Car World, Inc.
5901 San Mateo Blvd.
Albuquerque, NM 87109
505-982-1950

Car World KIA of Santa Fe
1701 St. Michael's Dr.
Santa Fe, NM 87505
505-880-0777

TESTIMONY OF
BOB COCKERHAM
PRESIDENT OF CAR WORLD, INC.
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

HEARING ON:

"PERSPECTIVES FROM MAIN STREET ON SMALL BUSINESS LENDING"

MARCH 18, 2009

Good morning. Chairman Landrieu, Ranking Member Snowe, members of the Committee, my name is Bob Cockerham, and I, along with my wife Mary, own and operate Car World, Inc. in Santa Fe and Albuquerque, New Mexico. I want to thank the committee for giving me this opportunity to testify on the current lending crisis facing the automobile retailing industry and various small businesses throughout our country.

Today, my wife Mary joins me in DC. Mary has been with me every step of the way, and I want to thank her for joining in our dream. She has always been the strong voice of support with me, urging me toward success. But recently she has also been the voice calling out to our Congress and the President, asking them to listen to the challenges our business, and others like ours, faces in this time of economic turmoil.

I would like to begin by briefly telling you a about myself. From the age of 13 until I was old enough to live on my own, I was raised in foster homes. This life experience encouraged me to work hard my whole life. It motivated me to graduate from Bloomfield High School and go on to the Albuquerque Vocational Institute where I was trained as an electrical engineer.

Ever since I can remember, a passion for cars has run in my blood. That is why in 1981 I got a job as a wash boy at an Albuquerque Volkswagen dealership. I was a hard worker, and paired with determination that allowed me to work my way up through the ranks, eventually becoming a General Sales Manager (GSM). As a GSM I ran new car dealerships of various nameplates, with both domestic and international roots, across Colorado, New Mexico, and Utah. I worked in dealerships selling Volkswagen, Chrysler, Lexus, Dodge, Toyota, Jeep and Subaru; learning all I could about running a successful dealership.

After 21 years in the car business, Mary and I put all of our personal savings toward opening our own dealership. Along with five employees, we opened the doors to the first Car World, Inc. in Albuquerque in February 2002. Our experience and hard work served us well because business grew quickly those first two years, which allowed us to expand and open a second Albuquerque location in November 2004. We were both scared to death (Mary and I had put everything into our business) but the business continued to thrive.

In 2005, we were given the opportunity to own our first new car dealership – Car World Kia in Santa Fe. We rapidly became one of the largest volume Kia Dealerships in the Mountain State area, often out-selling dealers in Denver and other large metropolitan cities. I am proud to say that we have also been consistently ranked as one of the top Customer Satisfaction Dealers in the western United States. As all good dealers know, good business is built through happy customers who become repeat customers.

In January 2007, we were provided an opportunity to open a Suzuki Motors franchise. We had just completed construction on a new facility in Rio Rancho, New Mexico, and that became home to Car World Suzuki. Just to be clear, Mary and I took all the financial risk; we bought the property and financed the building of the facility. But again, with hard work and determination, we quickly became the number one leader in Suzuki sales for the State of New Mexico.

At this point, Car World, Inc. actively employed over 80 full-time workers. They were like our extended family, and they were helping to bring our American dream to life. In return, we wanted to provide for them by offering health benefits, dental benefits and a 401K plan.

Car World was consistently one of the highest volume selling dealers in the State of New Mexico. We had built a solid reputation for providing very affordable and extremely reliable transportation. But then it all started to fall apart.

In August 2008, as Wall Street began to crumble, two major problems began crippling small businesses everywhere – consumer lending and consumer confidence collapsed, and business financing all but disappeared.

Here are a couple of important facts to remember about the car business. During stable times, auto sales compile nearly 20 percent of the nation's retail spending; of that 20 percent, 94 percent of all automobiles purchases are financed. So, as consumer lending and business financing dried up, a dark cloud fell over auto sales and the entire industry.

But, before I further discuss my situation, I want to stop and take a moment to tell you more about how a dealership operates and the financing that is involved so you can better understand the struggle all dealers are currently experiencing. Across this country dealers place their private capital at risk in local communities every day.

The process of starting your own dealership is neither a simple nor a safe bet. Dealers first invest in local commercial real estate, obtaining land for their dealership. Then they finance and build the dealership facilities – including a showroom and service bays. Dealers must buy their cars upfront from the auto manufacturers, basically paying for the carmakers' retail presence. Once all of this is in place, then they can hire employees. You see, car dealers, like other entrepreneurs and small businesses, need sufficient credit on reasonable terms to make this business model work.

The solution to this epidemic is three pronged. First, we need readily available retail credit to help generate automobile sales. Second, dealers need working or operating capital loans to meet current cash flow requirements such as payroll. Finally, dealers need floor plan financing for their inventory – this is specialized credit that allows dealers to buy their wholesale inventory from the automakers. The average floorplan loan is approximately $4.9 million. If the group of lenders continues to shrink or they put more restrictions on credit the result is simple. Dealers cannot buy what they cannot finance.

