

Bloomberg

Chrysler's U.S. Loan May Lose to Disaster Aid

By Angela Greiling Keane and Tim Higgins - Sep 21, 2011

Chrysler Group LLC and plug-in car battery supplier [A123 Systems Inc. \(AONE\)](#) may not receive some or all of the U.S. Energy Department loans they're seeking to produce more fuel-efficient vehicles, under a proposal the House is scheduled to debate today.

Automakers and their supporters, including Democrats from Michigan's congressional delegation, are trying to keep the House from cutting \$1.5 billion of the \$4 billion remaining in a loan program that has benefited [Ford Motor Co. \(F\)](#) and Nissan Motor Co. Ltd.

Republicans including House Majority Leader [Eric Cantor](#) of Virginia say the money is needed for disaster assistance to states hit by storms.

Energy Department loan programs have come under congressional scrutiny since solar-panel maker Solyndra LLC failed after getting about \$527 million in U.S. loan guarantees.

"This would cripple the program at a time when advanced- technology vehicles are both beginning to take off and when there are new standards that the auto companies and the administration have agreed to" on fuel economy, said [Dan Becker](#), head of the Washington-based Safe Climate Campaign, which supports raising fuel-economy standards.

Chrysler, based in [Auburn Hills](#), Michigan, and controlled by [Fiat SpA \(F\)](#), is seeking \$3.5 billion in loans from the program, according to an Aug. 12 filing with the U.S. Securities and Exchange Commission. [Shawn Morgan](#), a Chrysler spokeswoman, declined to comment on the potential cuts.

Jobs Focus

Eleven advanced-vehicle loans that the Energy Department may approve by the end of the year won't be awarded if money for the program is reduced, Senator [Debbie Stabenow](#), a Michigan Democrat, told reporters yesterday on a conference call.

"It's unclear how many of the loans that are about ready to be approved could be funded," said Stabenow, who helped create the loan program in 2007. "Why in the world would we zero in on a program that's actually creating jobs?"

The [program](#), which has given out five loans and has a conditional commitment on another, has 18 applications pending, according to Representative Norman Dicks of [Washington](#), who is the top Democrat on the House Appropriations Committee.

The Energy Department, which has committed about \$3.5 billion worth of loans for six projects under the program since 2009, doesn't release the list of applicants and won't comment on the House debate, Bill Gibbons, a department spokesman, said.

President [George W. Bush](#)'s administration created the program as part of a compromise for automakers to agree to raise fuel-economy standards from 2012 to 2016. President [Barack Obama](#) in July said automakers agreed to double the fuel economy of the vehicles they sell in the U.S. to a fleetwide average of 54.5 miles per gallon by 2025.

'See-Sawed' Policy

The program "has a well-established pipeline of applicants, and it expects to utilize the remaining \$4 billion in appropriated funds to support American investment in this growing global market," Gibbons said in an e-mail.

The [auto industry](#) wants consistency in federal policy on what types of vehicles they should make, said Gloria Bergquist, vice president of the Alliance of Automobile Manufacturers. Chrysler is a member of the Washington-based trade group.

"Government funding for advanced fuels and vehicles has really see-sawed in recent years," she said in a telephone interview. "We've had funding to support hydrogen and then that funding was stopped. We've had funding to support ethanol and then that was altered. Once they set out a road map, let's stick with it."

'Not Squeamish'

[Sergio Marchionne](#), chief executive officer of both Chrysler and Fiat SpA, has said the loans are "an integral part of the refinancing plan of Chrysler going forward."

When [General Motors Co. \(GM\)](#) withdrew its request for \$14.4 billion in government loans in January, Marchionne said Chrysler wouldn't.

"I'm not ashamed of saying this, that I am not squeamish to accept Department of Energy funding in connection with the investments we are making in terms of architecture and power train development," Marchionne said. The loans, he added, would be important for the "long-term stability of Chrysler."

Without a loan, or with less money than it requested, Chrysler may not improve its vehicles' fuel efficiency as fast as it would with that assistance, said Alan Baum, a West Bloomfield, Michigan-based industry consultant with Baum & Associates.

"They'd need to fund some of that from either internal sources or private sources," Baum said in a telephone interview. "They're looking at the price of this money and saying it's a good deal. They made a judgment different from General Motors and deciding they wouldn't be negatively affected from a perception standpoint. Or they don't have as much opportunity to get the money from other sources."

A123 Costs

A123, which last month got a contract to supply [lithium-ion batteries](#) and electronic parts to GM, has requested a \$233 million loan, said Deutsche Bank analyst Dan Galves, who rates the shares "buy."

"The cost of capital would be certainly higher if they weren't to get the loan," Galves, who is based in [New York](#), said in a telephone interview. "These loans would be an extremely good way to help a young company bridge the gap from relatively low revenue and low profit over the next couple years."

A123 spokesman Dan Borgasano didn't respond to a phone call seeking comment. The company is based in Watertown, [Massachusetts](#).

To contact the reporters on this story: Angela Greiling Keane in Washington at agreilingkea@bloomberg.net; Tim Higgins in Southfield, [Michigan](#), at thiggins21@bloomberg.net

To contact the editor responsible for this story: Bernard Kohn at bkohn2@bloomberg.net