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Auto Credit, Financing on the Upswing

by Gerald Scott
Editor
U.S. Auto Scene

A couple of financial guys who are "in the know" are optimistic about where the auto industry is going, especially as far as credit and financing for customers goes.

Dan Berce, president and CEO of General Motors Financial Co., and Gary Allgeier, director of finance at the Suburban Collection group of car dealerships, each briefed the Automotive Press Association about trends in car finance these days.

Berce was asked about how GM Financial's transition from formerly being known as AmeriCredit was going.

"It's a huge advantage for us — we operated for 20 years as an independent lender and it was tough to get into doors of dealerships," said Berce.

"Especially to see the owner or a guy like (financer) Gary, Gary probably wouldn't have seen us until we became GM.

"But the acquisition opens up doors to us, we jointly call on dealers with GM's dealer sales force . . . it's a big, huge advantage."

AmeriCredit Corp. was founded in September 1992 and opened its first branch offices in Fort Worth and Houston, Texas.

On Oct. 1, 2010, AmeriCredit Corp. was acquired by General Motors and renamed

General Motors Financial Company, Inc. (GM Financial).

Today, GM Financial operates with 14 credit centers and sales representatives located throughout the U.S. and has approximately 9,000 producing automobile dealers in the United States.

GM, of course, had GMAC as its captive financial arm throughout the 20th century, but GMAC ran into its own economic difficulties during the 2008 downturn and eventually left the GM umbrella. GMAC is now Ally Financial.

Meanwhile, the Suburban Collection is a large dealer group that sells new cars in Michigan, Florida and California. It is the nation's 13th-largest dealer group.

"About two-thirds of our Michigan base (of dealerships) are domestic," said Allgeier.

(Big Three employee purchases) within that number is less than half. And in Ford business — probably less than 30 percent, so that number's gone down dramatically."

This means that if the Suburban Collection is a reasonable measuring stick, new car dealers in metro Detroit, whether GM or Ford, can no longer count on 80 to 100 percent of their sales being from

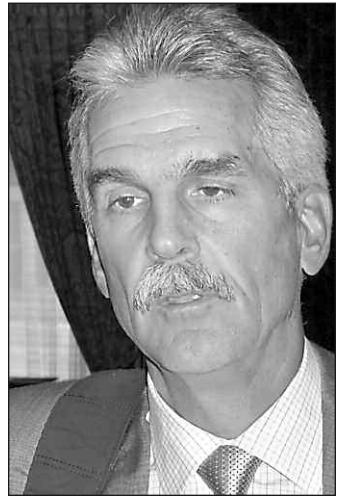


PHOTO: GERALD SCOTT

GM Financial CEO Dan Berce discussed the health of the auto credit markets in a talk to the APA at the Detroit Athletic Club last week.

the automakers' own employees, as was often the case prior to the 2008 financial meltdown.

But otherwise, the two executives said that money was available for new car loans and that leasing was making a modest comeback — not at the rates when carmakers were "giving away" their products in the 1990s, but good leasing deals can still be had on most new cars, they said.

Fiat to Buy U.S. Govt.'s Final Stake in Chrysler

By TOM KRISHER
AP Auto Writer

DETROIT (AP) — Italian automaker Fiat SpA said last week that it will buy the Treasury's remaining stake in Chrysler Group LLC, freeing the automaker of U.S. government ownership.

The Turin, Italy-based company notified the U.S. Treasury that it will exercise an option to buy the government's 6 percent stake. The price will be negotiated within 10 business days, or by around June 10.

When the sale would happen remains unclear. But Fiat is moving quickly to take a controlling stake in Chrysler, which it has run since the company left bankruptcy protection in June of 2009.

Chrysler has made a remarkable turnaround. Before bankruptcy, the automaker was nearly out of cash and needed \$10.5 billion in U.S. government money to survive.

The company made a first-quarter net profit of \$116 million and is forecasting 2011 earnings of \$200 million to \$500 million. Under the leadership of Fiat CEO Sergio Marchionne, the company has cut costs and revived its sales by refurbishing most of its lineup

of Jeep, Chrysler, Dodge and Ram vehicles.

