

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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Thank you Chairman Frank, members of the Committee

On behalf of the nation's 20,000 franchised automobile dealers, thank you for this chance to put a different face—one familiar to all of you-- on the legislation we are discussing today. Dealers are the public and local face of the industry in communities across the country. Our fate is directly connected to our manufacturers and the success of the automakers is directly connected to the success of our dealerships.

I am a Ford and Chrysler dealer from Slaton and Levelland, Tx. and the third generation of my family to carry on this small business. My dealership and thousands like mine are going through very difficult times.

For decades, the nation's automobile dealers have been a true indicator for the state of our economy. Typically, car sales go up in good times and down in bad times. This is not a normal economic downturn. The meltdown on Wall Street and the real estate crisis have all but destroyed consumer confidence. Auto sales have fallen off a cliff. Auto sales in the U.S. are at a 15 year low.

This sales slump is not only affecting the current bottom line but the future of my dealership and others. I have spoken with dealers from across the country that have had to cut costs. They've reduced their advertising budgets, support for the town's little league team, and unfortunately many have had to make difficult cuts in their

staff. In my two dealerships, I've reduced my staff by 20 percent. Additionally, we are considering closing my dealerships earlier on Saturdays to cut costly overtime. Many of my employees count on overtime to put money in their pockets to spend on their homes, at the grocery store, and for their children's college education.

Mr. Chairman, some members are considering voting against this legislation suggesting that bankruptcy is a viable alternative for the auto industry as it was for the airline industry several years ago.

I would like to explain how I see the difference. We do not simply take a person from point "A" to point "B" for a few hundred dollars. A vehicle is one of the largest purchases a family will make.

Customers depend upon our local presence for warranty work, maintenance, and repairs. Like Mabel, who has Mabel has purchased a new car from my dealership every 10 years for the past 50 years. Long before me, she was buying cars from my grandfather and father. This elderly woman counts on my dealership for warranty work and to keep her car regularly serviced. It doesn't make sense for Mabel to drive 40 miles to the next town for a front-end alignment, but that service is critical to keep her safe.

Our dealership has done business with four generations of one family, and they have bought more than 70 vehicles. As good as our relationship is with this family, they are not likely to buy from a dealer whose company is in bankruptcy. Would you?

Neither would most Americans.

Auto dealers are also feeling the pain of the credit crisis in their operations. We finance the inventories you see on our lots. These loans are usually in the millions of dollars even for a small dealership. Many banks have already eliminated what we call “floor-planning” loans to any domestic dealers, and this is just because of the uncertainty that their manufacturers are currently facing. Imagine how banks would react to a dealer who has asked for millions of dollars to finance new and used inventories from an automaker going through “reorganization.”

Let me give you an example: just yesterday, a used car dealer from eastern New Mexico, who regularly purchases some of the older used inventory off my lot, had to return a vehicle because his bank refused to finance this purchase. Now I am stuck with the truck. I will have to find a way to finance it. And that impairs my ability to make other purchases.

Furthermore, a bankrupt automaker could lose many of its dealers. I recently sat down with Jim Taliaferro, Superintendent of Slaton Schools. We started discussing what would happen if the dealerships in my hometown were to close. The loss of tax

revenue would force them to cut programs and teachers. Many displaced dealership families might have to leave town in search of work in other places, compounding the loss. This same scene would play out in hundreds of communities in the U.S.

According to NADA, 660 dealerships have closed in 2008. These closings reflect an ongoing trend in auto retailing. 60 years ago, there were almost 50,000 dealerships, and by the end of this year, we expect to have 19,700. That is a 60 percent drop in the number of dealerships yet the number of vehicles on the road today has doubled since the 70s. In difficult economic times, some dealers find they do not have the resources to keep their businesses viable. While orderly, market-driven attrition occurs, it comes at a cost. With the closing of every dealership, there is a reduction of competition and convenience.

Also, please remember that dealerships are not “company stores.” As independent businesses, we make significant investments in land, buildings, equipment, and personnel that provide manufacturers a retail presence in hundreds of communities across the country. Also, we do not take vehicles or parts on consignment from the manufacturers; we assume the risk of financing inventory for the manufacturers. No manufacturer has the resources to internalize the costs that the dealers bear. I even pay the manufacturer for the company sign on my dealership lot.

To get the economy back on track, we must restore consumer demand -- And the only way to do that is to restore consumer confidence.

We need to give consumers the motivation and confidence to visit their local dealership and see what is possible.

Consumer tax incentives are a great way to boost auto sales. Representative Pascrell from New Jersey has introduced legislation today that makes interest payments on car loans and sales tax deductible from a family's income tax. Senators Mikulski and Bond introduced the same measure in the Senate earlier this week. That will get people into dealerships. Congress can go even further by funding state "cash for clunkers" programs like the ones in place in Texas and California. These programs encourage consumers to upgrade their older cars to more fuel-efficient models. These types of programs stimulate the economy while having an additional environmental benefit.

In addition, many dealers need immediate access to working capital. NADA is working with the Small Business Administration to implement a loan-guarantee program to provide dealers the access to capital they need to keep their small businesses open and their workforces employed.

Whether it's my dealerships in Texas or it's the dealership in your community, the fact is, local dealerships will be a major factor in our economic recovery. One-fifth

of the nations retail purchases are automobiles. By getting automotive retailing back on track, Congress can effectively leverage the economic engine of the automobile industry to get this economy running on all cylinders again.

At a time when the future of the auto industry hangs in the balance, we urge Congress to move quickly to provide the assistance needed to help the automobile industry to once again lead our country back to economic health.

Thank you, and I would be happy to respond to any questions.