

Auto Supplier Support Program: Stabilizing the Auto Industry at a Time of Crisis

Consistent with President Obama's commitment to stand behind the American auto industry during the economic crisis, the President's Auto Task Force is currently reviewing viability plans submitted by GM and Chrysler. Secretary Geithner, in consultation with the Task Force, will be making a determination of the viability of these plans in the coming days.

However, what is already unmistakably clear is that these companies, and the vast network of businesses that supply parts to them, will need to engage in a substantial restructuring to achieve long-term viability. This road will not be easy. But as the restructuring process moves forward, the Administration is committed to helping stabilize the industry, protect American jobs, and give consumers the confidence and the means to purchase cars.

That is why today the Obama Administration announced a new program to help stabilize the auto supply base. A functioning auto industry relies on not only viable auto companies but on a network of auto parts suppliers that design and build the components that go into our cars and trucks. America's auto parts suppliers employ more than 500,000 workers across the nation. Yet 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. Supplier instability creates greater uncertainty for the auto companies that rely on the parts they ship. This vicious cycle of frozen credit markets, growing supplier uncertainty and growing auto company uncertainty has the potential to unravel the industry and short-circuit restructuring efforts at companies like GM and Chrysler.

Brief Description of the Auto Supplier Support Program:

The Obama Administration's new Supplier Support Program will help break this vicious cycle by providing suppliers with the confidence they need to continue shipping their parts and the support they need to help access loans to pay their employees and continue their operations.

- *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. This will provide suppliers with desperately needed funding to operate their businesses and help unlock credit more broadly in the supplier industry.*
- *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 Treasury Department has made available up to \$5 billion in financing under this program.*

DETAILS ON THE ADMINISTRATION'S SUPPLIER SUPPORT PROGRAMS

Program Operation:

Suppliers that ship parts to auto companies generally receive payment for those shipments about 45 - 60 days later. In a normal credit environment, suppliers can either sell or borrow against those commitments (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. To help address this problem, the Supplier Support Program will provide selected suppliers with financial protection on monies they are owed by domestic auto companies and the opportunity to access immediate liquidity against those obligations.

The program will help provide much needed certainty to key suppliers and the auto industry during this restructuring period. This Administration recognizes that the failure of certain suppliers is a natural, albeit painful, part of the business cycle and that 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.

Eligible auto companies

Any domestic auto company is eligible to participate in the program. If a company decides to participate, they will request an allocation from the U.S. Treasury to provide government-backing and then work with a third-party servicer to establish a receivables purchase program. Auto companies will be required to make a financial commitment in connection with the support received from the Treasury. General Motors and Chrysler have already agreed to participate in the program, and will have fully operational purchase programs established shortly.

Eligible suppliers

Any U.S.-based supplier that ships to a participating auto manufacturer on qualifying commercial terms may be eligible to participate in the program. Decisions about which suppliers and which receivables will receive protection will be made by the participating auto companies.

Suppliers interested in the program should contact their lenders to determine whether they can obtain requisite consents to sell their receivables. Once they have done so they should contact the procurement officer at their customer/auto company. Once approved by the auto company, suppliers will be able to receive the protection for a modest fee, which will have the backing of government funds. These suppliers will also be able to sell their receivables into the program for a modest discount, which will provide them with immediate liquidity.

Eligible receivables

Any receivable created with respect to goods shipped after March 19, 2009 that is made on qualifying commercial terms between a supplier and a participating auto company will be eligible for the program.