

## **Obama Administration's New Warrantee Commitment Program**

Today, the Treasury Department announced an innovative new program to give consumers who are considering new car purchases the confidence that even in this difficult economic period, their warrantees will be honored. This program is part of the Administration's broader program to stabilize the auto industry and stand behind a restructuring effort that will result in stronger, more competitive and viable American car companies.

The Administration has committed to working with both GM and Chrysler during a finite period to develop improved restructuring plans. The goal in both cases is to help these companies emerge with a fresh start toward becoming competitive businesses without taxpayer assistance. During this period of restructuring, the Administration is committed to standing behind the process. The Administration is confident that GM will emerge as stronger company and is hopeful that Chrysler can reach an agreement with Fiat that leads to a viable future. However, no matter what the outcome, consumers should have confidence that if they buy new cars from either company their warrantees will be honored.

The warranty program will cover all warranties on new vehicles purchased from participating auto manufacturers during the period in which those manufacturers are restructuring. Both General Motors and Chrysler have agreed to participate in the program. Specifically, the program will:

- Create a separate account that will be funded with cash contributed by the manufacturer and a loan from the US Government to pay for repairs covered by the manufacturer's warranty on each new vehicle sold by a participating domestic auto manufacturer during its restructuring period. The cash contribution will be 125% of the costs projected by the manufacturer to satisfy anticipated claims under the warranty issued on that vehicle; and
- In the event of a failure of a participating auto manufacturer, appoint a program administrator who, together with the US Government, will identify an auto service provider to supply warranty services.

The program will help provide much needed certainty to consumers, and a boost to the auto industry, during the restructuring period. While the Administration recognizes that general economic uncertainty may continue to impact new vehicle sales, and that the ultimate solution for a healthy auto industry is a broad restructuring of the industry and a general economic recovery, the program will support and encourage the continued viability and restructuring of the auto industry by mitigating consumer uncertainty that is depressing demand for new vehicles.

### **What does the program mean for consumers?**

- *If you buy a new GM or Chrysler car during this restructuring period you will be eligible.*
- *You do not have to do anything to receive the U.S. commitment to your warrantee. It is automatic.*
- *The U.S. Treasury will work with the auto companies to back-stop your warrantee, and will commit to honoring that warrantee in the event that the manufacturer cannot.*

## **Background on the Warrantee Commitment Program**

### **Program Operation:**

As part of their normal business operations, auto manufacturers establish an accounting reserve for each new vehicle sold, which reflects the expected cost of providing warranty services on that vehicle. Under the Warranty Commitment Program, the participating auto manufacturer will contribute cash to a separate special purpose company whose sole purpose is to pay covered warranty claims. The total amount of cash to be contributed will equal to 125% of the expected cost of paying for warranty service on each covered vehicle. The manufacturer will contribute 15% of the projected cost from its own funds, and Treasury will provide additional funds to cover 110% of the projected cost. The company holding the funds will be run separately from the auto manufacturer and will be able to continue paying warranty claims even if the auto manufacturer goes into bankruptcy or goes out of business. In that case, the special purpose company will use the funds in that account to facilitate the transfer of warranty obligations from the issuing manufacturer to a new warranty services provider.

The program will be run by a third party program administrator with the backing of financial resources allocated from the Treasury Department's Troubled Asset Relief Program (TARP).

### **Eligible Auto Manufacturers:**

Any domestic auto manufacturer is eligible to participate in the program. If a manufacturer decides to participate, it will work with the third party administrator to establish a warranty support program. Participating auto manufacturers will contribute 15% of the cash reserve for each new warranty they issue. The US Government will provide the remainder of the funding for the cash reserve on each new warranty issued by the participating auto manufacturer during the period in which it is enrolled in the program.

If the auto manufacturer goes out of business, the program administrator and the US Government will conduct a process to identify a qualified third party warranty service provider to assume responsibility for all of the manufacturer's warranties covered by the program, in exchange for the assets of the program. Because of the significant funding of the reserve account, Treasury is confident that qualified third parties will be interested in taking over the warrantee obligations.

### **Eligible Warranties:**

The program will cover the participating manufacturer's warranty on every new car sold during its restructuring period.