Buying out the government would give Fiat 52 percent ownership of Chrysler.

That's likely to rise to 57 percent before the end of the year when Chrysler begins producing a 40 mpg (17 kpl) small car in the U.S.

Fiat received a 20 percent stake in Chrysler after the bankruptcy in exchange for management expertise and technology.

The Italian automaker has gradually raised its stake by meeting benchmarks set by the government. Last week it paid about \$1.3 billion to buy another 16 percent of the company.

Also last month, Chrysler repaid a total of \$7.6 billion in loans from the U.S. and Canadian governments by refinancing them through a combination of bank loans, bond sales and the investment from Fiat.

Even with the loan repayment, the government has yet to recover about \$2 billion of the \$10.5 billion in bailout money.

Fiat's stock purchase will help some, but the government has conceded it will not recoup all of the money. Some of the cash went to the old Chrysler, which was split off

from the new one in the bankruptcy proceedings.

Fiat could own more than 70 percent of Chrysler if it exercises options to buy part of the stake now held by a United Auto Workers retiree health care trust fund.

Last month's announcement was seen as good news in Washington, where the bailouts of Chrysler and General Motors have been criticized as interference in the free market.

"Not long ago Chrysler, and hundreds of thousands of jobs, were in danger of vanishing," U.S. Sen. Debbie Stabenow, a Michigan Democrat, said in a statement.

"Now Chrysler has returned to profitability, keeping even more people employed than expected and is again a viable, independent company."

Gerald Meyers, a professor at the Stephen M. Ross School of Business at the University of Michigan and former CEO of American Motors Corp., said Marchionne was able to turn Chrysler around far faster than anyone expected. Now, he's getting control of a large company for relatively little money.

"It appears to be a steal now, but nine months ago it was a gamble," Meyers said.

There still are some risks.

Chrysler now desperately needs small and midsize cars that are competitive with those from Ford and General Motors, Meyers said.

And Marchionne must come up with the capital for new products at both Fiat and Chrysler.

Meyers suggested that buying out the government allows Fiat to escape from government-imposed executive pay limits.

Last week's announcement caps a huge week for Chrysler and Fiat. And also last week, on June 3, President Barack Obama scheduled to visit a Jeep plant in Toledo, Ohio, to talk about the success of government loans that saved Chrysler.

Union leaders at Chrysler's two Toledo plants are hoping the company will announce added investment and new vehicles for at least one of the plants. Chrysler now makes the Jeep Wrangler off-road vehicle and the Jeep Liberty and Dodge Nitro small SUVs in Toledo.

Union Bargaining Chairman Dan Henneman says leaders are hoping the company will announce plans to build new versions of the Liberty and Nitro, and perhaps a new compact or midsize SUV or car at the Toledo North plant.

Summer Inventory Clearance to Draw Car Buyers

By TOM KRISHER
and DEE-ANN DURBIN
AP Auto Writers

DETROIT (AP) — New car buyers looking for a bargain this summer may have to wait.

Dealers usually offer discounts during the warmer months to clear out older models, but cars are in short supply this year because of the Japan earthquake and other factors. The lack of vehicles, especially some popular fuel-efficient models, contributed to a steep sales decline in May, the first monthly decrease this year.

The trend is likely to persist for the next several months. And although Toyota announced a new round of incentives last week, most analysts don't expect many good deals until the end of the summer. Some are advising people to delay their purchases.

"If you don't have to buy, wait until fall. If you lease a car, extend it," said Edmunds.com chief Jeremy An-

wyl.

Consumers heard that message in May. There were just over 1 million cars and trucks sold in the month, down 8 percent from April and 4 percent from last May.

Automakers say they are not worried about a reversal in the industry's recovery, despite a raft of bad economic data in the last few days. Once inventories are back to pre-earthquake levels and the deals come back, buyers will return, they say.

Even with the latest decline, auto sales are up 14 percent so far in 2011.

