

# THE *BLUE PAPER*

◆ September 2010 ◆

## THE THREE REASONS YOU SHOULD START PREPARING FOR A SURGE IN AUTO LOANS

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The Next 12 Months  
Are Shaping Up To Be The Strongest  
In More Than A Decade

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Route to:

- EVP
- VP Operations
  
- VP Finance
- VP Marketing
- VP Lending
- Newsletter Editor
- E-Coordinator
- Marketing Manager



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No matter what the prognosis might be for an ailing loan department, this much is certain: Now is the time to prepare for a surge in auto loans.

Why? There are three primary reasons.

### **REASON #1: THE BACKLOG OF AUTO BUYING ACTIVITY**

The recent financial crisis reduced auto lending for more than a year, since many Members put off buying that new car or a better used one.

Now, as most potential car buyers see signs of an end to the fiscal crisis, they have begun hungering for that new-car smell and the euphoria of auto dealer shopping.

Adding to the itch for a new (or newer) car is the comfort of knowing that gas is still selling for less than \$3 a gallon in most of the country.

According to the *New York Times* (August 4, 2010), each of the Detroit automakers has been reporting increases in total sales from a year ago when the federal government's so-called Cash for Clunkers program began. GM vehicle sales increased 25% in July over the same month in 2009. "July's sales are a positive signal for the future," according to Don Johnson, the company's VP of U.S. sales.

According to the *L.A. Times*, "Most sales are now being made to people who have held on to their vehicles for some time and need to replace them."

### **REASON #2: THE AUTO INDUSTRY'S PREPARATION FOR A BONANZA**

American automakers, as well as foreign car manufacturers, have shown undeniable signs lately that they will take every measure possible in their determination to turn the next 12 to 18 months into blockbusters.

Even their ads blatantly admit that. Honda's ad reads: "If you've been waiting for the right time to buy a Honda, this is it."

This determination is being exhibited in a variety of ways:

■ **Price.** Ford's new signature strategy, known as "One Ford," is designed to build cars with about 85% of their parts in common so that the company can sell each model at a higher volume with costs that are as much as 20% lower than earlier versions.

In an effort to reduce costs, Ford is closing Mercury and selling Volvo, Jaguar, Range Rover, and Aston Martin. Auto manufacturers are working to lower costs so they can lower sales prices.

The new Mazda2 is aiming at both fuel economy and low price. Starting at \$13,980, the car is close to becoming the least expensive subcompact. (That honor currently goes to the Yaris, priced at \$12,605.)

■ **Engineering.** Car companies are pulling out all the stops to dazzle potential buyers and trigger sales with innovative engineering.

The new Mercedes-Benz SLS AMG sports the overhead “gull-wing” doors that first impressed DeLorean buyers years back.

Porsche is introducing its first four-door sedan. And all models of the new Porsche Panamera come equipped with “auto-start-stop,” a feature that shuts down the engine when the car comes to a standstill (even though the audio and climate control systems keep working).

■ **Design.** More than ever before, the manufacturers are using design and design changes to push sales. Many new models (like the Chevy Cruze) are being moved closer to the comforts and dynamics of the more expensive model lines (in this case, the Malibu). Chevrolet boasts that the Cruze now wears the same split grille found elsewhere in the Chevy line and sports more chrome accents. This subtle “upgrading” is becoming more prevalent with many of the manufacturers.

### REASON #3: THE ELECTRIC CARS ARE HERE

The most powerful incentive for buyers, however, may be the new line of electric cars. The list includes the Tesla Roadster, the Chevrolet Volt, the Fisker Karma, the Nissan Leaf, the Ford Transit, the Ford Electric Focus, and the CT&T eZone EV and Mini E. And BMW, Chrysler, and Mitsubishi are planning to have all-electric models within a year.

Obviously, there will be enough choices for everyone.

The enticements are many.

■ **Tax Credits.** The world already knows that the prices on electric cars are going to cause “sticker shock.” But the government tax credits of \$7,000 or \$8,000 will edge the price closer to gas-driven models and make it difficult for interested drivers to turn down such savings. Some electric cars, like the Nissan Leaf, may become eligible for an additional \$5,000 rebate pending results of emission tests. And some states also offer up to \$5,000 in state tax credits.

■ **Operating Costs.** Oil supply is limited and dwindling. In the past, gas prices have at times skyrocketed. Present industry estimates are that (on the average) an electric car can run as far on a 75 cent charge as a conventional

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car can go on a \$3 gallon of gas. GM has stated that fully recharging the Volt would cost less than \$1.50. When “fill ‘er up” costs one or two dollars, it begins to feel like the 1940s. Nissan estimates that the Leaf’s five-year operating cost will be \$1,800, compared with \$6,000 for a gas-powered car.

■ **The Desire to Keep the Planet Green.** The recent interest in global warming and planet preservation is, of course, fueling the interest in electric cars.

■ **Prestige.** Manufacturers are banking on the idea that the desire to be the first with the newest will again motivate many to consider the new electric models.

■ **Popularity.** Estimates of electric car popularity are actually moving many buyers to consider these new models. It has become obvious that the mindset of buyers is to look to the future — and that is the world of the electric car. Tim Gallagher, Nissan’s Director of Corporate Communications, stated, “We have almost 18,000 people on the list of those who have reserved to purchase the Leaf right now. And another 150,000 have expressed interest in buying on the Nissan website.”

■ **Automobile Innovations.** Car buyers realize that the auto industry is changing the same way the models are changing. Electric cars will be the recipient of the majority of these innovations. Some improvements, like their quieter ride, are already selling points for electric cars.

## CONCLUSION

The lackluster record of auto loans is about to change drastically and sooner than many CU officers expected. This is due to three factors:

- The last 18 months have produced a backlog of auto-buying activity. Buyers are now ready “to buy.”
- The auto industry is pulling out all the stops, determined as never before that the next two years will be bonanza sales years.
- The electric cars are here. ◆

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