

Testimony of Damon Lester, President
National Association of Minority Automobile Dealers (NAMAD)
Before the House Financial Services Committee
Hearing on
December 5, 2008

Thank you Chairman Frank and members of the Committee

I want to thank you for inviting me to speak on behalf of the small new automobile dealers in the United States.

My name is Damon Lester, and I am the President of the National Association of Minority Automobile Dealers (NAMAD). NAMAD represents over 2,000 ethnic minority automobile dealers which represent less than five percent of the overall automobile dealer network in the United States.

However, I am here today not simply to talk about ethnic minority automobile dealers but the owners of all small dealerships in the country, as the automobile industry, and this economy is facing a complete global economic meltdown. Today, small dealerships through out the United States are suffering at an alarming rate and are running out of cash, and will close their doors if access to capital is not provided to them immediately. As it is the belief of the majority of the small dealerships that they can make it through this economic turmoil that this country and the world is facing if they are provided access to capital, as many of these dealers are convinced that they can ride out this storm that this industry and this economy is facing and survive, if capital is provided.

While NAMAD supports the Bridge Loan request made by the Chrysler Corporation, Ford Motor Company, and General Motors Corporation; we also believe that fair consideration should also be given to those small dealerships who sell the products that the manufacturer produces. There is a direct correlation between the success of a healthy manufacturer and a healthy and profitable dealership. We support the request made by Congress for the Detroit Big 3 to come up with a plan depicting how they are going to manage the requested funds and how a they are going to restructure, is a good thing, its good for the manufacturers to reduce to writing their plan and its good for America to see how these manufacturers will spend our tax dollars. We support the need for more fuel efficient vehicles, we support the concessions made by the UAW as well. As all of these efforts provide a blue print on how the manufacturer will and has revamped its operations.

However, we are concerned about the story that has been touched on briefly. That story is the small dealer. Without the dealerships operating effectively, without the manufacturer having as strong consumer confidence in the brands and the corporation, consumers will not purchase a vehicle. As I have reviewed the plans submitted by the Detroit Big 3, which focus on both short and long-term viability of their respective companies. I am extremely concerned with some of the language that was alluded to in the proposals of having an excess number of dealerships. We believe that deserves some review, via the locations that these dealerships serve, the lines of vehicles that the dealerships carry, and the overall economic infrastructure of the areas in which the dealerships serve. As both Ford Motor Company and General Motors Corporation have mentioned the consolidation of there stores.

Now what does consolidation mean? Does it mean dealers partnering up together to combine a store? One could believe that this is a merger of stores. In fact what this really means is that its forcing in many instances a smaller dealership to buy up a larger dealership. For example, under the General Motors model, if a town has a family owned dealership that sells Pontiac and GMC, General Motors wants that small dealership to 1) approach the local dealer that sells Buicks and present him/or her with an offer to buy; or 2) that Buick dealer has to approach the small family owned dealer to buy out his/her Pontiac and GMC dealership, in order to combine all three brands under one roof. This in many situations today, have provided opportunities for large dealer groups to buy out the small family owned dealership merely because of who has the most access to capital.

As all small dealerships in rural and suburban America on average employ over 53 employees and generate over \$33 million gross annual sales. A small dealership is the true “Main Street”, these dealerships provide so much to the communities that they serve that if a dealership closes its doors today:

- the local churches that the dealership contributes to on a monthly basis will suffer;
- that local school and summer athletic teams will suffer;
- that local 4-H and Lion’s Club will suffer;
- that the local boys and girls scouts club will suffer;
- that local print and television companies will suffer

This is what the real “Main Street” is all about, grass roots roll up your sleeves and becoming active in your community, that’s what America is about small business feeding the communities they serve.

As this congress is considering the request for immediate capital and liquidity by the Detroit Big 3, fair consideration and attention must also be given to the small dealerships. One very simple way to provide access to capital to these small dealerships is by the Small Business Administration (SBA) loan guarantee programs. It has come to my attention that in the past 10 years the SBA loan guarantee program has been short changed and its attempts to fund it. In fact, by just modifying the definition of who is eligible for the loan guarantee program would help small dealerships. Currently, the size standard, which is the definition used by the SBA to determine whether or not a business is deemed small is stated either as the number of employees or average annual receipts of a business. As it relates to automobile dealers the size standard is currently \$29 million in average annual receipts. We believe if the size standard was modified to reflect a one hundred employee base model would provide greater assistance for theses small dealerships survival. It is our hope that the loan guarantee would provide more assurance for financial institutions to begin lending to automobile dealers.

We understand that with any financial assistance program not all will be saved. But we truly believe that those dealers who have been historically profitable but are now going out of business for the lack of access to capital can survive. I believe that if there were an increase in the SBA loan guarantee program of \$1 Billion from the TARP which is dedicated to provide assistance to small dealerships would potentially cover 80% of those

dealerships running out of cash now and being forced to close their doors. This loan guarantee will provide assistance to those rural and suburban dealers located in Alabama, Kansas, Georgia, Texas, Massachusetts, and Kentucky, just to name a few.

In addition, I would recommend that \$1 billion of TARP dollars from the manufacturers requested funds be directed to support small dealerships with the stipulation that these funds must be used to purchase real estate, equipment, and provide job training in the dealerships.

On behalf of the National Association of Minority Automobile Dealers I want to thank the Detroit Big 3 for opening the doors for the diversity we now see among the small automobile dealers through its dealer development programs. As the Detroit Big 3 paved the way for majority of all of the current diversity within the import dealers today. It is our hope that these programs continue to provide opportunities for individuals to become new automobile dealers in the very near future.

At a time when this industry, this country, and the world is facing this economic turmoil. I urge this Congress to move quickly to provide immediate assistance to the Detroit Big 3 and to the small dealerships.

Thank you, I would be happy to answer any questions you may have.