Testimony of Annette Sykora

Chairman

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Before the House Financial Services Committee

Hearing on "Stabilizing the Financial Condition of the American Automobile Industry"

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Good morning, Mr. Chairman and Members of the Committee. My name is Annette Sykora and I am a third-generation car dealer and owner of Smith Ford Mercury in Slaton, Texas, and Smith South Plains Ford, Lincoln-Mercury, Dodge, Chrysler and Jeep in Levelland, Texas. This year, I am also privileged to be the Chairman of the National Automobile Dealers Association (NADA), on whose behalf I am testifying today.

NADA's membership includes nearly 20,000 new car and truck dealers in the United States, both domestic and international nameplates, whose members employ over 1.1 million "Main Street" Americans. Many, many more Americans are employed in businesses that supply goods and services to dealerships. These are good, well-paying jobs that cannot be outsourced. Statistics that document the national economic impact of automobile dealerships in the U.S. are attached to my testimony. Information on specific economic impacts by state can be found on our website at http://www.nada.org.

Mr. Chairman, the economic health and well-being of our nation depends on a robust automotive industry. Nearly 1 in 10 Americans rely on the automotive industry for their livelihood and financial security.

For decades, the nation's auto dealers have been the bellwether for the state of this country's economy. Auto sales constitute 20 percent of all retail spending in the United States and generate up to 20% of the sales tax revenue for state and local governments, many of which are themselves currently facing budgetary shortfalls.

As most of you know, the automobile retail industry is highly credit-dependent and, as such, has been hit especially hard by the recent financial crisis and flagging consumer confidence. Although it is a great time to buy a car with great deals, great incentives, and great vehicles available, the public is not out there shopping.

In fact, for 2008, only an estimated 13.5 million new vehicles are likely to be sold, down from 16.1 million vehicles in 2007---and a 15-year low.

Mr. Chairman, as you evaluate the economic stabilization package before you today, I urge you to take into account one indisputable economic fact: ***A resurgence of automotive retailing is necessary for a resurgence in the***

overall U.S. economy. A well-capitalized financially sound dealer network is essential to the success of every automobile manufacturer, especially a manufacturer facing economic challenges.

The complex interaction between an auto manufacturer and a franchised new car or truck dealer is unlike any other business relationship in America. While the manufacturer assumes the economic risk attendant to designing and producing vehicles, the dealer assumes the economic risk of retailing those big-ticket items. Franchised dealerships are independently owned businesses, not the “company owned” stores used by many other industries to distribute their products.

As such, it is the dealer – and not the manufacturer – that invests in the land, buildings, facility upgrades, personnel, and equipment necessary to sell and service vehicles. Because of these sizable multi-million dollar dealer investments, manufacturers receive a national retail distribution network at no capital expense and are able to externalize most of the costs associated with the establishment and maintenance of a national retail distribution network for their products. Similarly, customers enjoy a competitive market in which to purchase and service vehicles and convenient locations to respond to safety recalls.

Section 405 of the discussion draft dated November 17, 2008 which is the subject of this hearing today would impose a reporting requirement on the automakers receiving Federal assistance. Among other things, this submission would require a borrower to describe its efforts to “rationalize costs and capitalization with respect to [its] manufacturing workforce, suppliers and dealerships.”

Industry trends evidence an orderly, market-based consolidation of the dealer network:

- For more than 50 years, the number of dealerships in the U.S. has been shrinking at a consistent pace, dictated by market conditions. In 1949 there were almost 50,000 dealerships and by 1970 that number was 30,800. During that timeframe virtually all of these held domestic franchises. In 1987, there were 25,150 new-car dealerships; by the end of this year, we expect that number to have dropped to 19,700. Furthermore, of the remaining dealerships only about 14,200 are domestic only.

- What's more, this reduction in dealerships does not reflect a contraction of the overall auto industry. For example, the number of vehicles in operation rose from approximately 125 million in 1976 to almost 250 million in 2007.

While market forces have operated – and will continue to operate – to reduce the number of dealerships, it is important to recognize that dealership reduction is not necessarily the equivalent of dealership rationalization or dealership optimization. There are important counterbalancing factors to consider. The foremost of these are the convenience and competition that consumers receive from an extensive dealer network. Intra-brand competition is very important to consumers. Indeed, the most intense competitor for, say, an individual Ford dealer is the nearest Ford dealer. Therefore, any precipitous decline in the size of the dealer network of any manufacturer could dramatically reduce competition for the sale and service of vehicles.

Mr. Chairman, the franchise system has just celebrated its 100th anniversary. Through those years, it has provided a strong auto retail network for consumers, dealers and vehicle manufacturers alike.

In addition to making long-term capital investments, dealers, unlike other retailers, must pay significant "floor planning" expenses – the wholesale costs associated with acquiring and holding an inventory of new and used vehicles. For an average dealership with a single location, this line of credit averages $3 million.

Despite the fact that both wholesale and retail automotive loans – even when securitized – have continued to perform well, dealers are facing sharp increases in floor plan interest and a decline in the number of lenders willing to finance dealer inventories and fewer lenders willing to finance their inventories. In short, the access to wholesale financing is decreasing and the cost is increasing.

