Examining Cash for Clunkers: The good, the bad, and the wait-and-see

By Traci Matt
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They rallied against it like a "Who's Who" of acronyms—the Automotive Parts Remanufacturers Association (APRA), the Specialty Equipment Market Association (SEMA), the Engine Builders Association (AERA), Automotive Warehouse Distributors Association (AWDA), Automotive Aftermarket Industry Association (AAIA), Automotive Transmission Rebuilders Association (ATRA) and even the Tire Industry Association (TIA)—all joined forces to protest the federally-funded car scrappage program dubbed Cash for Clunkers.

The bill, which was signed into law by President Obama at the end of June, is simple enough. About ten pages long, Title XIII, the Consumer Assistance to Recycle and Save Program, Car Allowance Rebate System, or C.A.R.S., appropriates $1 billion in federal money to offset the purchase or lease price of "new fuel efficient" vehicles when less fuel efficient models are traded in.

At this time, the "fleet modernization" program is scheduled to go through November 1 of this year, although extension discussions began before the final rollout details were even announced.

Proponents tout it as a way to help reduce dependence on foreign oil, benefit the environment, and stimulate the economy.

Opponents have charged it with being everything from a waste of tax dollars ($50 million alone is earmarked for program administration), to a thorn in the side of the aftermarket, to another destructive force on the already debt-burdened middle class. (Remember the mortgage debacle caused by America's overspending on housing?)

APRA President Bill Gager said at this early stage the program's impact on rebuilding is "unknown" and the reduction in pollution will be negligible because most clunkers are not driven much anyway.

"We always thought it would be detrimental because it would remove cores from circulation. Hard to know how many cars will really be traded in," he said. "Will folks really get rid of their clunker which is probably paid for and take on a four-or five-year loan? I personally don't think so."

Gager said a better alternative for the aftermarket would have been if the bill had included some sort of repair option.

"The politicians who come up with these grandiose ideas think they sound terrific and make sense. In reality they are a bust. Unfortunately politicians pay attention to academics and think-tank folks and not the real people that are in the industry affected. The group that gets hurt the most is the American taxpayer," he said.

Perhaps in this rare instance the media has become a calming influence on the initial panic which ensued in the aftermarket when the program was announced. Reuters reported that the program's "short duration and various eligibility rules" will limit its impact, and CNN Money reported that the law will benefit few and "those who might actually benefit from it probably shouldn't be buying a new car to begin with."

Rebuilder Rob Robinson of Auto Start in Lewisville, Texas, said he doesn't think C.A.R.S. will affect the rebuilding supply chain.

"Actually I don't think this program will last very long. The $3,500 to $4,500 incentive money is not going to help too many people. I think the audience that this is intended for is already struggling to make ends meet and watching every penny being spent. I find it almost laughable that someone in government would think these people will go out and buy a new car. The car dealerships are already giving buying incentives with reduced prices and zero interest for 60 months and they are still not selling many cars so how is this Cash for Clunkers any different," said Robinson.

He is particularly incensed that the American car manufacturers are being additionally undergirded with tax dollars through the program.

"I have managed to take care of my bottom line by cutting costs and doing without, I will never see a nickel's worth of help from the government to help pay my bills. This Cash for Clunkers policy is just another slap in the face of the hard working owners and our employees," he said.

Aaron Tobin of Global Remanufacturing in Roseville, Ill., said Cash for Clunkers is "shockingly bad legislation for many reasons," including the trade of slight emissions reduction for more scrap in landfills and "pollutants created by tearing down and melting down perfectly good cars and their components." He said it will also boost China's economy, not ours.

"When these good cars are scrapped out, the good metal will not go into landfills, but will be sold to China at ridiculously low prices, and then come back as cheap consumer products, again hurting our economy," he said. "This bill is going to do tremendous damage to the auto parts industry and to the remanufacturing industry. With all the new cars on the road, people will not need to buy parts for them. This will end up hurting our economy with all the job cuts at auto parts manufacturers and remanufacturers."

Larry Robinson of Robinson Electrical Automotive, Westminster, Md. echoed the sentiment that the program will not be good for the aftermarket: "I feel if people start to use this program it will remove old cars and parts from the market which will increase demand and make the used parts and vehicles more expensive. This can't be good for our industry."

Here's how the program works, according to the official government Web site, cars.com. First you must determine if your trade-in meets the following basic qualifications: must be less than 25 years old; must get 18 miles per gallon or less; must be in drivable condition; must be continuously insured and registered to the same owner for a full year preceding trade in.

Very large pickup trucks and cargo vans have different requirements. There are also specific guidelines regarding which vehicle you may purchase, including the fact that the price cannot exceed $45,000. New vehicles and trades may be either foreign or domestic.

The amount of money you receive for a trade will range from $3,500 to $4,500 and depends upon how much your fuel economy will improve with the new purchase. For example, if you buy a new passenger vehicle with a rating of 22 miles per gallon or better, and improve your mileage by four miles per gallon, you will receive $3,500. If you bump the fuel economy savings to 10 miles per gallon the

incentive increases to $4,500.

