



Car Dealership Financing Guarantee Appropriation Bill 2009

Michael Priestley
Economics Section

Contents

Purpose	2
Background	2
Financial implications	5
Main provisions	5
Concluding comments	5

Car Dealership Financing Guarantee Appropriation Bill 2009

Date introduced: 14 May 2009

House: House of Representatives

Portfolio: Treasury

Commencement: The day of Royal Assent

Links: The *relevant links* to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at <http://www.aph.gov.au/bills/>. When Bills have been passed they can be found at ComLaw, which is at <http://www.comlaw.gov.au/>.

Purpose

The Bill provides for a standing appropriation to enable claims to be paid under the Deed of Guarantee in respect of the Australian Government Guarantee to support interim funding to car dealerships, executed on behalf of the Commonwealth on 23 December 2008.

Background

On 5 December 2008, the Treasurer announced the establishment of a Special Purpose Vehicle (SPV), with the support of leading Australian banks, to provide liquidity to eligible car dealers who were left without financing as a result of the departure of two large automotive finance leasing companies from the Australian market following the onset of the global financial crisis.¹

The two companies are GE Money Motor Solutions, a subsidiary of GE Money, a division of GE Capital, one of four main businesses of General Electric (GE) and GMAC Australia LLC, GMAC's automotive and motorcycle finance business in Australia – GMAC is the automotive finance business of General Motors Corp. It is estimated that one quarter of new car dealerships obtained wholesale floorplan finance through GE Money Motor Solutions and GMAC Australia LLC.²

-
1. Wayne Swan MP (Treasurer), *Car Dealer Financing: Establishment of a Special Purpose Vehicle*, Media Release, 5 December 2008, viewed 21 May 2009, <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/136.htm&pageID=003&min=wms&Year=2008&DocType=0>
 2. 'Too few lenders will drive dealers out of business', *The Cairns Post*, 19 November 2008.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

The SPV, otherwise known as ‘Ozcar’, was established as a Trust on 2 January 2009. Under the agreements negotiated with the leading Australian banks – the Commonwealth Bank of Australia, the ANZ, the National Australia Bank and Westpac – the four major banks will provide liquidity to Ozcar through the purchase of ‘AAA’ rated Ozcar securities. Most of these securities will require a Commonwealth Guarantee so that they qualify as ‘AAA’ in order for the four major banks to purchase the securities. Having raised funds through the sale of securities to the banks, Ozcar will make available funding for 12 months to eligible car dealerships requiring finance.

In his Second Reading Speech for the Bill, the Assistant Treasurer told the House that most of the former GE and GMAC dealerships had managed to secure alternative financing, primarily through the remaining lenders. As a result of the orderly wind down of GE and GMAC loans books and alternative sources of finance, the initial estimate of \$2 billion to finance future loans was reduced to \$850 million. The Assistant Treasurer stated that the final figure will be much less and the appropriation to support the Commonwealth Guarantee will apply to around \$550 million of the securities issued by the Ozcar SPV.³

New vehicle sales

New vehicle sales figures for April 2009, released on 5 May 2009 by the Federal Chamber of Automotive Industries, show that 63,965 passenger motor vehicles, SUVs and commercial were sold in April 2009, a fall of 23.9 per cent compared with the same month in 2008 (see Table 1: Sales Volumes).

Year-to-date, a total of 276,935 new vehicles have been sold, a fall of 20.3 per cent compared with the same period last year, suggesting annual sales of 840,000 for 2009, compared with 1,012,164 in 2008.

The fall in new car sales reflects the broader slowdown in the Australian economy and globally, with the four local motor vehicle manufacturers reducing production in response to falling demand (see Table 2: Australian Automotive Industry – Monthly Production Volumes). Production levels are the lowest since the 2001 downturn and have led to temporary stand downs and a four-day week for automotive component manufacturers. Most affected by falling demand has been the sale of Toyota’s Camry and Aurion which have fallen 36 per cent.⁴

The new vehicle sales for April show a 40 per cent fall in demand for large luxury cars. Sales of light and small cars fell 16 and 27.2 per cent respectively.

3 C Bowen MP (Assistant Treasurer), ‘Second reading speech: Car Dealership Financing Guarantee Bill 2009’, House of Representatives, *Debates*, 14 May 2009, pp. 4–5.

4 ‘[Vehicle sales look bleak](#)’, *The Australian*, 3 April 2009.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

