PROPOSED FUNDS TO THE AUTO INDUSTRY

Because there's a lot of confusion about who is advocating for what with regards to funding to the auto industry, I'm going to review what funds have been requested or proposed, and then review the stances various leaders have taken on those funds.

$25 Billion Retooling Fund

First, there is the $25 billion allocation—already awarded earlier this fall—designated to help auto-makers re-tool factories to build more efficient cars.

> Automakers must show that they are financially viable and show that they have a "net present value that is positive" and that they have "financial projections demonstrating the applicant's solvency through the period of time the loan is outstanding." They must also offer a first-lien or security interest in all property acquired with the funds, but that could be waived by the Energy Secretary.
>
> The rule is written broadly enough that new factories might be eligible. The projects include "re-equipping, expanding or establishing a manufacturing facility in the United States to produce qualifying advanced technology vehicles, or qualifying components" along with "engineering integration performed in the United States."
>
> The rule gives priority to plants that are 20 years or older. Money from the loan program could be used to reopen a shuttered factory.
>
> The vehicles built must be at least 25 percent more fuel efficient than

> required by law. It also requires that at least $2.5 billion of the loans be set aside for automakers and suppliers with 500 or fewer employees.

This fund was originally going to take much longer to kick into place—as many as 18 months—but DOE rushed to establish guidelines to make these funds available in the shorter term.

$25 Billion Bridge

The auto industry is very credit driven. In addition to providing auto loans directly to consumers, the auto industry uses credit to purchase parts and offers credit to dealers which they use to purchase vehicles and parts. In other words, without sufficient credit, both production and sales would shut down.

Because of the credit crunch and because the US manufacturers have crummy debt ratings, the industry is having problems accessing that level of credit, particularly GM. And this credit crunch came on top of an awful end-of-product-year due to the oil price spike in the summer; all manufacturers were stuck with gas guzzling products that no one wanted to buy, which they had to get rid of on terrible terms. Finally, with consumer confidence tanking, car sales across the industry are down sharply.

Since this is a request tied, at least partly, to the freezing of credit, the auto industry requested funds from TARP to cover this bridge. But enough decision-makers are opposed to tapping into TARP to help the auto industry that such a bridge loan—if it was given—would probably have to come from somewhere else. Surely, if the auto companies get any money specifically allocated as a bridge, it will come with very strict requirements modeled on the Chrysler loan.

Obama Administration Energy-Focused Funds

Obama campaigned on promises to provide additional funds to make the auto industry more environmentally sound. He proposed $4 billion for retooling of factories (though he proposed this before the $25 billion loan was awarded above, so it may be redundant).

> Barack Obama and Joe Biden will also provide $4 billion retooling tax credits and loan guarantees for domestic auto plants and parts manufacturers, so that the new fuel-efficient cars can be built in the U.S. by American workers rather than overseas. This measure will strengthen the U.S. manufacturing sector and help ensure that American workers will build the high-demand cars of the future.

In addition, Obama proposed $150 billion in investments into green technologies, some of which would go to develop superior battery technology, plug-in infrastructure, and other automotive-related technologies.

> Barack Obama and Joe Biden will strategically invest $150 billion over 10 years to accelerate the commercialization of plug-in hybrids, promote development of commercial scale renewable energy, encourage energy efficiency, invest in low emissions coal plants, advance the next generation of biofuels and fuel infrastructure, and begin transition to a new digital electricity grid. The plan will also invest in America's highly-skilled manufacturing workforce and manufacturing centers to ensure that American workers have the skills and tools they need to pioneer the green technologies that will be in high demand throughout the world. All together these investments will help the private sector create 5 million new green jobs, good jobs that cannot be outsourced

Now, as I'll review in a later post, the most likely outcome in the short term is that some of the $25 retooling fund will be shifted into a bridge, though Pelosi and Obama want to avoid that. But if they had their way, there would be three different sources of funding to the auto industry.