A fuel economy calculator is available at fueleconomy.gov.

When you buy or lease a new vehicle, the dealer handles submission of all required information and applies the C.A.R.S. amount to your total due. Other dealer incentives, as well as state and federal tax credits, may be applied in addition to the C.A.R.S. incentive.

Because the law requires your trade-in vehicle to be destroyed, regular trade-in allowances are not credited to the final price you pay for the new car. The law does require the dealer to disclose an estimate of the scrap value of the trade-in vehicle.

Electrical Rebuilder's Association (ERA) President Larry Hagemeister is optimistic about the program helping the automotive industry and economy as a whole.

"My thoughts were that anything to help the economy can't be a bad thing. I know the car dealerships are struggling now and are going out of business. No one likes to see that. If this helps their sales then it's got to be good for their service departments also," said Hagemeister.

Ann Barrette, a sales representative at Olathe Ford in Olathe, Kan., said her dealership anticipates the program will have a positive impact on their sales, although in the end it may be dealer incentives which make the sale and not necessarily the C.A.R.S. program.

"I think any time there is a new buzz with any kind of new program it creates interest, that generates a phone call, which gives us an opportunity to sell," she said. "Remember, for a customer to first make a call, there is an interest and a need, so it does create opportunity. But in most cases, if we can give them the amount for their trade and not do the program, that works better. With this program the car has to be destroyed immediately, and if for some reason we cannot get it to a junkyard, then the engine has to be destroyed and cannot be resold. So there is not an end user, no wholesaler that can sell it, no college kid that can buy something at a cheaper price. So it sounds great, but is a complicated deal."

Barrette said they are already seeing confusion with customers not understanding the ins and outs of the program. It is also creating "much more paperwork" for them.

"Not all cars, SUVs, trucks qualify. The trades have to be year-specific, and you must have improved fuel efficiency with the new one that you are buying, and it must be new, so you cannot take advantage of used car sale prices," she said.

Although it is "too new to tell," the program is not expected to significantly impact their service department.

"There is always a need for older cars. In some cases they are made simpler, easier to work on, with not as many techno electronic parts, and they do fill a specific need—college kids, farm vehicle, just a very cheap ride when you really need one and when you do not have the money to invest in a new one," she said.

As of the middle of July Olathe Ford was still learning more details about the program, but had already made at least one C.A.R.S. sale. The National Highway Traffic Safety Administration (NHTSA) told dealers to expect final rollout details in late July.

The Cash for Clunkers program was first introduced in January by U.S. Senators Dianne Feinstein (D-Calif.), Susan Collins (R-Maine), and Charles Schumer (D-N.Y.).

Californian Jay Maines of AMPAC Parts in Irvine, posted a comment on Reman Forums regarding his senator's idea: "Sorry guys but unfortunately one of our California senators started (C.A.R.S.). This is another case of robbing Peter to pay Paul and adding to the destruction of American industry and small business…As usual they didn't think the bill through."

Fellow Californian Dennis Jacinto of Lester Catalog had a similar response: "This legislation will also remove the lowest priced cars from the market which will hurt those lowest on the economic ladder. The very group whose interests our dear Senator Feinstein professes to champion. What a dope."

Consensus on Reman Forums was definitely that Cash for Clunkers is politics as usual. Jim Morton of Peoria Electric, Corvallis, Ore., said it was "simply a good idea that was turned into very bad law…any time the government is involved you can bank on the problem not being thoroughly thought out and the fix for the problem also never fully thought out."

Consumers are being warned by the NHTSA not to become victims of scams revolving around the program. There is only one official government C.A.R.S. Web site and car buyers are not required to register for the program. All necessary paperwork is handled by the dealer and no other requests for personal or financial information should be considered.

Cash for Clunkers top 20

Automotive marketing services company Autobytel, Inc. has compiled a list of top brands and best model bets which qualify for the C.A.R.S., or Cash for Clunkers, voucher. They looked at all 2009 and 2010 EPA vehicle mileage data and then filtered for vehicles that offered 22 miles per gallon or better for a passenger car, or 18 miles per gallon or better for a light truck or SUV.

Autobytel then took the sum of all qualifying vehicles for a brand and divided that number by how many vehicles were in the brand's lineup total, providing a "vehicles that qualify" percentage. The top 20 car brands on the qualifying list are guaranteed to have a variety of qualifying options, and are ranked by percentage of lineup that qualifies for a voucher.

Autobytel Cash-for-Clunkers top 20 includes:

- Mini–100%
- Scion–100%
- Honda–94%
- Saturn–93%
- Subaru–88%
- Suzuki–85%
- Pontiac–79%
- Mazda–74%
- Hyundai–73%
- Volkswagen–73%
- Kia–71%
- Toyota–62%
- Mitsubishi–62%
- Nissan–54%
- Mercury–50%
- Ford–46%
- Volvo–45%
- Chevrolet–45%
- Audi–39%
- Lexus–39%

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