Ford Motor Co. and General Motors Co. are sticking with annual forecasts of around 13 million vehicles in U.S. sales. That's far short of the 2000 peak of 17.3 million, but better than the 10.4 million trough in 2009.

Ford is so bullish on the recovery that it increased third-quarter production by 8 percent over last year. Its chief economist, Ellen Hughes-Cromwick, said there was

good economic news with the bad, including moderating gas prices, consistently low interest rates and better availability of loans.

But in May, the bad news prevailed. Toyota, Honda Motor Co. and Nissan Motor Co., all of which ran short of models due to parts shortages caused by the earthquake, had the biggest sales declines.

Toyota was down 33 percent, Honda 23 percent and Nissan 9 percent from last May.

GM's sales dropped 1.2 percent, as falling pickup truck sales offset strong sales of more fuel-efficient cars and crossovers. It was the same story at Ford, which saw sales fall 2.4 percent for the month. Pickup sales dropped more than 10 percent at both companies, the victim of high gas prices and a weak construction industry.

Fuel economy was clearly driving sales, with small car sales showing particular strength. For the first time in

decades, Ford sold more F-150s with V6 engines than it did with larger, less efficient V8s.

Automakers usually use the warmer months to cut deals and make way for new models in the fall.

But this year, they don't have many vehicles left. At the same time, automakers are raising prices to make up for the higher price of steel and other commodities.

As a result, buyers paid \$29,817 per vehicle last month, the highest average price ever recorded, according to auto pricing website Truecar.com.

The car companies offered their lowest incentives in six years last month, according to Edmunds, spending an average of \$2,094 per vehicle. That's flat from April and nearly 20 percent lower than in May 2010. Prices on Japanese cars have risen an average of \$610 per vehicle since the quake, Edmunds said.

Shortages are the biggest reason.



Lacrosse star Greg Bice, center, a 2003-04 NCAA All-American and a founding member of Lacrosse the Nations — a non-profit organization whose mission is to improve the lives of children in need across the globe — signs autographs at the Buick LaCrosse Challenge in the NCAA Lacrosse Championship Fan Zone on Saturday, May 28, 2011 in Baltimore

Buick Donates Meals to Needy Kids Through 'Lacrosse the Nations' Charity

DETROIT — Buick, the fastest-growing major automotive brand in the United States, is set to net meals for kids in need at the 2011 NCAA Men's Lacrosse Championships in Baltimore Memorial Day Weekend.

For each participant in the Buick LaCrosse Challenge at the tournament's NCAA Fan Zone on Saturday through Monday, Buick donated one meal to a child in need through Lacrosse the Nations, a nonprofit organization founded in part by Ohio State University graduate Greg Bice, a 2003-04 All-American and 2004 Great Western Lacrosse League Player of the Year.

In addition to being the fastest-growing collegiate sport over the last five years, Lacrosse is the name of Buick's full-size luxury sedan and its latest variant, the 2012

LaCrosse with eAssist, which launches this summer and is expected to get an estimated 37 mpg hwy.

Bice and Lacrosse the Nations were previously featured in a 60-second video produced for the Buick Human Highlight Reel, a collection of videos that tell inspiring true stories about former NCAA student-athletes who are making a difference in communities around the globe.

"Buick's continued partnership with the NCAA is helping groups like Lacrosse the Nations make a positive difference in communities around the world," said Tony DiSalle, U.S. vice president of Buick marketing.

"By shining a light on these winning efforts, Buick hopes to inspire others to go above and beyond to help others achieve their fullest potential

in life."

The Buick Human Highlight Reel launched in March during the NCAA Division I Men's Basketball Championship.

The original collection of seven stories produced by Turner, CBS and the NCAA has grown to include more than 40 user-generated videos created by fans or producers in association with Zooppa, a creative social network with more than 106,000 members. This platform enables Buick to help fans celebrate athletes from all 23 NCAA Championship sports.

The filmmaking project complements the Buick Achievers Scholarship Program, which is providing up to \$4.5 million a year in scholarship funds to 1,100 college-bound students nationwide who excel both in the classroom and in the community.