This trend, along with a drastic decrease in consumer confidence, has created severe cash flow problems that are eroding the ability of many dealers to remain viable. By the end of 2008, NADA estimates that at least 700 dealerships and at least fifty-thousand dealership jobs will be lost.

According to the National Association of Minority Automobile Dealers today, there are 2,100 ethnic minority automobile dealers in the U.S. and with the economic turmoil, up to 75 percent of the entire minority dealer body could run out of cash and close their doors by year end. Federal financial assistance is needed immediately to allow these dealers to survive.

If these trends are not halted and reversed, there will be widespread destructive consequences for the dealers, for their employees and for almost every community across the country.

Mr. Chairman, on a related matter, very soon, perhaps even today, the fuel economy increases ordered by Congress last year will be released by the U.S. Department of Transportation. The new CAFE rules are expected to be the largest jump ever in fuel economy standards, and are on track to exceed even what Congress has mandated. In this time of economic uncertainty, the auto industry needs at a minimum regulatory stability and certainty to once again prosper. A single national fuel economy standard provides that certainty and stability, and gives manufacturers a road map to produce the fuel efficient cars of tomorrow. Double regulating fuel economy by some states, under a patchwork of competing rules, would exacerbate the economic challenges facing the industry and actually impair our efforts to achieve energy independence and enhance the environment.

Economic Impact Without Additional Financing

Mr. Chairman, simply put, the current state of our national economy cannot withstand the failure of a major automobile manufacturer--it's not a viable option. The repercussions of such would be widespread and immediately felt not just in Detroit but economy wide on every automobile manufacturer -- both foreign and domestic -- on every Main Street nationwide.

Some commentators have suggested parallels between the airline and automobile industries with regard to bankruptcy. However, the automobile industry is fundamentally different.

Should an automaker enter bankruptcy, vehicle sales are likely to plummet. Unlike the purchase of an airline ticket which typically only involves a few hundred dollars and only a few hours in the air, automobile purchases average nearly $30,000 and involve a long-term customer to protect the consumer's investment in areas such as service, parts and warranty. Moreover, the number of available choices for any particular destination in the airline arena is much lower that the number of comparably priced, competitive products in the automobile market.

A Chapter 11 bankruptcy also likely would result in even further constraints on dealership inventories, financing -- raising costs for everyone -- dealers and consumers.

Finally, the sheer complexity and the multiple levels of relationships in our industry -- manufacturers, suppliers, dealers and lending institutions -- means that bankruptcy will have a very broad effect on various sectors of the economy. Simply put, a Chapter 11 bankruptcy would create more problems than it would solve.

Policy Recommendations

On behalf of NADA, I call upon Congress to move quickly to provide the assistance needed to allow the automotive sector to once again lead our country back to economic health.

In particular, we ask for action in three areas:

1. **Pass the economic stabilization package for the auto industry**

   Mr. Chairman, economic stability will restore consumer confidence in the auto industry. Congress can help to provide stability through a bridge financing program for automobile manufacturers.

2. **Enact a broad economic stimulus for automotive retailing this year**

   Congress should attempt to provide temporary financial assistance to families who are looking to make a new car or truck purchase. This can be done by:

   a. Allowing a temporary deduction of interest on consumer new auto loans and of sales or excise taxes on new vehicle purchases. This will restore consumer confidence, generate showroom traffic and stabilize the auto industry. We commend

Senators Barbara Mikulski of Maryland and Kit Bond of Missouri for introducing S. 3684 in the Senate and Congressman Bill Pascrell for agreeing to introduce a companion bill in the House and urge its immediate passage;

b. Providing for a temporary, refundable consumer tax credit for car and truck buyers;
c. Funding for state fleet modernization (also known as “cash for clunkers”) programs like those in place in Texas and California that encourage consumers to upgrade their older vehicles to newer, more environmentally-friendly models;
d. Providing for a temporary increase in the expensing/depreciation of business vehicle purchases.

3. **Target a small business dealer loan guaranty program immediately**

   As I’ve mentioned, many dealers are currently facing working capital challenges, which have already led to the loss of tens of thousands of dealership jobs this year. NADA is working with the Small Business Administration (SBA) to implement a targeted automobile dealer loan guaranty initiative. A similar initiative, implemented in 1980 when the nation’s dealers were facing similar financial challenges, successfully helped the industry get back on its feet. Such an initiative requires no new federal programs or federal monies. We urge Congress to support this effort by encouraging the SBA to proceed with our requested initiative as soon as possible and help to ensure that as many dealers as possible are able to participate.

As you can see, we seek support of an economic stabilization package that is focused on the vehicle buying public and on preserving millions of jobs in virtually every community across the country.

In conclusion, NADA and our dealers nationwide stand ready to work with you and the Congress to identify and develop the specific elements that should be adopted to restore consumer confidence, maintain dealer viability, stabilize and strengthen automobile manufacturers and accelerate economic recovery.

Mr. Chairman, the federal government is already helping Wall Street. Now it’s time to help Main Street.

Thank you for this opportunity to testify. I am happy to answer any questions.

Attachments:

NADA DATA National Economic Summary