This brings me back to my personal story. As things got worse on Wall Street, in the months of September and October, lenders began to accelerate their withdrawals. It became increasingly difficult to provide customers with new car financing at affordable rates. The most recent numbers from Autodata Corp. tell the story even better; in February of this year we hit the lowest annualized auto sales rate since December 1981 with only 9.12 million vehicles projected to be sold in 2009. If you adjust that number for population growth, it would be the lowest rate since the 1960s. And to give you further comparison, in 2007 there were 16.1 million vehicles sold and in 2008, with a 36 percent drop, vehicle sales only reached 13.2 million.

As cars stopped selling – because consumers could not get loans – we had no choice but to closely examine our business model and adapt to the declining market conditions. As much as Mary and I hated it we had to close dealership locations and lay off employees. All the while, we made sure to communicate our new business plan to our inventory financing lender, and fortunately, they kept supply our floorplan loan. We took drastic but necessary steps to resize our small business to function in the most difficult conditions. We recapitalized our company with personal savings and borrowed money to hopefully insure its health and survival. Without failing, every month we clearly shared updates, business plans, and progress reports with our inventory financing lender.

In January 2009 we thought we had made all the hard choices and downsized enough to survive. However, we were told by our floorplan financing lender that they were convinced 2009 would be a much more difficult year, and we were not big enough, nor did we have the financial depth necessary, to withstand an even larger downturn. At this time, our lender decided to cancel an emergency $200,000.00 credit line that we had established with them several years back. The lender also decided to cut back the total amount of inventory that they would finance for us. And finally, the lender, with which we had a perfect credit rating, told us that they wanted us to go to another bank within 60 to 90 days. It is important to note, that we always paid the lender for any automobile they financed for us, we never missed a payment, <u>**never**</u>.

The banker we worked with told us they "Really liked us. [They told us] that we had been one of their most proactive dealers that they had, and that they really hoped that we made it." Without our lender financing our inventory in 60 to 90 days, Car World, Inc. would be forced to go out of business, and most likely have to declare personal bankruptcy. Most inventory financing lenders, including ours, require personal guarantees on inventory loans. Ironically, the very lender that ultimately could cause us to close our business could also be the reason that our personal finances would be forced into bankruptcy.

This is the same situation that literally thousands of dealers are facing, and within the next six months these thousands of dealers will be out of business. The bottom line, without inventory/floorplan financing, an auto dealership can close within a matter of days. As dealership employees lose their jobs, this triggers additional unemployment nationwide and a loss of local and state tax revenues.

Closing our dealership would mean losing even more jobs. After resizing in January 2009, we went from 80 Employees to only 17. We closed our Rio Rancho location, and are now left with an empty building and a mortgage payment. We are down to only two locations and struggling to keep both of them open. We just have no idea what will happen next.

We feel it is extremely unfair for a lender – who by their admission we paid perfectly and were a great customer – to cut the financial lifelines that we relied on for years without reason. This lender tells us time and time again what a great dealer we are to work with. They also come in to the dealership occasionally, with no advance notice, to do spot checks, insuring that we are in full compliance of our loan agreements. Never, not even once, have we been out of compliance.

Since our lender told us they no longer want us as a customer, there has not been a day or a sleepless night that goes by that we have not been scared, angry, bitter, or upset. Mary and I feel as though we are fighting for our lives, and we are uncertain every day if we are going to lose everything that we worked our whole lives to build – both in business and personally. The home that we thought we would live in for the rest of lives is now for sale. Is this fair? We did not, in any way, create the problems that have caused this credit crisis.

America was built on small businesses and will continue to be built on small businesses. Small businesses like Car World, Inc. need access to reasonable consumer lending and financing to succeed. In the case of auto dealers, a viable inventory/floorplan financing credit market is a fundamental building block to every dealership, every auto manufacturer, and a portion of our country's economy.

Consistently we have seen the large, "too big to fail" corporations literally given billions of taxpayers' dollars in bailouts, while the small businesspeople, like ourselves, have received, and asked for, nothing. The greed of Wall Street is driving America's small businesspeople into bankruptcy.

It's time for our Congress to help their constituents who own and run the small businesses across the country. Waiting for the money to "trickle down" form Wall Street has not been working. We need help now, not a few months from now.

Earlier in the week, President Barack Obama announced changes to a Small Business Administration (SBA) loan program that would significantly reduce the risk for lenders who provide credit to small businesses, such as mine. By upping the government's guarantee on these SBA loans to 90 percent, the President believes that more loans will be available to entrepreneurs. Those who qualify for the program may receive up to $2 million in funds. Due to an outdated size standard; however, only about 20 percent of the nation's 19,000 franchised auto dealers are eligible unless the program is expanded. So I ask you today to work toward expanding this program to help America's dealers stay in business.

We are not asking for a bailout. We merely want to be treated fairly by lending institutions and given normal access to loans so that our business can stay alive.

Thank you for listening to mine and Mary's story. We both stand ready to work with you to put America's small business back on the road to success.