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Some Doubt GMAC Move Will Help Car Buyers

By Daniel Wagner and Stephen Singer AP

Consumers weighed down by debt unlikely to spur increase in car purchases, analysts say Several analysts expressed skepticism Friday that the Federal Reserve's decision allowing GMAC Financial Services to become a bank holding company would spur many more people to buy cars.

Daniel Alpert, managing director at investment bank Westwood Capital, said so many consumers already are struggling with existing debt that he doubts the Fed's action will cause them to take on still more.

"I don't think it will suddenly increase auto credit," Alpert said.

The Fed approved GMAC's request Wednesday to become a bank holding company, authorizing it to apply for a portion of the Treasury's \$700 billion bailout fund and receive emergency loans directly from the Fed.

Analysts had speculated that without financial help, GMAC would have had to file for bankruptcy protection or shut down, dealing a blow to General Motors' own chances for survival. The Fed cited "emergency conditions" in justifying its decision.

The Fed said its move "would benefit the public by strengthening GMAC's ability to fund the purchases of vehicles manufactured by GM and other companies and by helping to normalize the credit markets for such purchases."

But some analysts said they doubt the Fed will achieve that goal. They point to the deteriorating economy and debt-laden consumers' inability or unwillingness to borrow more for big-ticket items such as cars, trucks and sport utility vehicles. Tighter lending standards have shut out many buyers.

"I don't think the Fed decision, per se, will have any impact on the consumers' willingness to buy cars," Bert Ely, a banking industry consultant in Alexandria, Va., said via email. "For many consumers, the willingness to buy a car — new or used — is largely a function of their ability to get affordable financing." It's not a good situation, no matter what," he said.

The difficulty many homeowners have had in paying mortgage bills has been spreading to credit cards and other forms of borrowing, including auto financing, Alpert said.

Access to financing also will help dealers whose lots have been clogged by unsold vehicles, said Talbott, chief lobbyist for the Financial Services Roundtable, which represents large banks, brokerages and insurance companies .

"If a car buyer can't get financing to buy a car, the car sits there," Talbott said. "This will get them off the lots so automakers benefit, dealers benefit and Americans benefit. That's the basic problem now with both homes and cars: Nobody's buying them. So what these regulatory gymnastics do is free up liquidity and start moving cars off the lot." Still, other complications may stand in the way. For example, Ely said some consumers with five-year SUV loans have seen the value of their vehicles sink, because buyers have been fleeing to more fuel-efficient vehicles. And he doesn't think the drop in gas prices has revived the value of SUV's. "It's hard to lend money when you have this kind of volatility," Ely said.