U.S. Treasury Department Announces an Auto Supplier Support Program

Taxpayers will provide up to $5 billion in financing in loan guarantees; less than the $18-25 billion suppliers wanted.

by Ken Zino on Mar.19, 2009
President Obama continues to try to stimulate the auto economy in the face of Republican opposition.

The U.S. Department of the Treasury has just announced a new program to help stabilize the auto supply base and restore credit in what it calls “a critical sector of the American economy.”

As the President’s Task Force on the Auto Industry continues to review restructuring plans submitted by General Motors and Chrysler, Treasury announced an Auto Supplier Support Program that will provide up to $5 billion in financing.

Chrysler and General Motors have already agreed to participate. Ford Motor, which has been trying to distance itself from those companies that have accepted government loans, had no immediate comment. Japanese automakers, which would also benefit from the program, were silent.

The statement from Treasury says this will give “suppliers the confidence they need to continue shipping parts, pay their employees and continue their operations.”

Drastic production cutbacks by auto companies at the end of last year and continuing into this year have shrunk payments to already ailing suppliers at the same time as their ability to borrow from private sources ceased.

“The Supplier Support Program will help stabilize a critical component of the American auto industry during the difficult period of restructuring the lies ahead,” said Treasury Secretary Geithner. “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.”

More than 500,000 American workers are linked to the industry, according to Treasury. Rising unemployment and contracting credit continue to threaten economic recovery. Because of the credit crisis and the rapid decline in auto sales, many of the nation’s auto parts suppliers are unable to access credit and are facing growing uncertainty about the prospects for their businesses and for the auto companies that rely on the parts they ship.
“This program will help break this cycle and provide confidence in the supplier base at an important time for the domestic auto industry. It is part of the Administration’s broader efforts to ensure that our Financial Stability Plan reaches the main street businesses that create good jobs for American workers,” according to Treasury.

The program will provide suppliers with access to government-backed protection that money owed to them for the products they ship will be paid no matter what happens to the recipient car company. Participating suppliers will also be able to sell their receivables into the program at a modest discount of a couple of percentage points. This will provide suppliers with “desperately needed funding” to operate their businesses and help unlock credit more broadly in the supplier industry. The financial institution or bank that will run the program has not been named yet.

Suppliers that ship parts to auto companies generally receive payment for those shipments about 45 to 60 days later. In a “normal” credit environment, suppliers can either sell or borrow against those commitments (the so-called “receivables”) in the interim period to pay their workers and fund their ongoing operations. However, in the current environment, due to the uncertainty about the ability of the auto companies to honor their obligations, banks are unwilling to extend credit against these receivables.

The program will be run through American auto companies that agree to participate in the program. Suppliers to those companies that agree to maintain qualifying commercial terms will have the opportunity to request this government backed protection. If granted, the supplier will pay a small fee for the right to participate in the program.

The administration was clear that this is not a bailout for all suppliers – “the failure of certain suppliers is a natural, albeit painful, part of the business cycle,” the statement said. “We cannot and should not stand in the way of the substantial restructuring and capacity reduction that needs to take place in the auto supply industry. But this program will allow this process to take place in an orderly fashion, without threatening the stability of the largest automobile companies.”

A statement from General Motors said it “appreciates the Treasury and President’s Task Force on Autos taking quick action that will improve suppliers ability to access much needed liquidity during these very difficult economic times. This action can help 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.”

Tags: Big Three, Ford, auto bailout, auto news, auto suppliers, chrysler, general motors, ken zino, thedetroitbureau.com

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