion dollars on facility upgrades and new construction. Some have invested in cutting-edge heating and cooling systems and more efficient lighting. Others have built brand new, carbon-neutral facilities using alternative energies like wind and solar power and geothermal.

At the core of these efforts is an unprecedented partnership between NADA and EPA's Energy Star program. It's designed to encourage dealers to reduce their overall energy use and to use energy more wisely. And NADA's Energy Star program is going strong. Last month, we recognized 20 dealerships that reduced their energy consumption by at least 10 percent. These dealers cut more than 1,200 tons of carbon dioxide emissions.

Dealers are also focusing on helping their customers save gas and money. With this in mind, we launched a national Green Checkup campaign.

Green Checkups are designed to raise public awareness of some simple vehicle maintenance steps that will help our customers save money on gas, and, at the same time, cut greenhouse gas emissions.

We know that not everyone wants to—or is able—to buy a new vehicle. The alternative is to maintain current vehicles at top efficiency. And that's where Green Checkups can help.

A long-time customer of mine is a good example. Lisa has a family of five and drives a large SUV. Because of her family make-up and current market conditions, she is not ready to shop for a different vehicle.

But the information I provide her, along with a Green Checkup, can save her more than \$2,400 in a given year. This is according to EPA, the Department of Energy and other sources. That kind of money buys her and her family about four months of groceries. That's a big deal.

Many dealers already conduct vehicle maintenance inspections.

But the Green Checkup focuses on those items that have the most impact on fuel economy. We're talking about engine performance, tire pressure, emission controls, and oil and air filters.

The campaign was introduced in August. So far, more than 600 dealers in 49 states have signed up to provide the checkups. And more are signing up every day. You can go to [GreenDrivingUSA.com](http://GreenDrivingUSA.com) for a list of participating dealers.

Getting back to the economic crisis for a moment....

Let's assume that the economic recovery plan works and the economy stabilizes. Come November 5, no matter who's elected president, energy and climate change will still be priorities. Moving forward, dealers will continue to work hard to preserve a single, national fuel economy standard.

This is especially important in light of the severe economic crisis facing the auto industry.

If the California approach on fuel economy were adopted, it would be very difficult. We would end up with state-by-state vehicle sales quotas. And it would be very difficult for us to have the right product mix for our customers.

In the short run, we won't get the vehicles our customers want. And where I'm from, having the right vehicle is vital to our local economy. If you're a farmer or a rancher, can you imagine hauling your cotton or cattle with a Ford Focus? And that probably wouldn't work so well for sugar beets either.

OEMs are going to be severely challenged to meet the proposed schedule that NHTSA has laid out for model-year 2011 through model-year 2015. This schedule reflects the goal of Congress to increase fuel economy to a combined fleet average of 35 miles-per-gallon by 2020. That's an aggressive, but achievable standard that NADA supports.

The bottom line is—unless and until consumers actually buy new vehicles covered by NHTSA's proposal, the fuel economy and climate benefits associated with those vehicles cannot and will not be realized.

Auto sales account for 20 percent of all retail sales in this country. And dealerships are typically the cornerstone of their communities. Just look at what we do. We distribute the OEM products, we help our customers get financing, and we keep the vehicles running. We're the ones who talk cars at Friday night football games. We're the ones who share our customers' concerns and worries. We're the face of the auto industry. These may be dark times, but we're keeping the lights on in communities across the nation.

Now, I'm happy to take your questions.

[Q&A]

Thank you. I'd like to invite you to join us in New Orleans for our annual convention January 24 through January 27.

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