Table 1: Sales Volumes

	Month		YTD		Variance +/- Vol. & %			
	2009	2008	2009	2008	MTH	YTD	MTH	YTD
Passenger	36,697	47,626	163,953	202,989	-10,929	-39,036	-22.9	-19.2
SUV	13,092	16,667	55,248	71,098	-3,575	-15,850	-21.4	-22.3
Light Commercial	12,040	16,690	50,053	62,263	-4,650	-12,210	-27.9	-19.6
Heavy Commercial	2,136	3,078	7,681	11,164	-942	-3,483	-30.6	-31.2
Total Market	63,965	84,061	276,935	347,514	-20,096	-70,579	-23.9	-20.3
Light	8,446	10,050	38,188	44,573	-1,604	-6,385	-16.0	-14.3
Small	13,532	18,589	65,349	79,692	-5,057	-14,343	-27.2	-18.0
Medium	5,365	7,360	22,906	29,740	-1,995	-6,834	-27.1	-23.0
Large	7,048	8,689	28,432	36,577	-1,641	-8,145	-18.9	-22.3
Upper Large	271	453	1,125	2,082	-182	-957	-40.2	-46.0
People Movers	765	1,147	3,035	4,349	-382	-1,314	-33.3	-30.2
Sports	1,270	1,338	4,918	5,976	-68	-1,058	-5.1	-17.7
SUV Compact	6,080	6,472	25,294	30,031	-392	-4,737	-6.1	-15.8
SUV Medium	4,869	6,701	20,981	28,028	-1,832	-7,047	-27.3	-25.1
SUV Large	753	1,662	3,188	5,985	-909	-2,797	-54.7	-46.7
SUV Luxury	1,390	1,832	5,785	7,054	-442	-1,269	-24.1	-18.0
Light Buses	164	372	712	1,139	-208	-427	-55.9	-37.5
Vans	1,529	2,292	6,145	8,405	-763	-2,260	-33.3	-26.9
PU/CC 4X2	4,581	6,397	18,928	24,834	-1,816	-5,906	-28.4	-23.8
PU/CC 4X4	5,698	7,550	24,039	27,468	-1,852	-3,429	-24.5	-12.5
Trucks 2.5-3.5 GVM	68	79	229	417	-11	-188	-13.9	-45.1
Heavy Commercial	2,136	3,078	7,681	11,164	-942	-3,483	-30.6	-31.2
Total Market	63,965	84,061	276,935	347,514	-20,096	-70,579	-23.9	-20.3

Source: VFACTS Sales Report for April 2009: Federal Chamber of Automotive Industries.

Table 2: Australian Automotive Industry - Monthly Production Volumes

	2009	2008	2007	2006	2005	2004	2003	2002
January	11,937	21,152	18,666	14,044	14,677	20,423	21,211	19,315
February	20,404	32,303	29,376	28,276	32,975	34,798	35,769	27,891
March	21,310	26,393	29,433	30,802	34,626	38,824	37,440	29,119
April	12,792	28,721	22,633	25,870	33,616	30,233	29,158	22,043
May	35,180	33,274	33,630	33,630	38,845	36,971	36,364	31,251
June	29,884	29,195	23,568	37,663	39,164	34,788	28,979	29,979
July	33,121	31,813	22,643	32,146	25,842	36,641	27,482	27,903
August	29,397	27,713	34,224	36,318	37,098	33,973	28,894	28,894
September	28,511	28,563	28,944	36,514	37,333	37,188	34,695	33,466
October	24,119	33,320	33,020	36,462	37,130	39,571	29,436	29,436
November	20,659	29,746	31,536	33,167	39,306	34,237	29,436	29,436
December	14,678	21,040	20,403	21,976	28,192	31,846	29,436	29,436
Total	66,443	324,118	334,772	326,960	388,985	405,314	408,186	340,474

Source: Federal Chamber of Automotive Industries.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

Financial implications

According to the Explanatory Memorandum to the Bill, the overall contingent liability for the Commonwealth is around \$550 million, comprising 45 per cent of the remaining GE Money and GMAC loan books and 85 per cent of the Ford Credit loan book.

To limit the risk to taxpayer's funds, the SPV will only be available to advance funds if it is satisfied that the dealership is not subject to any insolvency event. In the event that the Deed of Guarantee is called upon, any payment made under it will reduce the underlying cash balance. The Explanatory Memorandum states that:

The extent of the impact on the underlying cash balance will depend on borrowers' default and borrowers' ability to meet any SPV's claims. Under the Series Notice, the Trustee indemnifies the Commonwealth (out of the assets of the Trust) against any amounts paid or required to be paid by the Commonwealth under the Guarantee.

Main provisions

Item 3 Definitions

Deed of Guarantee is defined thus:

Deed of Guarantee means the Deed of Guarantee in respect of the Australian Government Guarantee to Support Interim Funding to Car Dealerships, executed on behalf of the Commonwealth on 23 December 2008, as that Deed is in force from time to time.

Item 5 Appropriation

The Consolidated Revenue Fund is appropriated for the purposes of paying claims under the Deed of Guarantee.

Concluding comments

No securities have as yet been issued under the Ozcar SPV. However, as the guarantee covers most of the Ford car dealerships and as new loans are taken out in the new financial year, the SPV will underpin the next 12 months trading by dealerships. Looking over the previous seven months, the showroom decline has averaged 17 per cent per month, despite advertised reductions on 2008-stock models. However, with assistance from the

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

Government's investment allowance and additional tax break for small business, new car sales are forecast to recover.⁵

5 [‘Bad news for Holden as car sales plunge by 24pc’](#), *The Advertiser*, 6 May 2009.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

© Copyright Commonwealth of Australia

This work is copyright. Except to the extent of uses permitted by the *Copyright Act 1968*, no person may reproduce or transmit any part of this work by any process without the prior written consent of the Parliamentary Librarian. This requirement does not apply to members of the Parliament of Australia acting in the course of their official duties.

This work has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Parliamentary Library, nor do they constitute professional legal opinion.

Feedback is welcome and may be provided to: web.library@aph.gov.au. Any concerns or complaints should be directed to the Parliamentary Librarian. Parliamentary Library staff are available to discuss the contents of publications with Senators and Members and their staff. To access this service, clients may contact the author or the Library's Central Entry Point for referral.

Members, Senators and Parliamentary staff can obtain further information from the Parliamentary Library on (02) 6277 2465.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.